

AGENDA
SAN ELIJO JOINT POWERS AUTHORITY
MONDAY JUNE 12, 2017 AT 9:00 AM
SAN ELIJO WATER RECLAMATION FACILITY – CONFERENCE ROOM
2695 MANCHESTER AVENUE
CARDIFF BY THE SEA, CALIFORNIA

1. CALL TO ORDER
2. ROLL CALL
3. PLEDGE OF ALLEGIANCE
4. ORAL COMMUNICATIONS (NON-ACTION ITEM)
5. PRESENTATION OF AWARDS
 - Todd Hutchinson, Southwest Membrane Operator Association 2017 Outstanding Plant Operator Award
6. * **CONSENT CALENDAR**
7. * APPROVAL OF MINUTES FOR MAY 8, 2017 MEETING
8. * APPROVAL FOR PAYMENT OF WARRANTS AND MONTHLY INVESTMENT REPORTS
9. * SAN ELIJO WATER RECLAMATION FACILITY TREATED EFFLUENT FLOWS – MONTHLY REPORT
10. * SAN ELIJO JOINT POWERS AUTHORITY RECYCLED WATER PROGRAM – MONTHLY REPORT
11. * EMERGENCY REPAIR – INDUSTRIAL HOT WATER PIPELINE
12. * ACCEPTANCE OF COMPLETION – CONSTRUCTION CONTRACT FOR THE BLOWER REPLACEMENT PROJECT
13. * ACCEPTANCE OF COMPLETION – CONSTRUCTION CONTRACT FOR THE METER VALVE AND AIR VACUUM VALVE REPLACEMENT PROJECT
14. * ITEMS REMOVED FROM CONSENT CALENDAR

Items on the Consent Calendar are routine matters and there will be no discussion unless an item is removed from the Consent Calendar. Items removed by a "Request to Speak" form from the public will be handled immediately following adoption of the Consent Calendar. Items removed by a Board Member will be handled as directed by the Board.

REGULAR AGENDA

15. ADOPTION OF THE SAN ELIJO JOINT POWERS AUTHORITY (SEJPA) FISCAL YEAR 2017-18 BUDGET, INVESTMENT POLICY, AND APPOINTMENT OF TREASURER

1. Adopt Resolution No. 2017-05, Resolution Approving the San Elijo Joint Powers Authority Operating and Capital Improvement Budgets for Fiscal Year 2017-18;
2. Adopt Resolution No. 2017-06, Resolution Approving the San Elijo Joint Powers Authority Investment Policy and Guidelines and Appointment of Paul F. Kinkel as SEJPA Treasurer; and
3. Discuss and take action as appropriate.

Staff Reference: Director of Finance and Administration

16. CALPERS UNFUNDED ACTUARIAL LIABILITY – SUPPLEMENTAL PAYMENT

1. Authorize the General Manager to apply positive FY 2016-17 Budget variances to the CalPERS Unfunded Actuarial Liability (“UAL”); and
2. Discuss and take action as appropriate.

Staff Reference: Director of Finance and Administration

17. SAN ELIJO OCEAN OUTFALL 2017 ANNUAL INSPECTION CONTRACT

1. Authorize the General Manager to execute a contract in the amount of \$51,000 for the San Elijo Ocean Outfall Maintenance and External Inspection with Undersea Graphics, Inc.; and
2. Discuss and take action as appropriate.

Staff Reference: Director of Operations

18. APPROVAL OF DOCUMENTS RELATED TO THE ISSUANCE OF 2017 REVENUE BONDS, AND AUTHORIZE THE GENERAL MANAGER TO EXECUTE A PROFESSIONAL SERVICE CONTRACT FOR BOND TRUSTEE

1. Approve the recommendations of the General Manager regarding the acceptance of the following documents entitled:
 - Resolution No. 2017-07 Resolution Authorizing the Issuance, Sale and Delivery of not to exceed \$25,000,000 Aggregate Principal Amount of San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects) and Approving Agreements, Certificates and Other Documents and Instruments Pertaining Thereto and Authorizing Official Action

- Series 2017 Indenture of Trust
 - Series 2017 Loan Agreement
 - Draft Preliminary Official Statement
 - Continuing Disclosure Agreement
 - Bond Purchase Contract
2. Authorize the General Manager to execute a professional service contract with Union Bank of California, to serve as trustee for the revenue bonds.
 3. Discuss and take action as appropriate.

Staff Reference: General Manager

19. PURCHASE OF PROCESS CONTROL EQUIPMENT

1. Authorize the General Manager to purchase a Hach Nitrification Information System in the amount of \$85,000; and
2. Discuss and take other action as appropriate.

Staff Reference: General Manager

20. GENERAL MANAGER'S REPORT

Informational report by the General Manager on items not requiring Board action.

21. GENERAL COUNSEL'S REPORT

Informational report by the General Counsel on items not requiring Board action.

22. BOARD MEMBER COMMENTS

This item is placed on the agenda to allow individual Board Members to briefly convey information to the Board or public, or to request staff to place a matter on a future agenda and/or report back on any matter. There is no discussion or action taken on comments by Board Members.

23. CLOSED SESSION

Pursuant to Government Code Section 54957: Employee Performance Evaluation. Title: General Manager.

A closed session may be held at any time during this meeting of the San Elijo Joint Powers Authority for the purposes of discussing potential or pending litigation or other appropriate matters pursuant to the "Ralph M. Brown Act".

24. ADJOURNMENT

The next regularly scheduled San Elijo Joint Powers Authority Board Meeting will be Monday, July 10, 2017 at 9:00 a.m.

NOTICE:

The San Elijo Joint Powers Authority's open and public meetings meet the protections and prohibitions contained in Section 202 of the Americans With Disabilities Act of 1990 (42 U.S.C Section 12132), and the federal rules and regulations adopted in implementation thereof. Any person with a disability who requires a modification or accommodation, including auxiliary aids or services, in order to participate in a public meeting of the SEJPA Board of Directors may request such modification or accommodation from Michael T. Thornton, General Manager, (760) 753-6203 ext. 72.

The agenda package and materials related to an agenda item submitted after the packet's distribution to the Board is available for public review in the lobby of the SEJPA Administrative Office during normal business hours. Agendas and minutes are available at www.sejpa.org. The SEJPA Board meetings are held on the second Monday of the month, except August.

AFFIDAVIT OF POSTING

I, Michael T. Thornton, Secretary of the San Elijo Joint Powers Authority, hereby certify that I posted, or have caused to be posted, a copy of the foregoing agenda in the following locations:

San Elijo Water Reclamation Facility, 2695 Manchester Avenue, Cardiff, California
City of Encinitas, 505 South Vulcan Avenue, Encinitas, California
City of Solana Beach, 635 South Highway 101, Solana Beach, California

The notice was posted at least 72 hours prior to the meeting, in accordance with Government Code Section 54954.2(a).

Date: June 7, 2017



Michael T. Thornton, P.E.
Secretary / General Manager

SAN ELIJO JOINT POWERS AUTHORITY
MINUTES OF THE BOARD MEETING
HELD ON MAY 8, 2017
AT THE
SAN ELIJO WATER RECLAMATION FACILITY

Ginger Marshall, Chair

Tasha Boerner Horvath, Vice Chair

A meeting of the Board of Directors of the San Elijo Joint Powers Authority (SEJPA) was held Monday, May 8, 2017, at 9:00 a.m., at the San Elijo Water Reclamation Facility at 2695 Manchester Avenue, Cardiff by the Sea, California.

1. CALL TO ORDER

Chair Marshall called the meeting to order at 9:00 a.m.

2. ROLL CALL

Directors Present:

Ginger Marshall
Tasha Boerner Horvath
David Zito
Joe Mosca

Directors Absent:

None

Others Present:

General Manager
Director of Finance & Administration
Associate Engineer
Administrative Assistant/Board Clerk
Senior Laboratory Analyst

Michael Thornton
Paul Kinkel
Mike Konicke
Jennifer Basco
Ravy Chea

SEJPA Counsel:

Procopio, Cory, Hargreaves & Savitch

Greg Moser

City of Solana Beach:

City Manager
Director of Engineering/Public Works

Greg Wade
Mohammad "Mo" Sammak

City of Encinitas:

Public Works Management Analyst

Bill Wilson

Black & Veatch Corporation

Kevin Davis

3. PLEDGE OF ALLEGIANCE

Chair Marshall led the Pledge of Allegiance.

4. ORAL COMMUNICATIONS

None

5. PRESENTATION OF AWARDS

General Manager recognized Ravy Chea, Senior Laboratory Analyst, for her 25 years of service to the Agency.

6. CONSENT CALENDAR

Moved by Board Member Zito and seconded by Board Member Boerner Horvath to approve the Consent Calendar.

- | | |
|--------------------|---|
| Agenda Item No. 7 | Approval of Minutes for the April 10, 2017 Meeting and April 21, 2017 Special Meeting |
| Agenda Item No. 9 | San Elijo Water Reclamation Facility Treated Effluent Flows – Monthly Report |
| Agenda Item No. 10 | San Elijo Joint Powers Authority Recycled Water Program – Monthly Report |
| Agenda Item No. 11 | San Elijo Joint Powers Authority Fiscal Year 2017-18 Recommended Budget Update |

Motion carried with the following vote of approval:

AYES: Marshall, Boerner Horvath, Zito, Mosca
NOES: None
ABSENT: None
ABSTAIN: None

- | | |
|-------------------|--|
| Agenda Item No. 8 | Approval for Payment of Warrants and Monthly Investment Report |
|-------------------|--|

Motion carried with the following vote of approval:

AYES: Marshall, Boerner Horvath, Zito
NOES: None
ABSENT: None
ABSTAIN: Mosca

12. ITEMS REMOVED FROM CONSENT CALENDAR

None

13. 2017 BOND FINANCING UPDATE

Paul F. Kinkel, Director of Finance and Administration, updated the Board of Directors on the status of the 2017 Bond Financing. The bond issuance will generate approximately \$23.8 million in net proceeds for the purpose of funding clean water infrastructure projects. Staff is working with the bond team to finalize the required bond documents that will be presented to both Member Agencies' City Councils and SEJPA's Board for approval consideration. The 2017 Revenue Bonds are planned to be a 30-year issuance with the first 2 years as interest only payments. The bond payments are structured to fit within the Member Agencies' established sewer rates, which avoids creating rate stress on the sewer customers.

No action required. This memorandum was submitted for information only.

14. AWARD CONSTRUCTION MANAGEMENT & ENVIRONMENTAL COMPLIANCE SERVICE

General Manager Thornton stated that the SEJPA is entering Phase I of a multi-phase capital improvement program to construct a series of clean water related infrastructure projects. The Phase I projects include: Land Outfall Replacement, Preliminary Treatment Upgrades, and Odor and Gas Control Systems. These projects are ready for construction with design work completed, and all necessary permits obtained. Mr. Thornton informed the Board Members that capital projects are typically assigned a construction manager to oversee daily construction activities and ensure that a quality project is delivered safely and in accordance with the contract drawings and specifications. Initially, Staff considered seeking individual construction management (CM) teams for each project, but ultimately determined that utilizing a single team for all Phase I construction projects provides efficiencies, continuity, and opportunities for cost savings. Three firms submitted proposals for CM. Staff recommended Black & Veatch as their proposal provided the best combination of approach, experience, and value. In addition to CM, the projects also require environmental compliance monitoring and reporting. SEJPA engaged Helix Environmental to develop a scope of work and fee for conducting the required monitoring and reporting, which will be under the Black & Veatch contract. The SEJPA capital program has adequate funding to award the proposed Phase I CM and environmental compliance effort, which is for an amount not to exceed \$979,669.

Moved by Board Member Mosca and seconded by Board Member Zito to:

1. Authorize the General Manager to award a professional services agreement to Black & Veatch for Construction Management and Environmental Compliance for an amount not to exceed \$979,669.

Motion carried with the following vote of approval:

AYES: Marshall, Boerner Horvath, Zito, Mosca
NOES: None
ABSENT: None
ABSTAIN: None

15. GENERAL MANAGER'S REPORT

None

16. GENERAL COUNSEL'S REPORT

None

17. BOARD MEMBER COMMENTS

None

18. CLOSED SESSION

None

19. ADJOURNMENT

The meeting adjourned at 9:30 a.m. The next Board of Directors meeting will be held on June 12, 2017.

Respectfully submitted,



Michael T. Thornton, P.E.
General Manager

SAN ELIJO JOINT POWERS AUTHORITY
PAYMENT OF WARRANTS
17-06
For the Months of April and May 2017

Warrant #	Vendor Name	G/L Account	Warrant Description	Amount
34289	A.B. Hashmi, Inc.	Services - Contractors	Air vacuum relocation	3,496.00
34290	Alfa Laval Ashbrook Simon-Hart	Repair Parts Expense	Racks	2,542.73
34291	American Backflow	Dues & Memberships	Membership	80.00
34292	AT&T	Utilities - Telephone	Alarm service - May	398.48
34293	Atlas Pumping Service Inc.	Services - Grease & Scum	Grease and scum pumping	597.44
34294	Black & Veatch	Services - Engineering	3rd party review	9,752.50
34295	Boot World, Inc.	Uniforms - Boots	Safety boots	310.25
34296	Brenntag Pacific, Inc.	Supplies - Chemicals	Sodium Hydroxide and Citric Acid	4,262.05
34297	Carollo Engineers	Services - Engineering	Outfall, RW pipeline, and treatment upgrades	7,047.60
34298	Chevron & Texaco Business Card	Fuel	Fuel - April	523.35
34299	City National Bank	AWP Loan	Loan Agreement	74,076.57
34300	Coast Waste Management, Inc.	Services - Grit & Screenings	Service charge - 04/01/17 - 04/30/17	62.94
34301	Complete Office	Supplies - Office	Office supplies	87.44
34302	Corodata	Rent	Record storage - April	96.82
34303	Daniels Tire Corporate Admin	Vehicle Maintenance	Tire repair	136.16
34304	DMV	Fees - Permits	Trailer	10.00
34305	Dudek & Associates	Services - Engineering	Preliminary design - Headworks	37,924.13
34306	EATON Corporation	Capital Outlay	Capacitor trip devices	8,429.17
34307	EDCO Waste & Recycling Service	Utilities - Trash	April	237.22
34308	Evantec Lab Supply	Supplies - Lab	Digestion vials and glass microfiber filter paper	379.28
34309	Fisher Scientific	Supplies - Chemicals	Sodium Dodecylbenzenesulfonate	214.51
34310	Global Capacity	Utilities - Internet	T-1 Service - June	296.03
34311	Hach Company	Minor Equip - Shop & Field	Benchtop meter and gel-filled probe	1,106.39
34312	Michael Henke	CSRMA Wellness Program	Health and wellness	60.00
34313	Jennifer Basco	Subsistence - Travel	Mileage	45.76
34314	The Lawton Group	Services - Intern Program	Weeks worked - 04/17/17 - 04/30/17	2,474.48
34315	Marine Taxonomic Services, LTD	Services - Contractors	Offshore water sampling	384.00
34316	McMaster-Carr Supply Co.	Repair Parts Expense	Fuses, hard hats, PVC sheets, pipe, respirator	1,972.66
34317	Olivenhain Municipal Water District	Rent	Pipeline payment - April	7,159.50
34318	P.E.R.S.	Medical Insurance - PERS	Health - May	20,581.26
34319	Public Employees- Retirement	Retirement Plan - PERS	Retirement - 04/22/17 - 05/05/17	12,093.76
34320	Pollardwater	Repair Parts Expense	Pressure gage	394.95
34321	Preferred Benefit Insurance	Dental/Vision	Vision - May	309.30
34322	ProBuild Company, LLC	Supplies - Safety	Repairs, shop and field supplies	253.21
34323	Santa Fe Irrigation District	Utilities - Water	Recycled water	323.47
34324	San Dieguito Water District	Utilities - Water	Recycled water	8,621.73
34325	Sloan Electric Company	Repair Parts Expense	Parts for RAS pumps	6,400.39
34326	Smart & Final	Supplies - Office	Kitchen supplies	147.66
34327	Unifirst Corporation	Services - Uniforms	Uniform service	436.70
34328	Underground Service Alert/SC	Services - Alarm	Dig alert - April	87.00
34329	USA Bluebook	Repair Parts Expense	Tubes, roller, fittings, and gauge	631.94
34330	Vantagepoint Transfer Agents	EE Deduction Benefits	ICMA - 457 and Loan	6,866.62
34331	Vantagepoint Transfer Agents	ICMA Retirement	ICMA - 401A	3,023.07
34332	Abcana Industries	Supplies - Chemicals	Hydrochloric Acid	687.87
34333	Accurate Air Engineering, Inc.	Repair Parts Expense	Blower and puller plate	5,681.72
34334	Aflac	EE Deduction Benefits	Aflac - May	680.92
34335	AT&T	Utilities - Telephone	Phone service - 04/13/17 - 05/12/17	371.84
34336	Atlas Pumping Service Inc.	Services - Grease & Scum	Grease and scum pumping	1,574.67
34337	BankCard Center	Various	Parts, meetings, safety supplies, memberships	4,102.78
34338	Carollo Engineers	Services - Engineering	Capital projects as needed	2,013.60
34339	Ravy H. Chea	CSRMA Wellness Program	Health and wellness	60.00
34340	Comoso	Supplies - Shop & Field	Chevron oil	413.89
34341	Complete Office	Supplies - Office	Office supplies	82.06
34342	County of San Diego	Fees - Permits	Facility permit fees	2,053.00
34343	County of San Diego	Fees - Permits	Facility permit fees	284.00
34344	CS-Amsco	Services - Maintenance	Chlorine contact tank valves	600.00
34345	CWEA Membership	Dues & Memberships	Membership	172.00
34346	Department of Consumer Affairs	Dues & Memberships	Certificate	172.50

SAN ELIJO JOINT POWERS AUTHORITY**PAYMENT OF WARRANTS****17-06****For the Months of April and May 2017**

Warrant #	Vendor Name	G/L Account	Warrant Description	Amount
34347	Alliant Insurance Services	Insurance - Liability	ACIP Crime - 07/01/17 - 07/01/19	650.00
34348	Dudek & Associates	Services - Engineering	Requeza pipeline and SWAP project	6,715.00
34349	Encina Wastewater Authority	Service - EWA Support	Resource sharing - HR and safety	1,043.15
34350	City of Encinitas	Service - IT Support	Admin network - May	2,625.00
34351	Enterprise Industrial Supply	Repair Parts Expense	Parts for biosolid conveyor belt	3,750.42
34352	Evantec Lab Supply	Supplies - Lab	Laboratory supplies	566.08
34353	Forte of San Diego	Services - Janitorial	June service and supplies	1,363.63
34354	Golden State Overnight	Postage/Shipping	Mailing lab samples	62.13
34355	Hardy Diagnostics	Supplies - Lab	Laboratory supplies	367.92
34356	Hoch Consulting, APC	Services - Professional	As needed services	5,375.00
34357	Casey Larsen	Subsistence - Travel	Continuing education	114.60
34358	The Lawton Group	Services - Intern Program	Weeks worked - 05/01/2017 - 05/08/2017	2,041.69
34359	McMaster-Carr Supply Co.	Repair Parts Expense	Plumbing supplies, valve, and gauge	438.45
34360	Mertec Engineering	Repair Parts Expense	Safety pull switch	883.04
34361	MetLife - Group Benefits	Dental/Vision	Dental - June	1,739.88
34362	Olin Corp - Chlor Alkali	Supplies - Chem - Sodium Hypo	Sodium Hypochlorite	2,685.79
34363	Pacific Green Landscape	Services - Landscape	May services and valve replacements	3,333.80
34364	Public Employees- Retirement	Retirement Plan - PERS	Retirement - 05/06/17 - 05/19/17	12,073.46
34365	Procopio Cory Hargreaves	Services - Legal	General - April	9,230.00
34366	ReadyRefresh	Supplies - Lab	Laboratory supplies	217.33
34367	RSF Security Systems	Prepaid - Other	Security - 06/01/2017 - 08/31/2017	1,353.00
34368	Rusty Wallis, Inc.	Services - Maintenance	Water softener expense	111.46
34369	Safety Unlimited, Inc.	Training - Safety	First Responder Training	2,000.00
34370	Santa Fe Irrigation District	Utilities - Water	Seabright - 03/16/17 - 05/15/17	81.05
34371	Santa Fe Irrigation District	SFID Distribution Pipeline	Pipeline purchase payment - April	958.50
34372	San Diego Gas & Electric	Utilities - Gas & Electric	Gas and electric - 04/04/17 - 05/07/17	59,073.74
34373	Specialty Seals & Accessories	Repair Parts Expense	Gas compressor	77.97
34374	Spiess Construction Co., Inc.	Services - Contractors	Turbo blower project	725.66
34375	Sun Life Financial	Life Insurance/Disability	Life and disability insurance - June	1,567.67
34376	Test America	Services - Laboratory	Testing water samples	221.50
34377	Michael Thornton	Subsistence - Travel/Rm & Bd	DC Congressional Representatives	1,737.97
34378	Technology Integration Group	Services - Maintenance	Copier	118.11
34379	Christopher A. Trees	CSRMA Wellness Program	Health and wellness	60.00
34380	Trussell Technologies, Inc.	Services - Engineering	Nitrification feasibility study; treatment upset	6,182.50
34381	Unifirst Corporation	Services - Uniforms	Uniform service	334.26
34382	UPS	Postage/Shipping	Mailing letters	17.37
34383	Vantagepoint Transfer Agents	EE Deduction Benefits	ICMA - 457	6,923.75
34384	Vantagepoint Transfer Agents	ICMA Retirement	ICMA - 401a	3,016.73
34385	Verizon Wireless	Utilities - Telephone	04/11/17 - 05/10/17	168.19
34386	Verizon Wireless	Utilities - Telephone	Cell phone service - 04/08/17 - 05/07/17	750.74
34387	VWR International, Inc.	Supplies - Lab	Laboratory supplies	621.20
34388	WageWorks	Payroll Processing Fees	Admin and compliance fee - April and May	247.00
	San Elijo Payroll Account	Payroll	Payroll - 05/12/2017	62,235.64
	San Elijo Payroll Account	Payroll	Payroll - 05/26/2017	62,737.82
				\$ 509,883.57

SAN ELIJO JOINT POWERS AUTHORITY

PAYMENT OF WARRANTS SUMMARY

**For the Months of April and May 2017
As of June 5, 2017**

PAYMENT OF WARRANTS		\$ 509,883.57
Reference Number	17-06	

I hereby certify that the demands listed and covered by warrants are correct and just to the best of my knowledge, and that the money is available in the proper funds to pay these demands. The cash flows of the SEJPA, including the Member Agency commitment in their operating budgets to support the operations of the SEJPA, are expected to be adequate to meet the SEJPA's obligations over the next six months. I also certify that the SEJPA's investment portfolio complies with the SEJPA's investment policy.



Paul F. Kinkel
Director of Finance & Administration

STATEMENT OF FUNDS AVAILABLE FOR PAYMENT OF WARRANTS
AND INVESTMENT INFORMATION
As of June 5, 2017

FUNDS ON DEPOSIT WITH	AMOUNT
LOCAL AGENCY INVESTMENT FUND <i>(APRIL 2017 YIELD 0.884%)</i>	
RESTRICTED SRF RESERVE	\$ 630,000.00
UNRESTRICTED DEPOSITS	\$ 7,498,273.68
CALIFORNIA BANK AND TRUST <i>(APRIL 2017 YIELD 0.01%)</i>	
REGULAR CHECKING	\$ 77,860.15
PAYROLL CHECKING	\$ 5,000.00
 TOTAL RESOURCES	 \$ 8,211,133.83

SAN ELIJO JOINT POWERS AUTHORITY
MEMORANDUM

June 12, 2017

TO: Board of Directors
San Elijo Joint Powers Authority

FROM: General Manager

SUBJECT: SAN ELIJO WATER RECLAMATION FACILITY TREATED EFFLUENT FLOWS –
MONTHLY REPORT

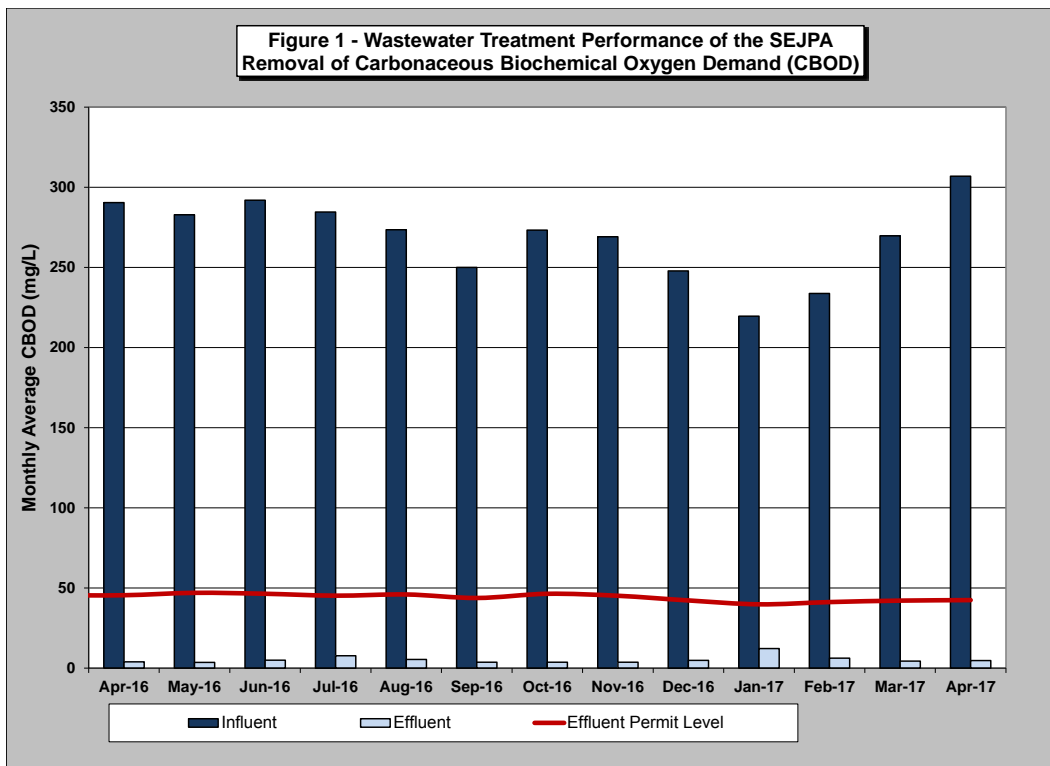
RECOMMENDATION

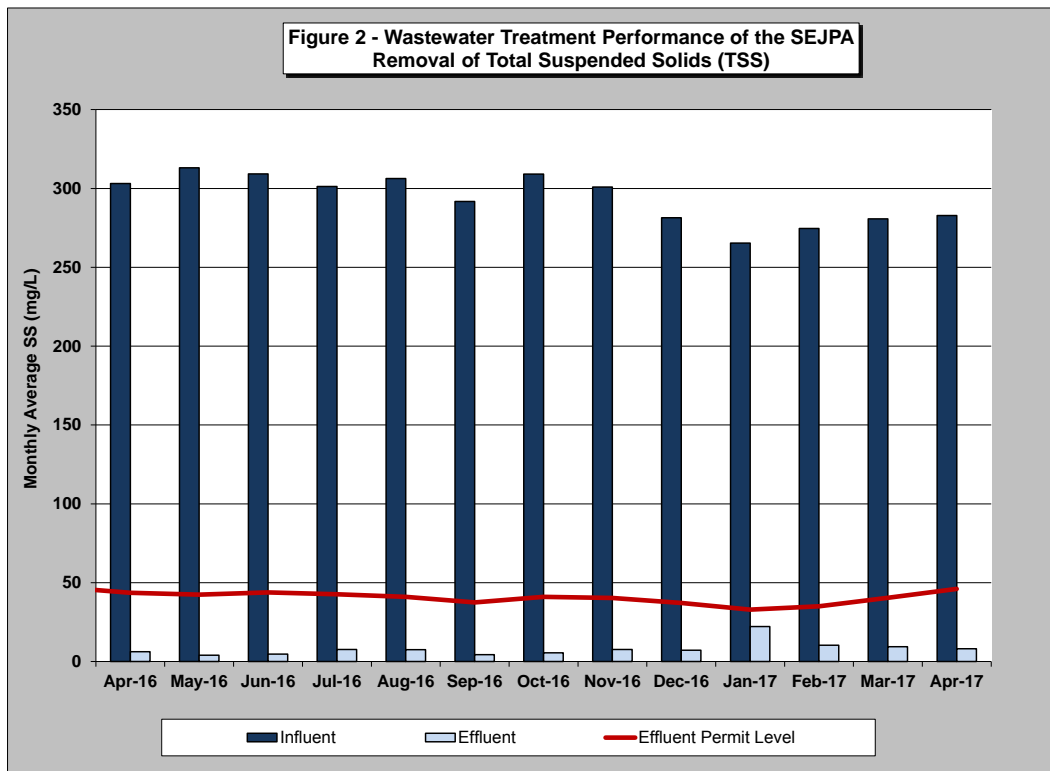
No action required. This memorandum is submitted for information only.

DISCUSSION

Monthly Treatment Plant Performance and Evaluation

Wastewater treatment for the San Elijo Joint Powers Authority (SEJPA) met all NPDES ocean effluent limitation requirements for the month of April 2017. The primary indicators of treatment performance include the removal of Carbonaceous Biochemical Oxygen Demand (CBOD) and Total Suspended Solids (TSS). The SEJPA is required to remove a minimum of 85 percent of the CBOD and TSS from the wastewater. For the month of April, treatment levels for CBOD and TSS were 98.5 and 97.1 percent removal, respectively, (as shown in Figure 1 and Figure 2).





Agency Flows

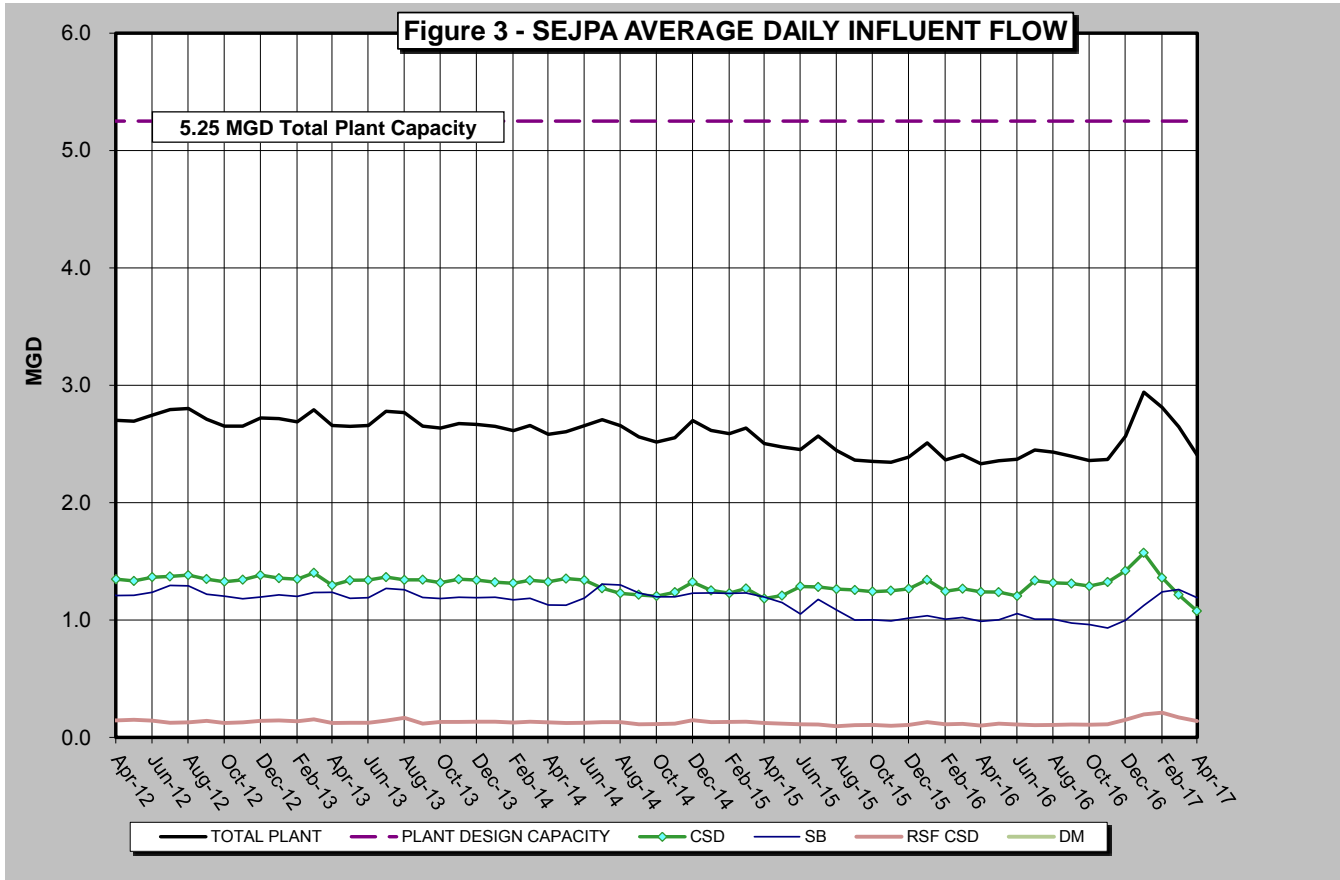
Presented below are the influent and effluent flows for the month of April. Average daily influent flows were recorded for each Agency. Total effluent flow was calculated for the San Elijo Water Reclamation Facility. January 2017 is the first month that the City of Del Mar pumped flow to SEJPA. However, due to the treatment process upset and high influent flows associated with the January rain events, the flow was diverted back to San Diego JPA Metro. Currently, the City of Del Mar is in the process of eliminating high salinity infiltration that is occurring at a few manholes near the beach. High salinity wastewater can negatively impact the biological treatment and water recycling process. Upon the completion of these repairs, the SEJPA will be receiving wastewater flows from Del Mar.

	April	
	<u>Influent (mgd)</u>	<u>Effluent (mgd)*</u>
Cardiff Sanitary Division	1.077	0.841
City of Solana Beach	1.190	0.929
Rancho Santa Fe SID	0.139	0.108
City of Del Mar	0.000	0.000
Total San Elijo WRF Flow	2.406	1.878

* Effluent is calculated by subtracting the recycled water production from the influent wastewater.

Table 1 (next page) presents the historical average, maximum, and unit influent and effluent flow rates per month for each of the Agencies during the past 5 years. It also presents the number of connected Equivalent Dwelling Units (EDUs) for each of the Agencies during this same time period.

Figure 3 (below) presents the 5-year historical average daily flows per month for each Member Agency. This is to provide a historical overview of the average treated flow by each agency. Also shown in Figure 3 is the total wastewater treatment capacity of the plant, 5.25 mgd, of which each Member Agency has the right to 2.2 mgd, Rancho Santa Fe Community Service District leases 0.25 mgd, and the City of Del Mar leases 0.60 mgd.



City of Escondido Flows

The average and peak flow rate for the month of April 2017 from the City of Escondido Hale Avenue Resource Recovery Facility, which discharges through the San Elijo Ocean Outfall, is reported below.

	Flow (mgd)
Escondido (Average flow rate)	9.54
Escondido (Peak flow rate)	16.60

Connected Equivalent Dwelling Units

The City of Solana Beach updated the connected EDUs number that is reported to the SEJPA in July 2016. The City of Encinitas and Rancho Santa Fe CSD report their connected EDUs every month. The City of Del Mar reported in April; however, flows have been diverted to the San Diego JPA Metro due to high salinity which is planned to be resolved by July 2017. The number of EDUs connected for each of the Member Agencies is as follows:

	Connected (EDU)
Cardiff Sanitary Division	8,414
Rancho Santa Fe SID	551
City of Solana Beach	7,683
San Diego (to Solana Beach)	337
City of Del Mar	1,716
Total EDUs to System	18,700

Respectfully submitted,



Michael T. Thornton, P.E.
General Manager

SAN ELIJO JOINT POWERS AUTHORITY
MEMORANDUM

June 12, 2017

TO: Board of Directors
San Elijo Joint Powers Authority

FROM: General Manager

SUBJECT: SAN ELIJO RECYCLED WATER PROGRAM – MONTHLY REPORT

RECOMMENDATION

No action required. This memorandum is submitted for information only.

DISCUSSION

Recycled Water Production

For the month of April 2017, recycled water demand was 175.14 acre-feet (AF), which was met using 175.03 AF of recycled water and 0.11 AF of supplementation with potable water.

Figure 1 (attached) provides monthly supply demands for recycled water since September 2000. Figure 2 (attached) provides a graphical view of annual recycled water demand spanning sixteen fiscal years. Figure 3 (attached) shows the monthly recycled water demand for each April since the program began operating.

Respectfully submitted,



Michael T. Thornton, P.E.
General Manager

Figure 1 - MONTHLY RECYCLED WATER DEMAND

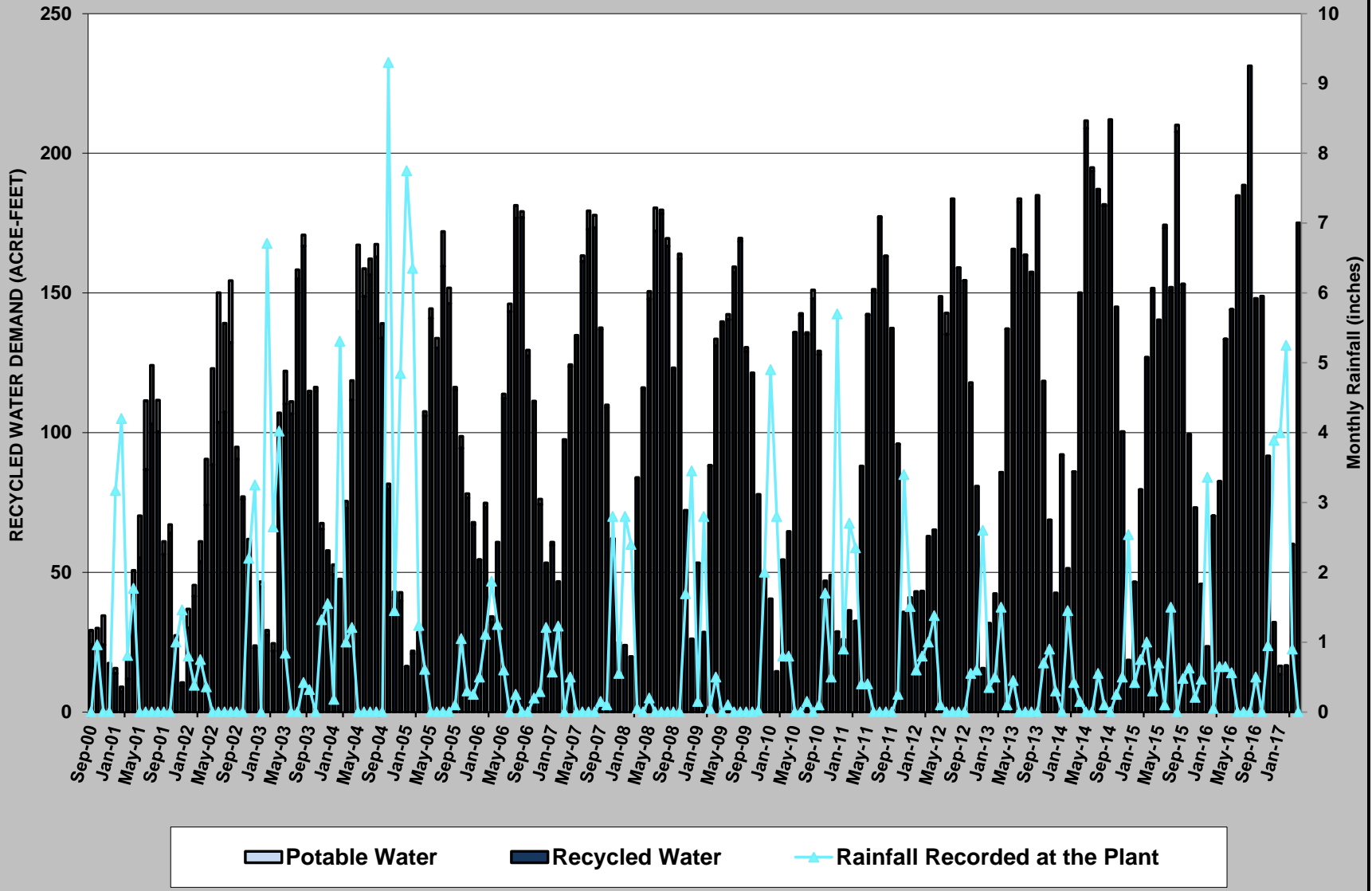


Figure 2 - RECYCLED WATER DEMAND by FISCAL YEAR

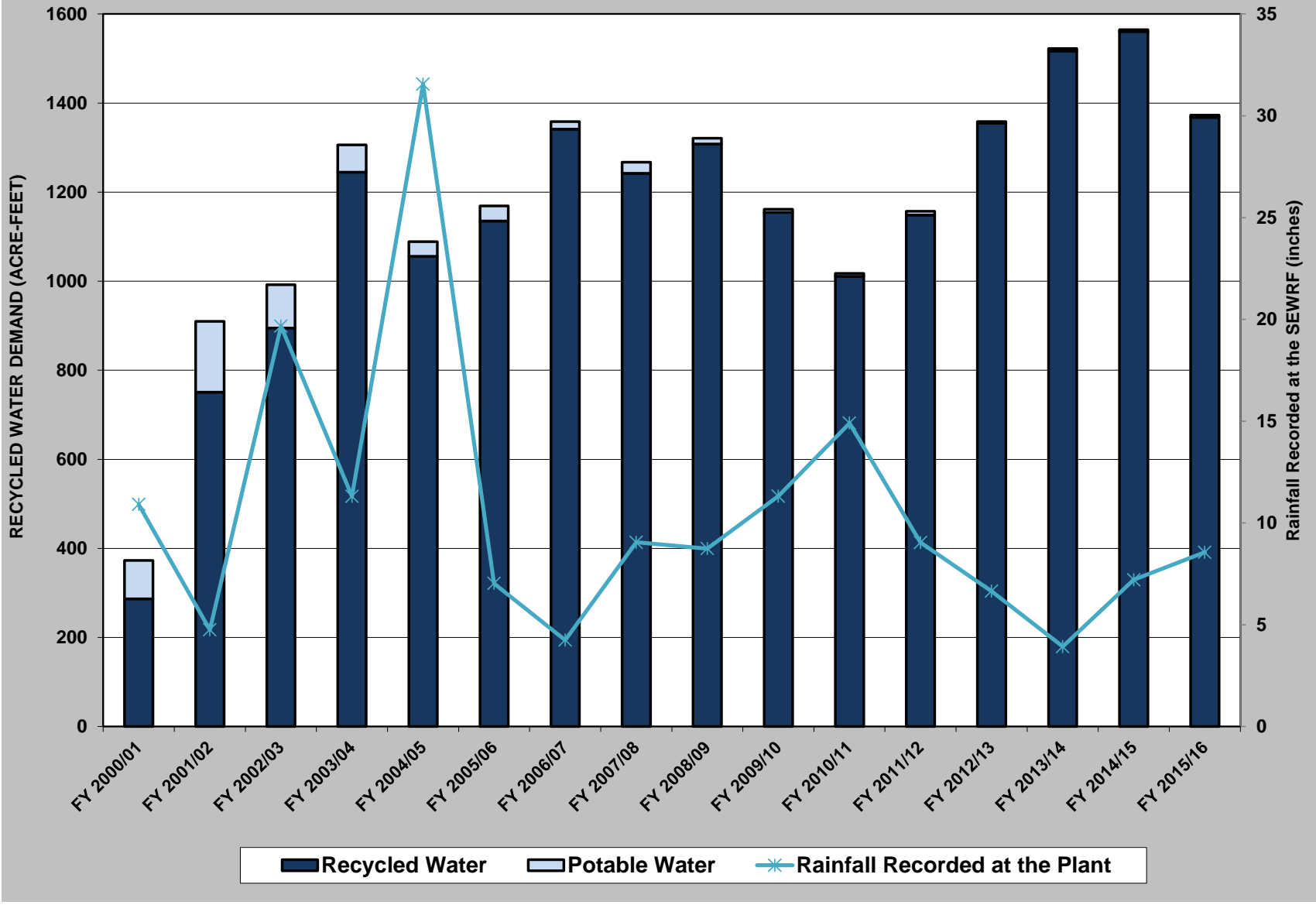
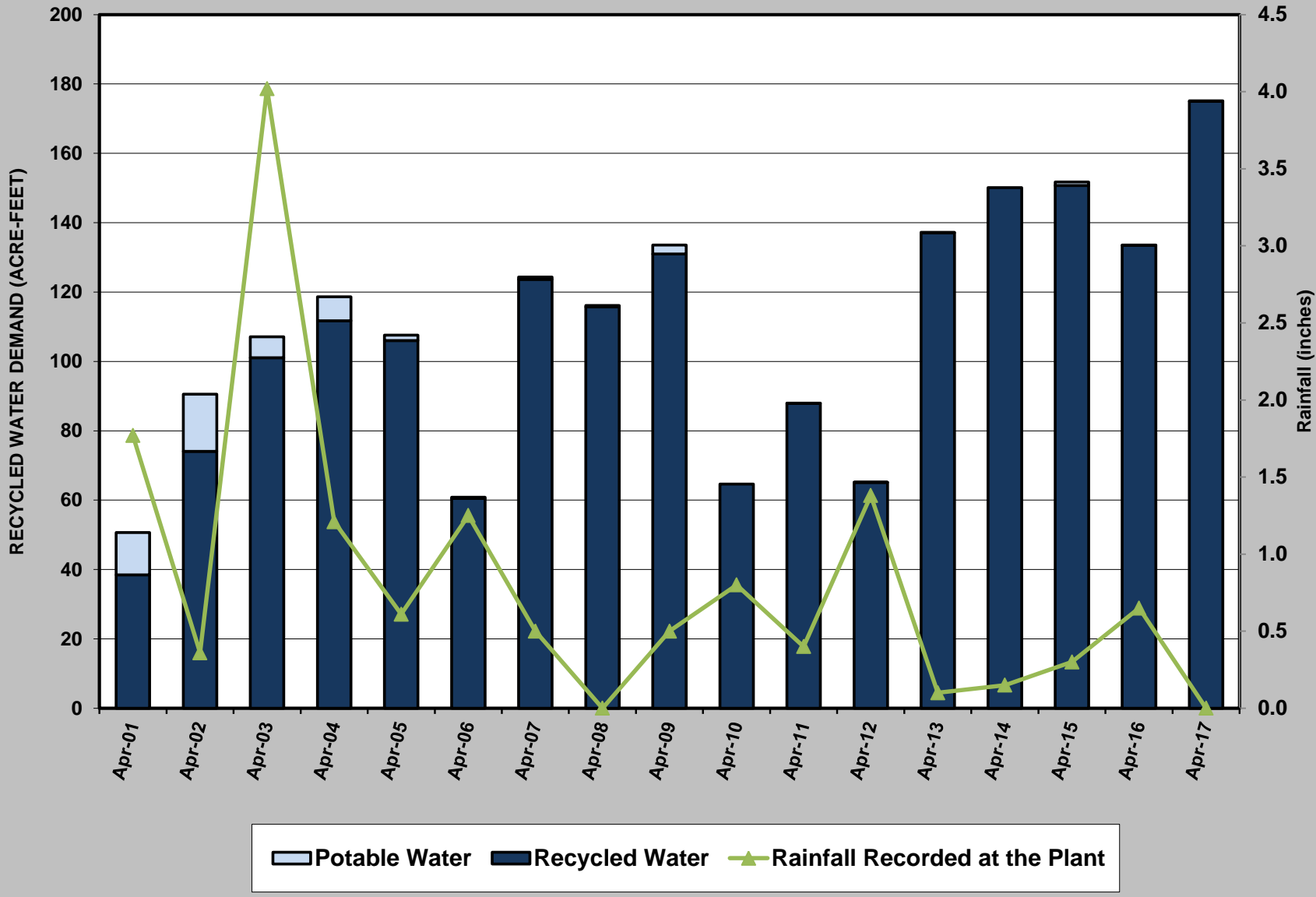


Figure 3 - APRIL RECYCLED WATER DEMAND



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AGENDA ITEM NO. 11

SAN ELIJO JOINT POWERS AUTHORITY
MEMORANDUM

June 12, 2017

TO: Board of Directors
San Elijo Joint Powers Authority

FROM: General Manager

SUBJECT: EMERGENCY REPAIR – INDUSTRIAL HOT WATER PIPELINE

RECOMMENDATION

No action required. This memorandum is submitted for information only.

DISCUSSION

This staff report provides notification to the Board of an emergency repair project performed at the San Elijo Water Reclamation Facility (SEWRF) for the protection of public health and property. The emergency repair was to a buried 6-inch diameter steel pipeline that circulates hot water for heating the anaerobic sludge digesters. The closed-loop hot water system circulates 180 degree Fahrenheit water through a series of buried pipes and above ground heat exchangers to heat sludge for mesophilic anaerobic digestion. To meet health and safety requirements, the sludge is heated to above 95 degrees Fahrenheit for a minimum of 15 days for pathogen and volatile solids reduction.

The hot water system is pressurized and the leak presented a health and safety concern. The leaking section of buried pipe was promptly identified and isolated. However, removing the pipeline out of service reduced the process heating efficiency prompting concerns for meeting minimum treatment requirements for public health protection. Staff contacted NeWest Construction, which is under contract with the City of Encinitas for the Coast Pump Station Upgrade project. NeWest had staff and equipment immediately available to respond. The repair included removing asphalt, excavating approximately 5 feet deep, removing approximately 60 linear feet of corroded steel pipe, installing new steel pipe with corrosion protection, backfilling and compaction of the excavated soil, and repairing the removed asphalt.

FINANCIAL IMPACT

The emergency repair was completed using a time and materials contract with NeWest Construction and the estimated repair cost is less than \$35,000. Funding for the repairs will be from the Wastewater Program contingency fund, which has a balance of \$66,600.

No action required. This memorandum is submitted for information only.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "M. Thornton", written over a horizontal line.

Michael T. Thornton, P.E.
General Manager

SAN ELIJO JOINT POWERS AUTHORITY
MEMORANDUM

June 12, 2017

TO: Board of Directors
San Elijo Joint Powers Authority

FROM: General Manager

SUBJECT: ACCEPTANCE OF COMPLETION – CONSTRUCTION CONTRACT FOR THE
BLOWER REPLACEMENT PROJECT

RECOMMENDATION

It is recommended that the Board of Directors:

1. Authorize the General Manager to accept the Blower Replacement Project on behalf of the SEJPA and record the project Notice of Completion;
2. Authorize the General Manager to enter into a loan agreement with San Diego Gas & Electric for 10-years at zero interest for an amount not to exceed \$534,000; and
3. Discuss and take other action as appropriate.

BACKGROUND

The San Elijo Water Reclamation Facility (SEWRF) uses Conventional Activated Sludge Treatment as a critical step in achieving State and Federal water quality requirements. The process consists of a bioreactor tank that is specially designed to use the microorganisms within the wastewater, combined with diffused oxygen, to provide biological treatment.

The air volume required to provide the diffused oxygen for activated sludge treatment is substantial and represents one of the largest uses of energy at the SEWRF. Working with SDGE energy efficiency experts and Hoch Consulting, Staff developed a project to replace the original equipment (125-hp multi-stage centrifugal blowers that was installed in 1991) with substantially more efficient turbo blowers.

The SEJPA Board approved the Blower Replacement Project in March 2016 with a total project budget (planning, engineering, legal, and construction) of \$693,575.

DISCUSSION

The Blower Replacement Project construction contract was awarded to Spiess Construction Company, Inc. for an amount of \$560,500. The project engineering design was awarded to

Hoch Consulting for a total cost of \$45,091 and construction management was awarded to Dudek for a total cost of \$25,950.

Three construction contract change orders were issued for this project. The first change order modified the new air-piping configuration to allow proper alignment of connections between existing piping and the new blower units. The second allowed for minor electrical and control system upgrades associated with the new blowers. The third was a deductive change order to delete electrical work deemed unnecessary. These change orders resulted in an additional project cost of \$7,303 or (1.3%) of the contract value.

Acceptance of this project by the SEJPA and the filing of the Notice of Completion (NOC) will complete the contract with Spiess Construction Company. SEJPA's legal counsel will file the NOC with the San Diego County Clerk. The final payment will be made to the Contractor after 35 days of the NOC filing.

FINANCIAL IMPACT

The total budget for the project was \$693,575. The final cost of the project (including design, permitting, and construction) was \$646,351, resulting in the project being completed 6.8% under budget.

SDGE had originally committed a grant of \$34,981 to the project. However, SDGE increased the grant to \$50,920 as the equipment demonstrated higher efficiency than initially anticipated.

In addition, SDG&E is offering the project a zero interest loan for approximately \$534,000, which will offset the majority of the project cost. The monthly payment will be approximately \$4,450 for 10 years, which is less than the estimated energy savings of \$5,777 per month. In essence, the energy savings will pay for the project loan.

To summarize, the project was successfully constructed and implemented into service, completed within budget expectations, with no injuries and no filed claims against the SEJPA. The work by Spiess Construction Company was of good quality and the contractor worked in good faith to resolve any construction issues.

It is therefore recommended that the Board of Directors:

1. Authorize the General Manager to accept the Blower Replacement Project on behalf of the SEJPA and record the project Notice of Completion;
2. Authorize the General Manager to enter into a loan agreement with San Diego Gas & Electric for 10-years at zero interest for an amount not to exceed \$534,000; and
3. Discuss and take other action as appropriate.

Respectfully submitted,



Michael T. Thornton, P.E.
General Manager

SAN ELIJO JOINT POWERS AUTHORITY
MEMORANDUM

June 12, 2017

TO: Board of Directors
San Elijo Joint Powers Authority

FROM: General Manager

SUBJECT: ACCEPTANCE OF COMPLETION – CONSTRUCTION CONTRACT FOR THE
METER VALVE AND AIR VACUUM VALVE REPLACEMENT PROJECT

RECOMMENDATION

It is recommended that the Board of Directors:

1. Authorize the General Manager to accept the Meter Valve and Air Vacuum Valve Replacement Project on behalf of the SEJPA and record the project Notice of Completion; and
2. Discuss and take other action as appropriate.

BACKGROUND

The San Elijo Joint Powers Authority (SEJPA) owns and operates a recycled water utility that includes approximately 19 miles of recycled water distribution pipelines located in the cities of Encinitas, Del Mar, and Solana Beach. SEJPA wholesales recycled water to San Dieguito Water District (SDWD), Santa Fe Irrigation District (SFID), Olivenhain Municipal Water District (OMWD), and the City of Del Mar. As the owner and operator of most of the recycled water distribution system, SEJPA has responsibility for maintenance and repairs up to the customer meter, with the exception of OMWD. OMWD assumes responsibility for distribution system pipelines within their service area.

The recycled water distribution system includes pumps and motors, pipelines, valves, and other appurtenances necessary for the conveyance of water. This infrastructure is inspected and evaluated as part of the SEJPA's asset management program. As a result of recent inspections, the SEJPA identified 24 small valves in the SFID service area that are leaking or not functioning properly, which required replacement. In addition, the system has five air/vacuum release valves that are scheduled to be replaced due to age and wear.

At the March 13, 2017 Board meeting, the Board of Directors authorized the General Manager to enter into a construction contract with A.B. Hashmi, Inc. for installation of the new meter valve and air vacuum valves in the amount of \$71,500.

DISCUSSION

The contractor completed the scope of the contract during May 2017 and substantial completion was issued on May 31, 2017. The project is ready for acceptance by the Board.

One contract change order in the amount of \$4,160 was issued during the project for additional valves and piping work, which was requested by the SEJPA and that was not part of the original scope of work.

With the acceptance of this project by the Board of Directors and the filing of the Notice of Completion, the contract with A.B. Hashmi, Inc. will be completed. The SEJPA legal counsel will file the Notice of Completion with the San Diego County Clerk. After 35 days, the final payment will be made to the Contractor.

FINANCIAL IMPACT

The Fiscal Year 2016-17 Mid-Year Review estimated \$434,000 of revenue in excess of expense, which is approximately \$110,000 greater than budget. This excess provided adequate funding to complete the project. There was one change order issued in the amount of \$4,160 to complete additional work associated with the project, representing 5.8% of the project value. All major elements of the project have been completed.

The project was completed slightly above budget with no injuries, and no filed claims against the SEJPA. The work by A.B. Hashmi, Inc. was of good quality, and the contractor worked collaboratively with staff to resolve any construction issues.

It is therefore recommended that the Board of Directors:

1. Authorize the General Manager to accept the Meter Valve and Air Vacuum Valve Replacement Project on behalf of the SEJPA and record the project Notice of Completion; and
2. Discuss and take other action as appropriate.

Respectfully submitted,



Michael T. Thornton, P.E.
General Manager

SAN ELIJO JOINT POWERS AUTHORITY
MEMORANDUM

June 12, 2017

TO: Board of Directors
San Elijo Joint Powers Authority

FROM: General Manager

SUBJECT: ADOPTION OF THE SAN ELIJO JOINT POWERS AUTHORITY (SEJPA)
FISCAL YEAR 2017-18 BUDGET, INVESTMENT POLICY, AND
APPOINTMENT OF TREASURER

RECOMMENDATION

It is recommended that the Board of Directors:

1. Adopt Resolution No. 2017-05, Resolution Approving the San Elijo Joint Powers Authority Operating and Capital Improvement Budgets for Fiscal Year 2017-18;
2. Adopt Resolution No. 2017-06, Resolution Approving the San Elijo Joint Powers Authority Investment Policy and Guidelines and Appointment of Paul F. Kinkel as SEJPA Treasurer; and
3. Discuss and take action as appropriate.

DISCUSSION

The Fiscal Year (FY) 2017-18 Recommended Budget was presented publicly to the Board of Directors at the April and May 2017 Board meetings for discussion, comments, and direction. SEJPA staff has reached out to both Member Agencies and the other participating government agencies served by the SEJPA to receive comments. In addition, the Proposed FY 2017-18 Recommended Budget was posted on the SEJPA website for public access.

Suggested changes have been incorporated into the FY 2017-18 Recommended Budget, of which the most significant was the addition of \$344,650 for the Cardiff Force Main Replacement capital project. This was a capital request from the City of Encinitas and will be solely funded by the Cardiff Sanitation Division. Staff recommends combining the Cardiff Force Main Replacement project with the Land Outfall Replacement Project, as these projects have intersecting alignments and bundling the projects will likely produce cost savings. Other minor changes to the Recommended Budget include updated the 2017 Revenue Bond debt service costs, adjusting the Classification and Salary Schedule to include an additional operator within the existing funding, and including interns across all functional areas in the Organizational Chart. These changes have no substantive impact to the recommended budget.

The Recommended FY 2017-18 Budget is anticipated to be adequate to fulfill the mission of the SEJPA and is consistent with the sewer rate structures of the Member Agencies. The recommended FY 2017-18 Operating expense budget is presented in Table 1:

Service	Recommended FY 2017-18 Budget
Wastewater and Laboratory	\$3,259,033
Ocean Outfall	562,121
Pump Stations	777,213
Storm Water and Urban Runoff	44,052
Other	9,755
Total Operating Expense before Recycled Water	\$4,652,174
Recycled Water	1,489,905
Total Operating Expense	\$6,142,079

Table 1. Operating Expense

The recommended FY 2017-18 Capital revenue request is \$280,000 for Wastewater Treatment, \$300,000 for Ocean Outfall, \$344,650 for Cardiff Pump Station and \$1,600,000 for Recycled Water for a total of \$2,524,650.

The recommended FY 2017-18 Debt Service consists of \$2,073,828 for Wastewater which includes the 2017 Revenue Bond payment, and \$997,828 for Recycled Water for a combined total of \$3,071,656.

SEJPA management has carefully reviewed the proposed budget including debt financing to control costs without impacting the agency's ability to perform its vital functions. The proposed budget for all program operating costs will increase by approximately \$112,766. Wastewater Treatment is planned to increase 76,199 or 2.8%, and the Recycled Water Program Expenses are planned to decrease by \$8,542 or 0.6%. Wastewater Treatment is budgeted to increase as a result of additional process engineering support and planned utility rate increases. The Recycled Water Program decrease is primarily due to lower engineering support and chemicals which was partially offset by professional services, IT support and utility cost increases. All other programs are budgeted to increase \$45,109, or 2.5 percent.

The recommended FY 2017-18 Budget is now ready for consideration for adoption as presented in the attached Resolution No. 2017-05.

INVESTMENT POLICY

State law requires that the Investment Policy be reviewed and adopted annually. The SEJPA has evaluated alternative investment options including the California Asset Management Program ("CAMP"), however no changes are recommended to the SEJPA investment policy at this time. The SEJPA investment policy allows for investment in the State Local Agency Investment Fund (LAIF) and in the San Diego County Investment Pool. These two tools have been the basis of all investment activity since the SEJPA became independent from the County of San Diego.

In addition, State law requires that a SEJPA Treasurer be appointed annually. The current SEJPA Treasurer is Paul F. Kinkel, Director of Finance/Administration. The General Manager recommends reappointing Mr. Kinkel as the SEJPA Treasurer.

It is therefore recommended that the Board of Directors:

1. Adopt Resolution No. 2017-05, Resolution Approving the San Elijo Joint Powers Authority Operating and Capital Improvement Budgets for Fiscal Year 2017-18;
2. Adopt Resolution No. 2017-06, Resolution Approving the San Elijo Joint Powers Authority Investment Policy and Guidelines and Appointment of Paul F. Kinkel as SEJPA Treasurer; and
3. Discuss and take action as appropriate.

Respectfully submitted,



Michael T. Thornton, P.E.
General Manager

Attachment 1: Resolution No. 2017-05, "Resolution Approving the San Elijo Joint Powers Authority Operating and Capital Improvement Budgets for Fiscal Year 2017-18"

Attachment 2: Resolution No. 2017-06, "Resolution Approving the San Elijo Joint Powers Authority Investment Policy and Guidelines and Appointment of SEJPA Treasurer"

Note: The updated SEJPA Recommended Budget FY 2017-18 is posted on the SEJPA website at the following link:

http://www.sejpa.org/wpro_projects/sejpa/userfiles/Recommended%20Annual%20Budget1.pdf

ATTACHMENT 1

RESOLUTION NO. 2017-05

**RESOLUTION APPROVING THE SAN ELIJO JOINT POWERS AUTHORITY
OPERATING AND CAPITAL IMPROVEMENT BUDGETS
FOR FISCAL YEAR 2017-18**

WHEREAS, the San Elijo Joint Powers Authority (SEJPA) General Manager has submitted for the consideration of the SEJPA Board of Directors proposed SEJPA Operating and Capital Projects Budgets for Fiscal Year 2017-18;

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE SAN ELIJO JOINT POWERS AUTHORITY HEREBY RESOLVES AS FOLLOWS:

1. The Board of Directors has reviewed the proposed Operating Budgets and Capital Projects Budget, and the funds included herein for the period of July 1, 2017 through June 30, 2018 and hereby finds that such budgets, as reviewed, are sound plans for the financing of required SEJPA operations and capital improvements during Fiscal Year 2017-18. Such budgets are hereby adopted.

San Elijo JPA Operations and Maintenance Fund	\$ 6,726,002
San Elijo JPA Water Reclamation Operating Fund	2,487,733
San Elijo JPA Capital Projects Fund	<u>2,524,650</u>
Total	\$ <u>11,738,385</u>

2. The Board of Directors authorizes carrying forward unexpended capital project appropriations and encumbered operating funds for the Fiscal Year 2016-17.

PASSED AND ADOPTED this 12th day of June, 2017, by the following vote:

AYES: Boardmembers:

NOES: Boardmembers:

ABSENT: Boardmembers:

ABSTAIN: Boardmembers:

Ginger Marshall, Chairperson
SEJPA Board of Directors

ATTEST:

Michael T. Thornton, P.E.
Secretary of the Board

ATTACHMENT 2

RESOLUTION NO. 2017-06

**RESOLUTION APPROVING THE SAN ELIJO JOINT POWERS AUTHORITY
INVESTMENT POLICY AND GUIDELINES AND
APPOINTMENT OF SEJPA TREASURER**

WHEREAS, the San Elijo Joint Powers Authority (SEJPA) General Manager has submitted for the consideration of the SEJPA Board of Directors, the proposed SEJPA Investment Policy and Guidelines;

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE SAN ELIJO JOINT POWERS AUTHORITY HEREBY RESOLVES AS FOLLOWS:

1. The SEJPA Treasurer prepared an Investment Policy and Guidelines in 1996, attached hereto as Exhibit A, and incorporated herein by reference as if set forth in full. In order to comply with prudent financial management practices, these guidelines are reviewed and approved on an annual basis in conjunction with the annual budget adoption.
2. The policy is intended to provide guidelines for the prudent investment of the SEJPA's temporary idle cash and outline the policies for maximizing the efficiency of the SEJPA's cash management system.
3. The investment goal is to enhance the economic condition of the SEJPA while insuring the safety of funds invested.
4. The assignment of Paul F. Kinkel as SEJPA Treasurer for the 2017-18 fiscal year.
5. The Board of Directors of the San Elijo Joint Powers Authority does hereby approve the Investment Policy and Guidelines attached hereto as Exhibit A.

PASSED AND ADOPTED at a regular meeting of the Board of Directors of the San Elijo Joint Powers Authority, California, held on this 12th day of June, 2017 by the following vote:

AYES: Boardmembers:

NOES: Boardmembers:

ABSENT: Boardmembers:

ABSTAIN: Boardmembers:

Ginger Marshall, Chairperson
SEJPA Board of Directors

ATTEST:

Michael T. Thornton, P.E.
Secretary of the Board

**EXHIBIT A
TO
RESOLUTION NO. 2017-06**

**SAN ELIJO JOINT POWERS AUTHORITY
INVESTMENT POLICY AND GUIDELINES AND
APPOINTMENT OF SEJPA TREASURER**

1. PURPOSE

This Statement is intended to provide guidelines for the prudent investment of the San Elijo Joint Powers Authority's (SEJPA) temporary idle cash, and outline the policies for maximizing the efficiency of the SEJPA's cash management system. The investment goal is to enhance the economic condition of the SEJPA while insuring the safety of funds invested.

2. OBJECTIVE

The SEJPA's cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the SEJPA to invest funds to the fullest extent possible. The SEJPA attempts to obtain the highest yield on its investments consistent with the criteria established for safety and liquidity.

3. POLICY

The SEJPA Treasurer is responsible for investing the surplus funds in the SEJPA Treasury in accordance with the California Government Code, Sections 53600 et seq. and 53635 et seq. The SEJPA makes investments in accordance with California Government Code 53600.3, which states "all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

The three principal factors of safety, liquidity and yield are to be taken into consideration when making investment decisions.

- A) Safety. Safety and the minimizing of risk associated with investing refer to attempts to reduce the potential for loss of principal, interest or a combination of the two. The SEJPA invests only in those instruments that are considered very safe.
- B) Liquidity. Liquidity refers to the ability to convert an investment to cash promptly with a minimum risk of losing some portion of principal or interest. A portion of the portfolio should be maintained in liquid short-term securities which can be converted to cash if necessary to meet disbursement requirements.

- C) Yield. Yield is the average annual return on an investment based on the interest rate, price, and length of time to maturity. The SEJPA attempts to obtain the highest yield possible, provided that the basic criteria of safety and liquidity have been met.

4. INVESTMENT INSTRUMENTS

The SEJPA may invest in the following instruments under the guidelines as provided herein:

- A) Local Agency Investment Fund (LAIF). Investment of funds in the California LAIF which allows the State Treasurer to invest through the Pooled Money Investment Account. Maximum investment is subject to state regulation.
- B) County of San Diego County Treasury. Investment of funds in the Treasury of the County of San Diego that allows the County Treasurer to invest through the Pooled Money Investment Account.

5. SAFEKEEPING

All investments of the SEJPA shall have the San Elijo Joint Powers Authority as registered owner or shall be kept in the custody of the SEJPA or by a qualified safekeeping institution.

6. INVESTMENT REPORTS

- A) The SEJPA Treasurer shall submit a monthly investment report to the SEJPA General Manager and SEJPA Board of Directors containing the following information:
- Financial institution
 - Type of investment
 - Amount of deposit
 - Rate of interest
- B) The SEJPA Treasurer shall annually render a Statement of Investment Policy to the SEJPA Board of Directors.

7. INVESTMENT OF BOND FUNDS

In accordance with Government Code Section 53601, moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds . . . may be invested in accordance with the statutory provisions governing the issuance of those bonds, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance as identified in an "Indenture of Trust".

* * * End of Policy * * *

SAN ELIJO JOINT POWERS AUTHORITY
MEMORANDUM

June 12, 2017

TO: Board of Directors
San Elijo Joint Powers Authority

FROM: Director of Finance/Administration

SUBJECT: CALPERS UNFUNDED ACTUARIAL LIABILITY – SUPPLEMENTAL PAYMENT

RECOMMENDATION

It is recommended that the Board of Directors:

1. Authorize the General Manager to apply positive FY 2016-17 Budget variances to the CalPERS Unfunded Actuarial Liability (“UAL”); and
2. Discuss and take action as appropriate.

BACKGROUND

California Public Employees' Retirement System ("CalPERS") is the nation's largest public pension fund and the sixth largest in the world with assets totaling \$324 billion. The San Elijo Joint Powers Authority (SEJPA), like many California municipalities participates in CalPERS' defined benefit retirement programs.

Over the last two decades, CalPERS has experienced swings in its investment returns, similar to the stock and real estate markets. As a result, CalPERS pensions went from being overfunded (asset values being greater than pension obligations) to underfunded.

In September 2012, the Governor signed the Public Employees' Pension Reform Act of 2013 (PEPRA). This legislation was designed to limit future pension benefits and provide new methods to manage pension obligations. In October 2012, the SEJPA Board of Directors approved Resolution 2013-02 implementing provisions of PEPRA. This resolution reduced pension benefits to employees hired after October 2012 and, in essence, three pension tiers were created with SEJPA employees. Employees hired before October 2012 were grandfathered into the pension formula 2.5%@55; employees hired between October 2012 and December 2012, and employees hired after December 2012 that were previously covered by CALPERS, and meet the “Classic Employee” requirements fall into pension formula 2%@60; and 2%@62 for employees that are new to CalPERS. Figure 1 contrasts SEJPA pension participation from 2012 to present. In both years (2012 and 2017), the SEJPA had 21 full time employees. As of May 2017, 43% of SEJPA employees are now participating in a PEPRA modified pension.

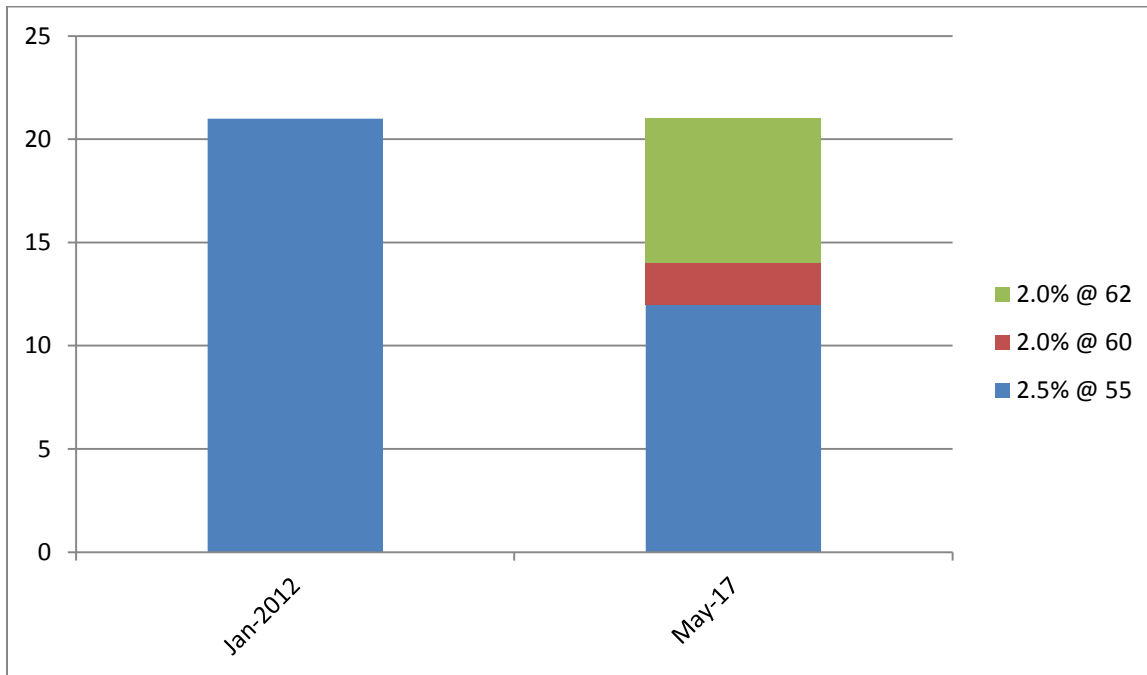


Figure 1. Number of SEJPA employees in each CalPERS Pension Plan, January 2012 and May 2017.

DISCUSSION

Each year, CalPERS prepares an individualized actuarial valuation report that values the plans as of the prior year, and provides the current and projected employer contributions. As of June 30, 2015, the Unfunded Actuarial Liability (UAL) for all SEJPA plans was \$2,601,855; the largest being the 2.5%@55 plan UAL at \$2,597,139. There are several causes for the UAL, with the most significant being lower than planned investment returns combined with retirees living longer. For example, in the last year of posted returns (Fiscal Year 2015-16), CalPERS investment returns were flat, similar to the S&P 500 market for that period (see Figure 2).

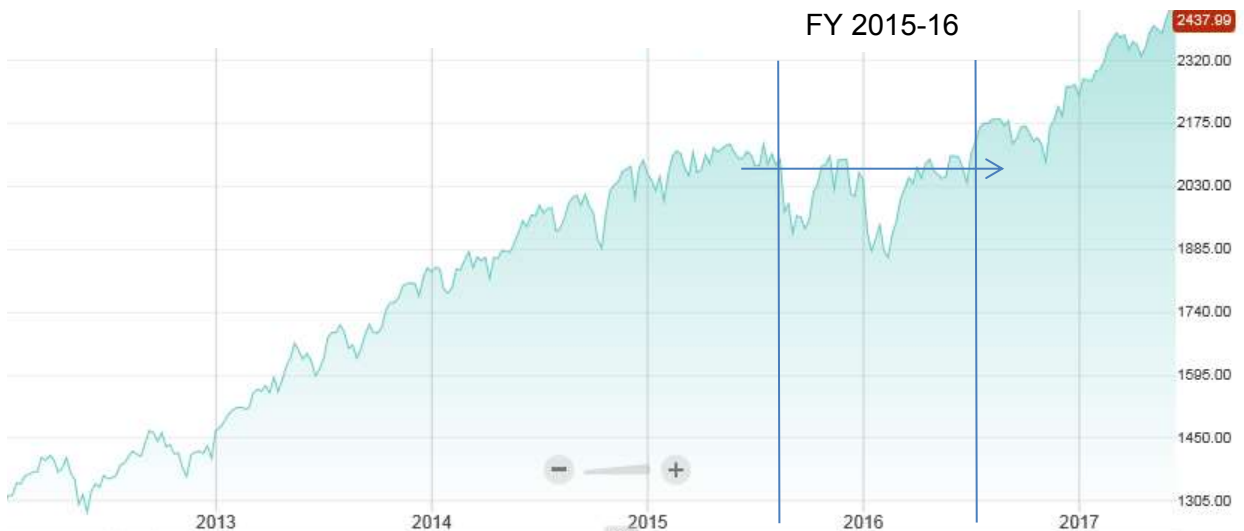


Figure 2. S&P 500 Index from 2012 to 2017

To address the shortfall in investment returns and to ensure long-term financial sustainability, CalPERS issues loans to its participating members to bring their pension asset value equal to their pension obligations. Currently, CalPERS calculates the SEJPA's pension contributions as a percentage of payroll for the annual cost of service accrual for the upcoming fiscal year, plus an annual payment amount for the UAL needed to fund past service credit earned or accrued. This annual payment is based on amortization schedules prepared by CalPERS that range from 5 years to 30 years, and are based on termination, deaths, disability, retirements, salary growth, and investment return assumptions. In December 2016, CalPERS approved reducing the pension fund's rate of return from 7.5% to 7.0% over a 3 year period.

As SEJPA nears the completion of FY 2016-17, Staff anticipates finishing the year under budget. Staff recommends applying unspent operational funds to the UAL.

FINANCIAL IMPACT

Applying unspent operational funding to the UAL will reduce this obligation and lessen accrued interest on the UAL balance. By prepaying an estimated \$100,000, the SEJPA will reduce its unfunded liability and avoid approximately \$22,000 in future interest payments using a 7.0% rate of return over a 5 year period.

It is, therefore, recommended that the Board of Directors:

1. Authorize the General Manager to apply positive FY 2016-17 Budget variances to the CalPERS Unfunded Actuarial Liability; and
2. Discuss and take action as appropriate.

Respectfully submitted,



Paul F. Kinkel
Director of Finance/Administration

Attachment 1: CalPERS August 2016 MISCELLANEOUS PLAN FOR THE SAN ELIJO JOINT POWERS AUTHORITY (CalPERS ID: 1650430914) Annual Valuation Report as of June 30, 2015 (2.5% @ 55)



California Public Employees' Retirement System
 Actuarial Office
 P.O. Box 942709
 Sacramento, CA 94229-2709
 TTY: (916) 795-3240
 (888) 225-7377 phone – (916) 795-2744 fax
www.calpers.ca.gov

ATTACHMENT 1

August 2016

**MISCELLANEOUS PLAN OF THE SAN ELIJO JOINT POWERS AUTHORITY
 (CalPERS ID: 1650430914)
 Annual Valuation Report as of June 30, 2015**

Dear Employer,

As an attachment to this letter, you will find a copy of the June 30, 2015 actuarial valuation report of the pension plan.

Because this plan is in a risk pool, the following valuation report has been separated into two sections:

- Section 1 contains specific information for the plan including the development of the current and projected employer contributions, and
- Section 2 contains the Risk Pool Actuarial Valuation appropriate to the plan as of June 30, 2015.

Section 2 can be found on the CalPERS website at (www.calpers.ca.gov). From the home page, go to "*Forms & Publications*" and select "*View All*". In the search box, enter "*Risk Pool Report*" and from the results list download the Miscellaneous or Safety Risk Pool Actuarial Valuation Report as appropriate.

Your June 30, 2015 actuarial valuation report contains important actuarial information about your pension plan at CalPERS. Your assigned CalPERS staff actuary, whose signature appears in the Actuarial Certification section on page 1, is available to discuss the report with you after August 31, 2016.

Future Employer Contribution

Fiscal Year	Employer Normal Cost Rate	+	Employer Payment of Unfunded Liability
2017-18	10.110%		\$159,538
2018-19 (projected)	10.1%		\$195,510

The exhibit above displays the minimum employer contributions, before any cost sharing, for Fiscal Year 2017-18 along with estimates of the contributions for Fiscal Year 2018-19. The total employer contribution is the sum of a Normal Cost Rate applied to reported payroll plus an Unfunded Liability dollar payment. The estimated contributions for Fiscal Year 2018-19 are based on a projection of the most recent information we have available, including an estimated 0.0 percent investment return for Fiscal Year 2015-16 (based on the year to date return through April 30, 2016).

For a projection of employer contributions beyond Fiscal Year 2018-19, please refer to the "Projected Employer Contributions" in the "Highlights and Executive Summary" section. This 5-year projection of future employer contributions supersedes any previous projections we have provided. The "Risk Analysis" section of the valuation report also contains estimated employer contributions in future years under a variety of investment return scenarios. Member contributions, other than cost sharing, are in addition to the above amounts. The employer contributions in this report do not reflect any cost sharing arrangements you may have with your employees.

The estimates for Fiscal Year 2018-19 also assume that there are no future contract amendments and no liability gains or losses (such as larger than expected pay increases, more retirements than expected, etc.) This is an important assumption because these gains and losses do occur and can have a significant effect on required contributions. Even for the largest plans or pools, such gains and losses can impact the employer's contributions. These gains and losses cannot be predicted in advance so the projected employer contributions are estimates. The actual required employer contribution for Fiscal Year 2018-19 will be provided in next year's valuation report.

Changes since the Prior Year's Valuation

The CalPERS Board of Administration adopted a Risk Mitigation Policy which is designed to reduce funding risk over time. The policy establishes a mechanism whereby CalPERS investment performance that significantly outperforms the discount rate triggers adjustments to the discount rate, expected investment return and strategic asset allocation targets. A minimum excess investment return of 4% above the existing discount rate is necessary to cause a funding risk mitigation event. The policy has no impact on the current year valuation results but is expected to have an impact in future years. More details on the Risk Mitigation Policy can be found on our website.

Besides the above noted changes, there may also be changes specific to the plan such as contract amendments and funding changes.

Further descriptions of general changes are included in the "Highlights and Executive Summary" section and in Appendix A, "Statement of Actuarial Data, Methods and Assumptions" of the Section 2 report. We understand that you might have a number of questions about these results. While we are very interested in discussing these results with your agency, in the interest of allowing us to give every public agency their results, we ask that you wait until after August 31 to contact us with actuarial related questions.

If you have other questions, please call our customer contact center at (888) CalPERS or (888-225-7377).

Sincerely,



ALAN MILLIGAN
Chief Actuary



ACTUARIAL VALUATION

as of June 30, 2015

**for the
MISCELLANEOUS PLAN
of the
SAN ELIJO JOINT POWERS AUTHORITY
(CalPERS ID: 1650430914)**

**REQUIRED CONTRIBUTIONS
FOR FISCAL YEAR**

July 1, 2017 - June 30, 2018

TABLE OF CONTENTS

SECTION 1 – PLAN SPECIFIC INFORMATION

SECTION 2 – RISK POOL ACTUARIAL VALUATION INFORMATION

Section 1

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

**Plan Specific Information
for the
MISCELLANEOUS PLAN
of the
SAN ELIJO JOINT POWERS
AUTHORITY**

**(CalPERS ID: 1650430914)
(Rate Plan: 1932)**

TABLE OF CONTENTS

ACTUARIAL CERTIFICATION	1
HIGHLIGHTS AND EXECUTIVE SUMMARY	
• INTRODUCTION	3
• PURPOSE OF SECTION 1	3
• REQUIRED EMPLOYER CONTRIBUTION	4
• PLAN'S FUNDED STATUS	5
• PROJECTED EMPLOYER CONTRIBUTIONS	5
• CHANGES SINCE THE PRIOR YEAR VALUATION	5
• SUBSEQUENT EVENTS	5
ASSETS AND LIABILITIES	
• ALLOCATION OF PLAN'S SHARE OF POOL'S EXPERIENCE/ASSUMPTION CHANGE	7
• DEVELOPMENT OF PLAN'S SHARE OF POOL'S MVA	7
• SCHEDULE OF PLAN'S SIDE FUND & OTHER AMORTIZATION BASES	8
• 30-YEAR AMORTIZATION SCHEDULE AND ALTERNATIVES	9
• EMPLOYER CONTRIBUTION HISTORY	11
• FUNDING HISTORY	11
RISK ANALYSIS	
• ANALYSIS OF FUTURE INVESTMENT RETURN SCENARIOS	13
• ANALYSIS OF DISCOUNT RATE SENSITIVITY	14
• VOLATILITY RATIOS	15
• HYPOTHETICAL TERMINATION LIABILITY	16
PARTICIPANT DATA	17
LIST OF CLASS 1 BENEFIT PROVISIONS	17
PLAN'S MAJOR BENEFIT OPTIONS	18

ACTUARIAL CERTIFICATION

Section 1 of this report is based on the member and financial data contained in our records as of June 30, 2015 which was provided by your agency and the benefit provisions under your contract with CalPERS. Section 2 of this report is based on the member and financial data as of June 30, 2015 provided by employers participating in the Miscellaneous Risk Pool to which the plan belongs and benefit provisions under the CalPERS contracts for those agencies.

As set forth in Section 2 of this report, the pool actuary has certified that, in their opinion, the valuation of the risk pool containing your MISCELLANEOUS PLAN has been performed in accordance with generally accepted actuarial principles consistent with standards of practice prescribed by the Actuarial Standards Board, and that the assumptions and methods are internally consistent and reasonable for the risk pool as of the date of this valuation and as prescribed by the CalPERS Board of Administration according to provisions set forth in the California Public Employees' Retirement Law.

Having relied upon the information set forth in Section 2 of this report and based on the census and benefit provision information for the plan, it is my opinion as the plan actuary that the side fund and other Unfunded Accrued Liability bases as of June 30, 2015 and employer contribution as of July 1, 2017, have been properly and accurately determined in accordance with the principles and standards stated above.

The undersigned is an actuary for CalPERS, who is a member of both the American Academy of Actuaries and Society of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.



NANCY E. CAMPBELL, ASA, MAAA
Enrolled Actuary
Supervising Pension Actuary, CalPERS
Plan Actuary

HIGHLIGHTS AND EXECUTIVE SUMMARY

- **INTRODUCTION**
- **PURPOSE OF SECTION 1**
- **REQUIRED EMPLOYER CONTRIBUTION**
- **PLAN'S FUNDED STATUS**
- **PROJECTED EMPLOYER CONTRIBUTIONS**
- **CHANGES SINCE THE PRIOR YEAR VALUATION**
- **SUBSEQUENT EVENTS**

Introduction

This report presents the results of the June 30, 2015 actuarial valuation of the MISCELLANEOUS PLAN of the SAN ELIJO JOINT POWERS AUTHORITY of the California Public Employees' Retirement System (CalPERS). This actuarial valuation sets the required employer contributions for Fiscal Year 2017-18.

The CalPERS Board of Administration adopted a Risk Mitigation Policy which is designed to reduce funding risk over time. The policy establishes a mechanism whereby CalPERS investment performance that significantly outperforms the discount rate triggers adjustments to the discount rate, expected investment return and strategic asset allocation targets. A minimum excess investment return of 4% above the existing discount rate is necessary to cause a funding risk mitigation event. The Risk Mitigation Policy does not have an impact on the current year actuarial valuation. More details on the Risk Mitigation Policy can be found on our website.

Purpose of Section 1

This Section 1 report for the MISCELLANEOUS PLAN of the SAN ELIJO JOINT POWERS AUTHORITY of the California Public Employees' Retirement System (CalPERS) was prepared by the plan actuary in order to:

- Set forth the assets and accrued liabilities of this plan as of June 30, 2015;
- Determine the required employer contribution for this plan for the fiscal year July 1, 2017 through June 30, 2018; and
- Provide actuarial information as of June 30, 2015 to the CalPERS Board of Administration and other interested parties.

The pension funding information presented in this report should not be used in financial reports subject to GASB Statement No. 68 for a Cost Sharing Employer Defined Benefit Pension Plan. A separate accounting valuation report for such purposes is available from CalPERS and details for ordering are available on our website.

The use of this report for any other purposes may be inappropriate. In particular, this report does not contain information applicable to alternative benefit costs. The employer should contact their actuary before disseminating any portion of this report for any reason that is not explicitly described above.

California Actuarial Advisory Panel Recommendations

This report includes all the basic disclosure elements as described in the *Model Disclosure Elements for Actuarial Valuation Reports* recommended in 2011 by the California Actuarial Advisory Panel (CAAP), with the exception of including the original base amounts of the various components of the unfunded liability in the Schedule of Amortization Bases shown on page 8.

Additionally, this report includes the following "Enhanced Risk Disclosures" also recommended by the CAAP in the Model Disclosure Elements document:

- A "Deterministic Stress Test," projecting future results under different investment income scenarios
- A "Sensitivity Analysis," showing the impact on current valuation results using a 1 percent plus or minus change in the discount rate.

Required Employer Contribution

	Fiscal Year		Fiscal Year	
Required Employer Contribution	2016-17 ¹		2017-18	
Employer Normal Cost Rate	10.069%		10.110%	
<i>Plus Either</i>				
1) Monthly Employer Dollar UAL Payment	\$	13,381.30	\$	13,294.87
<i>Or</i>				
2) Annual Lump Sum Prepayment Option	\$	154,873	\$	153,872

*The total minimum required employer contribution is the **sum** of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll) **plus** the Employer Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly in dollars). Only the UAL portion of the employer contribution can be prepaid (which must be received in full no later than July 31). Plan Normal Cost contributions will be made as part of the payroll reporting process. If there is contractual cost sharing or other change, this amount will change. § 20572 of the Public Employees' Retirement Law assesses interest at an annual rate of 10 percent if a contracting agency fails to remit the required contributions when due.*

	Fiscal Year		Fiscal Year	
	2016-17 ¹		2017-18	
Development of Normal Cost as a Percentage of Payroll				
Base Total Normal Cost for Formula		17.442%		17.485%
Surcharge for Class 1 Benefits ³				
a) FAC 1		0.571%		0.571%
Phase out of Normal Cost Difference ⁴		0.000%		0.000%
Plan's Total Normal Cost		18.014%		18.056%
Formula's Expected Employee Contribution Rate		7.944%		7.946%
Employer Normal Cost Rate		10.069%		10.110%
Projected Payroll for the Contribution Fiscal Year	\$	1,484,714	\$	1,474,249
Estimated Employer Contributions Based on Projected Payroll				
Plan's Estimated Employer Normal Cost	\$	149,501	\$	149,047
Plan's Payment on Amortization Bases ²		160,576		159,538
Total Employer Contribution ⁵	\$	310,077	\$	308,585

¹ The results shown for Fiscal Year 2016-17 reflect the prior year valuation and do not take into account any lump sum payment, side fund payoff, or rate adjustment made after June 30, 2015.

² See page 8 for a breakdown of the Amortization Bases.

³ Section 2 of this report contains a list of Class 1 benefits and corresponding surcharges for each benefit.

⁴ The normal cost difference is phased out over a five year period. The phase out of normal cost difference is 100 percent for the first year of pooling, and is incrementally reduced by 20 percent of the original normal cost difference for each subsequent year. This is non-zero only for plans that joined a pool within the past 5 years. Most plans joined a pool June 30, 2003, when risk pooling was implemented.

⁵ As a percentage of projected payroll the UAL contribution is 10.822 percent for an estimated total employer contribution rate of 20.932 percent.

Plan's Funded Status

		June 30, 2014		June 30, 2015
1. Present Value of Projected Benefits (PVB)	\$	12,107,717	\$	12,653,727
2. Entry Age Normal Accrued Liability (AL)		10,222,533		10,865,994
3. Plan's Market Value of Assets (MVA)		8,053,917		8,268,855
4. Unfunded Accrued Liability (UAL) [(2) - (3)]		2,168,616		2,597,139
5. Funded Ratio [(3) / (2)]		78.8%		76.1%

Projected Employer Contributions

The estimate for Fiscal Year 2018-19 is based on a projection of the most recent information we have available, including an estimated 0.0 percent investment return for Fiscal Year 2015-16 (based on year to date return through April 30, 2016).

The table below shows projected employer contributions (before cost sharing) for the next five fiscal years, **assuming CalPERS earns 0.0 percent for Fiscal Year 2015-16 and 7.50 percent every fiscal year thereafter**, and assuming that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur between now and the beginning of the projection period.

	Required Contribution	Projected Future Employer Contributions				
Fiscal Year	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Normal Cost %	10.110%	10.1%	10.1%	10.1%	10.1%	10.1%
UAL \$	\$159,538	\$195,510	\$233,495	\$257,296	\$283,542	\$282,544

Changes since the Prior Year's Valuation

Benefits

None. This valuation generally reflects plan changes by amendments effective before the date of the report. Please refer to the "Plan's Major Benefit Options" and Appendix B of Section 2 for a summary of the plan provisions used in this valuation.

Actuarial Methods and Assumptions

None.

Subsequent Events

Risk Mitigation

The CalPERS Board of Administration adopted a Risk Mitigation Policy which is designed to reduce funding risk over time. The policy establishes a mechanism whereby CalPERS investment performance that significantly outperforms the discount rate triggers adjustments to the discount rate, expected investment return and strategic asset allocation targets. A minimum excess investment return of 4% above the existing discount rate is necessary to cause a funding risk mitigation event. More details on the Risk Mitigation Policy can be found on our website.

ASSETS AND LIABILITIES

- **ALLOCATION OF PLAN'S SHARE OF POOL'S EXPERIENCE/ASSUMPTION CHANGE**
- **DEVELOPMENT OF PLAN'S SHARE OF POOL'S MVA**
- **SCHEDULE OF PLAN'S SIDE FUND & OTHER AMORTIZATION BASES**
- **30-YEAR AMORTIZATION SCHEDULE AND ALTERNATIVES**
- **EMPLOYER CONTRIBUTION HISTORY**
- **FUNDING HISTORY**

Allocation of Plan's Share of Pool's Experience/Assumption Change

It is the policy of CalPERS to ensure equity within the risk pools by allocating the pool's experience gains/losses and assumption changes in a manner that treats each employer equitably and maintains benefit security for the members of the System while minimizing substantial variations in employer contributions. The Pool's experience gains/losses and impact of assumption/method changes is allocated to the plan as follows:

1.	Plan's Accrued Liability	\$	10,865,994
2.	Projected UAL balance at 6/30/15		2,183,946
3.	Pool's Accrued Liability	\$	13,889,938,645
4.	Sum of Pool's Individual Plan UAL Balances at 6/30/15		2,423,468,906
5.	Pool's 2014/15 Investment & Asset (Gain)/Loss		596,365,421
6.	Pool's 2014/15 Other (Gain)/Loss		(49,030,273)
7.	Plan's Share of Pool's Asset (Gain)/Loss $[(1)-(2)]/[(3)-(4)] * (5)$		451,549
8.	Plan's Share of Pool's Other (Gain)/Loss $[(1)]/[(3)] * (6)$		(38,356)
9.	Plan's New (Gain)/Loss as of 6/30/2015 $[(7)+(8)]$	\$	413,193
10.	Increase in Pool's Accrued Liability due to Change in Assumptions		0
11.	Plan's Share of Pool's Change in Assumptions $[(1)]/[(3)] * (10)$	\$	0

Development of the Plan's Share of Pool's Market Value of Assets

1.	Plan's Accrued Liability	\$	10,865,994
2.	Plan's UAL	\$	2,597,139
3.	Plan's Share of Pool's MVA $[(1)-(2)]$	\$	8,268,855

Schedule of Plan's Side Fund and Other Amortization Bases

There is a two-year lag between the valuation date and the start of the contribution fiscal year.

- The assets, liabilities, and funded status of the plan are measured as of the valuation date: June 30, 2015.
- The employer contribution determined by the valuation is for the fiscal year beginning two years after the valuation date: Fiscal Year 2017-18.

This two-year lag is necessary due to the amount of time needed to extract and test the membership and financial data, and the need to provide public agencies with their employer contribution well in advance of the start of the fiscal year.

The Unfunded Accrued Liability (UAL) is used to determine the employer contribution and therefore must be rolled forward two years from the valuation date to the first day of the fiscal year for which the contribution is being determined. The UAL is rolled forward each year by subtracting the payment on the UAL for the fiscal year and adjusting for interest.

Reason for Base	Date Established	Amortization Period	Balance 6/30/15	Payment 2015-16	Balance 6/30/16	Payment 2016-17	Amounts for Fiscal 2017-18	
							Balance 6/30/17	Scheduled Payment for 2017-18
SIDE FUND	2013 or Prior	5	\$249,047	\$170,613	\$90,830	\$17,420	\$79,581	\$17,943
SHARE OF PRE-2013 POOL UAL	06/30/13	19	\$1,188,470	\$87,041	\$1,187,359	\$89,652	\$1,183,458	\$92,342
ASSET (GAIN)/LOSS	06/30/13	28	\$1,008,594	\$14,186	\$1,069,530	\$29,223	\$1,119,446	\$45,149
NON-ASSET (GAIN)/LOSS	06/30/13	28	\$(9,613)	\$(135)	\$(10,194)	\$(279)	\$(10,669)	\$(430)
ASSET (GAIN)/LOSS	06/30/14	29	\$(743,253)	\$0	\$(798,997)	\$(11,238)	\$(847,270)	\$(23,150)
ASSUMPTION CHANGE	06/30/14	19	\$489,844	\$(6,883)	\$533,719	\$10,166	\$563,208	\$20,942
NON-ASSET (GAIN)/LOSS	06/30/14	29	\$857	\$0	\$921	\$13	\$977	\$27
ASSET (GAIN)/LOSS	06/30/15	30	\$451,549	\$0	\$485,415	\$0	\$521,821	\$7,339
NON-ASSET (GAIN)/LOSS	06/30/15	30	\$(38,356)	\$0	\$(41,233)	\$0	\$(44,325)	\$(623)
TOTAL			\$2,597,139	\$264,822	\$2,517,350	\$134,957	\$2,566,227	\$159,539

The (gain)/loss bases are the plan's allocated share of the risk pool's (gain)/loss for the fiscal year as disclosed on the previous page. These (gain)/loss bases will be amortized according to Board policy over 30 years with a 5-year ramp-up.

If the total Unfunded Liability is negative (i.e., plan has a surplus), the scheduled payment is \$0, because the minimum required contribution under PEPRA must be at least equal to the normal cost.

30-Year Amortization Schedule and Alternatives

The amortization schedule on the previous page shows the minimum contributions required according to CalPERS amortization policy. There has been considerable interest from many agencies in paying off these unfunded accrued liabilities sooner and the possible savings in doing so. As a result, we have provided alternate amortization schedules to help analyze the current amortization schedule and illustrate the advantages of accelerating unfunded liability payments.

Shown on the following page are future year amortization payments based on 1) the current amortization schedule reflecting the individual bases and remaining periods shown on the previous page, and 2) alternate "fresh start" amortization schedules using two sample periods that would both result in interest savings relative to the current amortization schedule. Note that the payments under each alternate scenario increase by 3 percent for each year into the future. The schedules do not attempt to reflect any experience after June 30, 2015 that may deviate from the actuarial assumptions. Therefore, future amortization payments displayed in the Current Amortization Schedule may not match projected amortization payments shown in connection with Projected Employer Contributions provided elsewhere in this report.

The Current Amortization Schedule typically contains individual bases that are both positive and negative. Positive bases result from plan changes, assumption changes or plan experience that result in increases to unfunded liability. Negative bases result from plan changes, assumption changes or plan experience that result in decreases to unfunded liability. The combination of positive and negative bases within an amortization schedule can result in unusual or problematic circumstances in future years such as:

- A positive total unfunded liability with a negative total payment,
- A negative total unfunded liability with a positive total payment, or
- Total payments that completely amortize the unfunded liability over a very short period of time

In any year where one of the above scenarios occurs, the actuary will consider corrective action such as replacing the existing unfunded liability bases with a single "fresh start" base and amortizing it over a reasonable period.

The Current Amortization Schedule on the following page may appear to show that, based on the current amortization bases, one of the above scenarios will occur at some point in the future. It is impossible to know today whether such a scenario will in fact arise since there will be additional bases added to the amortization schedule in each future year. Should such a scenario arise in any future year, the actuary will take appropriate action based on guidelines in the CalPERS amortization policy. For purposes of this display, total payments include any negative payments. Therefore, the amount of estimated savings may be understated to the extent that negative payments appear in the current schedule.

30-Year Amortization Schedule and Alternatives

Date	<u>Current Amortization Schedule</u>		<u>Alternate Schedules</u>			
	Balance	Payment	20 Year Amortization		15 Year Amortization	
			Balance	Payment	Balance	Payment
6/30/2017	2,566,225	159,538	2,566,225	193,764	2,566,225	235,245
6/30/2018	2,593,279	185,472	2,557,793	199,577	2,514,785	242,302
6/30/2019	2,595,473	212,819	2,542,702	205,564	2,452,170	249,571
6/30/2020	2,569,478	225,350	2,520,271	211,731	2,377,322	257,058
6/30/2021	2,528,541	239,670	2,489,764	218,083	2,289,097	264,770
6/30/2022	2,469,687	226,059	2,450,383	224,625	2,186,260	272,713
6/30/2023	2,420,531	232,841	2,401,265	231,364	2,067,475	280,894
6/30/2024	2,360,656	239,826	2,341,476	238,305	1,931,298	289,321
6/30/2025	2,289,049	247,021	2,270,007	245,454	1,776,171	298,001
6/30/2026	2,204,611	254,431	2,185,765	252,818	1,600,410	306,941
6/30/2027	2,106,157	262,064	2,087,570	260,402	1,402,197	316,149
6/30/2028	1,992,404	269,926	1,974,147	268,215	1,179,572	325,634
6/30/2029	1,861,969	278,024	1,844,117	276,261	930,415	335,403
6/30/2030	1,713,356	286,365	1,695,993	284,549	652,444	345,465
6/30/2031	1,544,948	294,956	1,528,166	293,085	343,192	355,829
6/30/2032	1,355,002	287,491	1,338,901	301,878		
6/30/2033	1,158,551	279,312	1,126,325	310,934		
6/30/2034	955,845	270,385	888,416	320,262		
6/30/2035	747,193	260,670	622,992	329,870		
6/30/2036	532,964	88,207	327,700	339,766		
6/30/2037	481,481	90,853				
6/30/2038	423,393	93,579				
6/30/2039	358,123	96,386				
6/30/2040	285,047	99,278				
6/30/2041	203,491	71,955				
6/30/2042	144,149	67,110				
6/30/2043	85,379	47,427				
6/30/2044	42,609	26,502				
6/30/2045	18,327	4,279				
6/30/2046	15,265	15,827				
Totals		5,413,623		5,206,509		4,375,295
Estimated Savings				207,114		1,038,329

Current CalPERS Board policy prioritizes the order for which lump sum contributions in excess of the required employer contribution shall be applied. Excess contributions shall first be applied toward payment on the plan's side fund, and any remainder shall then be applied toward the plan's share of the pool's unfunded accrued liability.

Please contact the plan actuary before making such a payment to ensure that the payment is applied correctly.

Employer Contribution History

The table below provides a recent history of the required employer contributions for the plan, as determined by the annual actuarial valuation. It does not account for prepayments or benefit changes made during a fiscal year.

Fiscal Year	Employer Normal Cost	Unfunded Liability Payment (\$)
2016 - 17	10.069%	160,576
2017 - 18	10.110%	159,538

Funding History

The funding history below shows the plan's actuarial accrued liability, share of the pool's market value of assets, share of the pool's unfunded liability, funded ratio, and annual covered payroll.

Valuation Date	Accrued Liability (AL)	Share of Pool's Market Value of Assets (MVA)	Plan's Share of Pool's Unfunded Liability	Funded Ratio	Annual Covered Payroll
06/30/2011	\$ 6,972,991	\$ 5,088,359	\$ 1,884,632	73.0%	\$ 1,594,676
06/30/2012	7,929,510	5,485,540	2,443,970	69.2%	1,693,953
06/30/2013	8,982,617	6,623,478	2,359,139	73.7%	1,522,878
06/30/2014	10,222,533	8,053,917	2,168,616	78.8%	1,358,723
06/30/2015	10,865,994	8,268,855	2,597,139	76.1%	1,349,146

RISK ANALYSIS

- **ANALYSIS OF FUTURE INVESTMENT RETURN SCENARIOS**
- **ANALYSIS OF DISCOUNT RATE SENSITIVITY**
- **VOLATILITY RATIOS**
- **HYPOTHETICAL TERMINATION LIABILITY**

Analysis of Future Investment Return Scenarios

The investment return for Fiscal Year 2015-16 was not known at the time this report was produced. The investment return in Fiscal Year 2015-16 as of April 30, 2016 is 0.0 percent before administrative expenses. For purposes of projecting future employer contributions, we are assuming a 0.0 percent investment return for Fiscal Year 2015-16.

The investment return realized during a fiscal year first affects the contribution for the fiscal year two years later. For example, the investment return for Fiscal Year 2015-16 will first be reflected in the June 30, 2016 actuarial valuation that will be used to set the Fiscal Year 2018-19 employer contributions, the Fiscal Year 2016-17 investment return will first be reflected in the June 30, 2017 actuarial valuation that will be used to set the Fiscal Year 2019-20 employer contributions, and so forth.

A sensitivity analysis was performed to determine the effects of various investment returns during fiscal years 2016-17, 2017-18, and 2018-19 on the employer contributions for fiscal years 2019-20, 2020-21, and 2021-22. The projected contributions assume that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur.

Five different investment return scenarios were selected.

- The first scenario is a -3.8 percent return for each of the 2016-17, 2017-18, and 2018-19 fiscal years. Based on the current investment allocation, this is what one would expect if the markets were to give us about a 5th percentile return from July 1, 2016 through June 30, 2019.
- The second scenario is a 2.8 percent return for each of the 2016-17, 2017-18, and 2018-19 fiscal years. Based on the current investment allocation, this is what one would expect if the markets were to give us about a 25th percentile return from July 1, 2016 through June 30, 2019.
- The third scenario is a 7.5 percent return for each of the 2016-17, 2017-18, and 2018-19 fiscal years. Based on the current investment allocation, this is what one would expect if the markets were to give us about a 49th percentile return from July 1, 2016 through June 30, 2019.
- The fourth scenario is a 12.0 percent return for each of the 2016-17, 2017-18, and 2018-19 fiscal years. Based on the current investment allocation, this is what one would expect if the markets were to give us about a 75th percentile return from July 1, 2016 through June 30, 2019.
- Finally, the last scenario is an 18.9 percent return for each of the 2016-17, 2017-18, and 2018-19 fiscal years. Based on the current investment allocation, this is what one would expect if the markets were to give us about a 95th percentile return from July 1, 2016 through June 30, 2019.

The table below shows the estimated projected contributions and the estimated increases for the plan under the five different scenarios.

2016-19 Investment Return Scenario	Fiscal Year			Estimated Change Between 2018-19 and 2021-22
	2019-20	2020-21	2021-22	
(3.8%)				
Normal Cost	10.1%	10.1%	10.1%	0.0%
UAL Contribution	\$248,554	\$302,727	\$374,980	\$179,470
2.8%				
Normal Cost	10.1%	10.1%	10.1%	0.0%
UAL Contribution	\$239,759	\$276,606	\$323,247	\$127,737
7.5%				
Normal Cost	10.1%	10.1%	10.1%	0.0%
UAL Contribution	\$233,495	\$257,296	\$283,542	\$88,032
12.0%				
Normal Cost	10.3%	10.5%	10.8%	0.7%
UAL Contribution	\$227,700	\$239,891	\$247,570	\$52,060
18.9%				
Normal Cost	10.8%	11.4%	12.0%	1.9%
UAL Contribution	\$219,051	\$213,841	\$192,866	\$(2,644)

For the last two scenarios in the table above the results incorporate the impact of CalPERS Risk Mitigation Policy. A 12.0% return would result in a reduction of the discount rate by 0.05% and a return of 18.9% would reduce the discount rate by 0.15%. Reducing the discount rate increases both the plan's accrued liability and normal cost. More details about Risk Mitigation policy can be found on our website.

Analysis of Discount Rate Sensitivity

The following analysis looks at the Fiscal Year 2017-18 total normal cost rates and liabilities under two different discount rate scenarios. Shown below are the total normal cost rates assuming discount rates that are 1 percent lower and 1 percent higher than the current valuation discount rate. This analysis shows the potential plan impacts if the Public Employees' Retirement Fund (PERF) were to realize investment returns of 6.50 percent or 8.50 percent over the long-term.

This analysis is intended to illustrate the long-term risk to the contribution rates.

Sensitivity Analysis			
As of June 30, 2015	6.50% Discount Rate (-1%)	7.50% Discount Rate (assumed rate)	8.50% Discount Rate (+1%)
Plan's Total Normal Cost	22.4%	18.1%	14.8%
Accrued Liability	\$12,479,991	\$10,865,994	\$9,540,346
Unfunded Accrued Liability	\$4,211,136	\$2,597,139	\$1,271,491

Volatility Ratios

Actuarial calculations are based on a number of assumptions about long-term demographic and economic behavior. Unless these assumptions (terminations, deaths, disabilities, retirements, salary growth, and investment return) are exactly realized each year, there will be differences on a year-to-year basis. The year-to-year differences between actual experience and the assumptions are called actuarial gains and losses and serve to lower or raise required employer contributions from one year to the next. Therefore, employer contributions will inevitably fluctuate, especially due to the ups and downs of investment returns.

Asset Volatility Ratio (AVR)

Plans that have higher asset-to-payroll ratios experience more volatile employer contributions (as a percentage of payroll) due to investment return. For example, a plan with an asset-to-payroll ratio of 8 may experience twice the contribution volatility due to investment return volatility, than a plan with an asset-to-payroll ratio of 4. Shown below is the asset volatility ratio, a measure of the plan's current contribution volatility. It should be noted that this ratio is a measure of the current situation. It increases over time but generally tends to stabilize as the plan matures.

Liability Volatility Ratio (LVR)

Plans that have higher liability-to-payroll ratios experience more volatile employer contributions (as a percentage of payroll) due to investment return and changes in liability. For example, a plan with a liability-to-payroll ratio of 8 is expected to have twice the contribution volatility of a plan with a liability-to-payroll ratio of 4. The liability volatility ratio is also shown in the table below. It should be noted that this ratio indicates a longer-term potential for contribution volatility. The asset volatility ratio, described above, will tend to move closer to the liability volatility ratio as the plan matures.

Rate Volatility	As of June 30, 2015	
1. Market Value of Assets	\$	8,268,855
2. Payroll		1,349,146
3. Asset Volatility Ratio (AVR) [(1) / (2)]		6.1
4. Accrued Liability	\$	10,865,994
5. Liability Volatility Ratio (LVR) [(4) / (2)]		8.1

Hypothetical Termination Liability

The hypothetical termination liability is an estimate of the financial position of the plan had the contract with CalPERS been terminated as of June 30, 2015. The plan liability on a termination basis is calculated differently compared to the plan's ongoing funding liability. For the hypothetical termination liability calculation, both compensation and service are frozen as of the valuation date and no future pay increases or service accruals are assumed.

A more conservative investment policy and asset allocation strategy was adopted by the CalPERS Board for the Terminated Agency Pool. The Terminated Agency Pool has limited funding sources since no future employer contributions will be made. Therefore, expected benefit payments are secured by risk-free assets and benefit security for members is increased while funding risk is limited. However, this asset allocation has a lower expected rate of return than the PERF and consequently, a lower discount rate is assumed. The lower discount rate for the Terminated Agency Pool results in higher liabilities for terminated plans.

The effective termination discount rate will depend on actual market rates of return for risk-free securities on the date of termination. As market discount rates are variable, the table below shows a range for the hypothetical termination liability based on the lowest and highest interest rates observed during an approximate 2-year period centered around the valuation date.

Market Value of Assets (MVA)	Hypothetical Termination Liability^{1,2} @ 2.00%	Funded Status	Unfunded Termination Liability @ 2.00%	Hypothetical Termination Liability^{1,2} @ 3.25%	Funded Status	Unfunded Termination Liability @ 3.25%
\$8,268,855	\$22,661,158	36.5%	\$14,392,303	\$18,469,856	44.8%	\$10,201,001

¹ The hypothetical liabilities calculated above include a 7 percent mortality contingency load in accordance with Board policy. Other actuarial assumptions, such as wage and inflation assumptions, can be found in Appendix A.

² The current discount rate assumption used for termination valuations is a weighted average of the 10-year and 30-year U.S. Treasury yields where the weights are based on matching asset and liability durations as of the termination date. The discount rates used in the table are based on 20-year Treasury bonds, rounded to the nearest quarter percentage point, which is a good proxy for most plans. The 20-year Treasury yield was 2.75 percent on June 30, 2015.

In order to terminate the plan, you must first contact our Retirement Services Contract Unit to initiate a Resolution of Intent to terminate. The completed Resolution will allow the plan actuary to give you a preliminary termination valuation with a more up-to-date estimate of the plan liabilities. CalPERS advises you to consult with the plan actuary before beginning this process.

Participant Data

The table below shows a summary of your plan's member data upon which this valuation is based:

	June 30, 2014	June 30, 2015
Reported Payroll	\$ 1,358,723	\$ 1,349,146
Projected Payroll for Contribution Purposes	\$ 1,484,714	\$ 1,474,249
Number of Members		
Active	15	14
Transferred	9	10
Separated	4	4
Retired	13	13

List of Class 1 Benefit Provisions

This plan has the additional Class 1 Benefit Provisions:

- One Year Final Compensation (FAC 1)

PLAN'S MAJOR BENEFIT OPTIONS

SECTION 1 – PLAN SPECIFIC INFORMATION FOR THE MISCELLANEOUS PLAN OF THE SAN ELIJO JOINT POWERS AUTHORITY

Plan’s Major Benefit Options

Shown below is a summary of the major optional benefits for which your agency has contracted. A description of principal standard and optional plan provisions is in Appendix B within Section 2 of this report.

Benefit Provision	Contract package		
	Active Misc	Inactive Misc	Receiving Misc
Benefit Formula	2.5% @ 55	2.0% @ 55	
Social Security Coverage	No	No	
Full/Modified	Full	Full	
Employee Contribution Rate	8.00%		
Final Average Compensation Period	One Year	One Year	
Sick Leave Credit	Yes	Yes	
Non-Industrial Disability	Standard	Standard	
Industrial Disability	No	No	
Pre-Retirement Death Benefits			
Optional Settlement 2W	Yes	Yes	
1959 Survivor Benefit Level	Indexed	Indexed	
Special	No	No	
Alternate (firefighters)	No	No	No
Post-Retirement Death Benefits			
Lump Sum	\$500	\$500	\$500
Survivor Allowance (PRSA)	No	No	No
COLA	2%	2%	2%

Section 2

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

**Section 2 may be found on the CalPERS website
(www.calpers.ca.gov) in the Forms and
Publications section**

SAN ELIJO JOINT POWERS AUTHORITY
MEMORANDUM

June 12, 2017

TO: Board of Directors
San Elijo Joint Powers Authority

FROM: Director of Operations

SUBJECT: SAN ELIJO OCEAN OUTFALL 2017 ANNUAL INSPECTION CONTRACT

RECOMMENDATION

It is recommended that the Board of Directors:

1. Authorize the General Manager to execute a contract in the amount of \$51,000 for the San Elijo Ocean Outfall Maintenance and External Inspection with Undersea Graphics, Inc.; and
2. Discuss and take action as appropriate.

BACKGROUND

San Elijo Joint Powers Authority (SEJPA) and Encina Wastewater Authority (EWA) operate water pollution control facilities and water reclamation facilities in north coastal San Diego County. Over the last several years, the agencies have partnered to share resources, collaborate on mutual aid, and create efficiencies to reduce costs.

Recently, Staff identified the opportunity for jointly bidding ocean outfall maintenance and inspection services. EWA and SEJPA both have similar ocean outfalls that are in relatively close proximity. To ensure that the ocean outfalls are in sound operating condition, and that environmental regulations are being met, the SEJPA and EWA retain certified contractors to inspect and document the physical condition of the outfalls on an annual or biannual basis.

DISCUSSION

SEJPA and EWA contracted with RMC, Woodward & Curran Company (RMC) to prepare a professional services bid solicitation for Ocean Outfall Maintenance and External Inspection Services, which was advertised on March 22, 2017. Consultants interested in proposing attended the pre-proposal meeting held on April 4, 2017 at the Encina Water Pollution Control Facility (EWPCF). In accordance with the RFP, the Consultants provided the required project approach and workforce budgets for the following scope of services:

1. General Inspection
2. Multibeam Survey (San Elijo only)
3. End Structure Documentation and Clearing/ Pile Support Survey
4. Diffuser Port Documentation and Cleaning
5. Manhole Inspection/ Porthole Inspection
6. Debris Clearing
7. Cathodic Protection Evaluation
8. Kelp Clearing
9. Logging Deficient Ballast
10. Final Report
11. Project Management and QA/QC

Four proposals were received on April 19, 2017 for the Project, from the following Consultants (listed alphabetically):

1. EcoSystems Management Associates, Inc. (ECO-M) – a subsidiary of Coastal Environments, Inc.
2. Marine Taxonomic Services, Ltd. (MTS)
3. Subsea Global Solutions US West Coast, LLC (SGS) – formerly dba Parker Diving Services (prior to November 2015)
4. Undersea Graphics, Inc. (UGI)

An initial review of the proposals (attached) was performed by RMC to confirm that the proposals were responsive on all key requirements defined in the RFP. All proposals were found to be responsive. Undersea Graphics, Inc.'s proposal was ranked the highest by RMC. Undersea Graphics has the necessary experience and qualifications for performing the requested work, and their proposal provided the lowest cost per individual outfall and total aggregate fee.

FISCAL IMPACT

The total anticipated expenditure to Undersea Graphics for external inspection and maintenance of the San Elijo Ocean Outfall is \$51,000. This task will be funded by the Ocean Outfall Program operations and maintenance budget, which is included in the FY 2017-18 Recommended Budget.

As a result of the SEJPA-EWA joint bidding, the contract with Undersea Graphics, Inc. is expected to save the agencies approximately 10% as compared to bidding the work individually.

It is therefore recommended that the Board of Directors:

1. Authorize the General Manager to execute a contract in the amount of \$51,000 for the San Elijo Ocean Outfall Maintenance and External Inspection with Undersea Graphics, Inc.; and
2. Discuss and take action as appropriate.

Respectfully submitted,



Christopher A. Trees, P.E.
Director of Operations

Attachment 1: RMC Water and Environment - Proposal Evaluation for 2017 Ocean Outfall
Maintenance and External Inspection Services for the Encina Ocean Outfall
and San Elijo Ocean Outfall



ATTACHMENT 1

National Experience. Local Focus.

May 31, 2017

Mr. James Kearns, Capital Projects Manager
Encina Wastewater Authority
6200 Avenida Encinas
Carlsbad, CA 92011

Mr. Christopher Trees, Director of Operations
San Elijo Joint Powers Authority
2695 Manchester Ave
Cardiff by the Sea, CA 92007

Subject: Proposal Evaluation for 2017 Ocean Outfall Maintenance and External Inspection Services for the Encina Ocean Outfall and San Elijo Ocean Outfall

Dear Messrs. Kearns and Trees:

RMC Water and Environment, a Woodard & Curran Company (RMC) has recently assisted Encina Wastewater Authority (EWA) and San Elijo Joint Powers Authority (SEJPA) in activities related to the subject project. This letter includes our review of the proposals received based upon the requirements of the Request for Proposals and a recommendation for your consideration in selecting a Consultant.

Four (4) proposals were received by the due date of 2:00 p.m. on Wednesday, April 19, 2017 at 6200 Avenida Encinas in Carlsbad, California from the following Consultants (listed alphabetically):

1. EcoSystems Management Associates, Inc. (ECO-M) – a subsidiary of Coastal Environments, Inc.
2. Marine Taxonomic Services, Ltd. (MTS)
3. Subsea Global Solutions US West Coast, LLC (SGS) – formerly dba Parker Diving Services
4. Undersea Graphics, Inc. (UGI)

An initial review of the proposals was performed to check that they were responsive to the key requirements defined under Section 6 of the RFP. All four proposals were found to be responsive to these requirements, as summarized in **Table 1** below.

Table 1: Proposal Responsiveness Review

Proposal Requirement	ECO-M	MTS	SGS	UGI
Identification of Responder	Responsive	Responsive	Responsive	Responsive
Qualifications	Responsive	Responsive	Responsive	Responsive
Experience and Technical Competence	Responsive	Responsive	Responsive	Responsive
Project Organization and Key Personnel	Responsive	Responsive	Responsive	Responsive
Project Approach and Scope of Services	Responsive	Responsive	Responsive	Responsive
Workforce Budget	Responsive	Responsive	Responsive	Responsive
Costs	Responsive	Responsive	Responsive	Responsive
Exceptions to the Request for Proposal	No Exceptions	No Exceptions	No Exceptions	Exceptions Noted ¹

Footnotes:

1. Exceptions noted were reviewed and determined to be non-substantial.

Based upon a review of the information provided in the proposals, all four proposers were found to be adequately qualified to complete the project scope of work. A summary of the Consultants’ workforce budgets (hours) and proposed fees is provided in **Table 2**, listed in order of increasing total amount.

Table 2: Consultant Proposal Tabulation

Proposer	Encina Ocean Outfall		San Elijo Ocean Outfall		Total Proposed	
	Hours	Cost	Hours	Cost	Hours	Cost
UGI	265	\$38,500	267	\$51,000	532	\$89,500
SGS ¹	290	\$52,656	195	\$57,450	485	\$110,107
MTS	382	\$59,936	236	\$51,716	618	\$111,652
ECO-M ²	405	\$57,981	498	\$77,600	903	\$135,581

Footnotes:

1. SGS costs assume a shared mobilization/demobilization of the ROV for completing both outfall inspections, with an even cost share between EWA and SEJPA.
2. ECO-M proposed hours shown are the average of the ranges provided in the proposal. ECO-M proposed costs shown include the proposed use of an ROV for deep water inspections of both outfalls; without the ROV use for SEJPA (i.e., diving inspections only, limited to nearshore areas within 75 feet of water depth), the cost for EWA would increase to \$64,981 and the cost for SEJPA would decrease to \$52,443 (combined total of \$117,424).

The proposal provided by UGI was found to have the lowest proposed fee for each of the individual outfalls, as well as the lowest aggregate total fee. UGI’s proposed approach would provide unique value by using a piloted submarine for the inspection, rather than an ROV. Feedback from EWA staff was favorable regarding the quality of UGI’s deliverable for the 2011 inspection of the Encina Ocean Outfall, which was completed with a similar approach and equipment. In addition, positive feedback was received during a reference check on their recent experience inspecting OCSD’s two ocean outfalls (one 3 miles and another 5 miles long). OCSD noted that they were pleased with UGI’s performance, the project was completed on time, and the dollar value (approximately \$82,000) is comparable to the proposed amount for EWA and SEJPA.

Based upon our review of the proposals and discussions with EWA and SEJPA, we recommend that EWA and SEJPA consider awarding the contract to UGI.

Sincerely,



Scott Goldman, P.E., BCEE
 Principal

SAN ELIJO JOINT POWERS AUTHORITY
MEMORANDUM

June 12, 2017

TO: Board of Directors
San Elijo Joint Powers Authority

FROM: General Manager

SUBJECT: APPROVAL OF DOCUMENTS RELATED TO THE ISSUANCE OF 2017 REVENUE BONDS, AND AUTHORIZE THE GENERAL MANAGER TO EXECUTE A PROFESSIONAL SERVICE CONTRACT FOR BOND TRUSTEE

RECOMMENDATION

It is recommended that the Board of Directors:

1. Approve the recommendations of the General Manager regarding the acceptance of the following documents entitled:
 - Resolution No. 2017-07 Resolution Authorizing the Issuance, Sale and Delivery of not to exceed \$25,000,000 Aggregate Principal Amount of San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects) and Approving Agreements, Certificates and Other Documents and Instruments Pertaining Thereto and Authorizing Official Action
 - Series 2017 Indenture of Trust
 - Series 2017 Loan Agreement
 - Draft Preliminary Official Statement
 - Continuing Disclosure Agreement
 - Bond Purchase Contract
2. Authorize the General Manager to execute a professional service contract with Union Bank of California, to serve as trustee for the revenue bonds.
3. Discuss and take action as appropriate.

BACKGROUND

The City of Encinitas (as successor to the Cardiff Sanitation District) and the City of Solana Beach (as successor to the Solana Beach Sanitation District) ("Cities") are joint members of the SEJPA which owns and operates a facility for the treatment of wastewater from Cardiff and Solana Beach. Each city owns a specified percentage, or capacity rights, of the sewage

treatment capacity provided by SEJPA. Loan agreements between SEJPA and the Cities were originally drafted in 1990, and amended and restated in 1993, 2003, and 2011. These loan agreements were executed to provide the primary security for SEJPA's bonds, because the primary source of SEJPA's ability to generate revenues to make payments on its bonds are from the rate setting power of the Cities. The rate setting power is captured in the Loan Agreements, through each City's covenants to set their respective rates at the proper levels, collect the revenues, and pay SEJPA their respective share of SEJPA bonds' debt service. This structure is required by the fact that SEJPA is essentially a, "wholesaler" of the wastewater service provided to the Cities, whereas the Cities are the "retailers" of the wastewater service to the sewer service customers in each of the Cities' jurisdictions.

In 2015, the San Elijo Joint Powers Authority (SEJPA) completed a detailed inspection and evaluation (conducted by Carollo Engineers) of SEJPA's assets resulting in the 2015 Facility Plan for the San Elijo Water Reclamation Facility. This document provides the basis for planning and budgeting future capital needs. In April 2017, Staff presented a Capital Program Financing Update listing infrastructure projects totaling \$27.3 million. These projects will contribute to the agency's mission of protecting public health and the environment, community sustainability, and proactive asset management. SEJPA has outlined a municipal bond strategy to finance the projects. The proposed funding strategy is to bond for approximately 23.8 million.

Facility improvement projects in the 2015 Facility Plan include:

- Phase I – Land Outfall Replacement, Preliminary Treatment Upgrades; Odor Control Improvements
- Phase II – Operations, Administration and Clean Water Visitors Center, Site Security, Cybersecurity and Systems Resilience; Site Utilities; Carbon Emissions Reductions; Recycled Water Distribution
- Phase III – Solids Handling, Dewatering, Corrosion Repair; Digester Performance; Pre-Digestion Treatment; Secondary Treatment Improvements

DISCUSSION

Hilltop Securities, the bond underwriter for the 2017 Bonds, estimates that the funding package will provide a deposit to the Project Construction Fund of \$23.8 million based on current market conditions and a 30 year repayment term. The estimated average annual debt service payment is \$1,345,000. The Cities will pay their share of the debt service based on capacity rights which is currently 50 percent each.

Bond Counsel, Procopio, Cory, Hargreaves & Savitch of San Diego, has prepared documentation to implement the transaction, including an Indenture of Trust, Loan Agreement, the resolution, and other documents necessary to approve the issuance of the 2017 Bonds for consideration by SEJPA's Board. The Indenture of Trust provides the specific terms of the 2017 Bonds. The Loan Agreement provides the term of the loan. The resolution is the document under which SEJPA's Board approves the documents and authorizes execution of agreements to which SEJPA is a party, and necessary to issue the 2017 Bonds.

Disclosure Counsel, Procopio, Cory, Hargreaves & Savitch of San Diego, has prepared a Preliminary Official Statement, a Continuing Disclosure Agreement and a Purchase Contract relating to the information provided to the purchasers of the 2017 Bonds and information

provided for the public markets and providing the terms under which Hilltop Securities will purchase the 2017 Bonds.

The Resolution approves the documents listed below, and authorizes the General Manager of the SEJPA to take actions, including the execution of the documents to which the SEJPA is a party (the Loan Agreement, the Purchase Contract and the Continuing Disclosure Agreement) with such changes as needed to qualify the 2017 Bonds for an investment grade rating by Standard & Poor's rating service. The Resolution expressly requires that the principal be no more than \$25,000,000, the True Interest Rate be no more than 4.5% and the Underwriter's Discount not to exceed 0.70% of the par amount of Bonds sold.

In order to complete the transaction, it is necessary for the SEJPA to retain the services of a financial institution to serve as trustee for the Revenue Bonds. Union Bank has been chosen as the trustee due to their experience with the SEJPA's 2011 Refunding Bonds.

FINANCIAL IMPACT

The average annual debt service on the 2017 Bonds is estimated by the Underwriter to be approximately \$1,345,000. The exact amount of the debt service will be determined as of the date of the sale of the 2017 Bonds, currently scheduled for June 17, 2017. The Capital expense payment (pay-as-you-go) to the SEJPA will be reduced until the 2011 Refunding Bonds are paid in full (FY 2018-19) resulting in no significant changes in the sewer rates. Unless the par amount of the 2017 Bonds is less than \$25,000,000, and the True Interest Cost is less than 4.5% and the Underwriter's Discount is less than 0.70%, the SEJPA is not authorized to proceed with the transaction.

SEJPA's Staff has provided preliminary numbers based on estimated debt service indicating total payments for the next 5 fiscal years will be approximately the same for each of the City's share of existing Capital Cash requests (pay-as-you-go), and total debt service payments on the 2011 Refunding Bonds and the 2017 Bonds.

It is recommended that the Board of Directors:

1. Approve the recommendations of the General Manager regarding the acceptance of the following documents entitled:
 - Resolution No. 2017-07 Resolution Authorizing the Issuance, Sale and Delivery of not to exceed \$25,000,000 Aggregate Principal Amount of San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects) and Approving Agreements, Certificates and Other Documents and Instruments Pertaining Thereto and Authorizing Official Action
 - Series 2017 Indenture of Trust
 - Series 2017 Loan Agreement
 - Draft Preliminary Official Statement
 - Continuing Disclosure Agreement
 - Bond Purchase Contract

2. Authorize the General Manager to execute a professional service contract with Union Bank of California, to serve as trustee for the revenue bonds.
3. Discuss and take action as appropriate.

Respectfully submitted,



Michael T. Thornton, P.E.
General Manager

Attachments:

- Resolution No. 2017-07 Resolution Authorizing the Issuance, Sale and Delivery of not to exceed \$25,000,000 Aggregate Principal Amount of San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects) and Approving Agreements, Certificates and Other Documents and Instruments Pertaining Thereto and Authorizing Official Action
- Series 2017 Indenture of Trust
- Series 2017 Loan Agreement
- Draft Preliminary Official Statement
- Continuing Disclosure Agreement
- Bond Purchase Contract

**NOT TO EXCEED \$25,000,000
SAN ELIJO JOINT POWERS AUTHORITY
2017 REVENUE BONDS
(CLEAN WATER PROJECTS)**

**RESOLUTION NO. __
CERTIFICATE REGARDING RESOLUTION (AUTHORITY)**

The undersigned hereby states and certifies:

- (1) the undersigned is the duly appointed, qualified and acting Secretary of San Elijo Joint Powers Authority, a joint powers authority duly organized and existing under the laws of the State of California (the "Authority"), and as such, is familiar with the facts herein certified and is authorized and qualified to certify the same on behalf of the Authority; and
- (2) that attached hereto is a true, correct and complete copy of Resolution No. __, entitled "Resolution Authorizing the Issuance, Sale and Delivery of Not To Exceed \$25,000,000 Aggregate Principal Amount of San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects) and Approving Agreements, Certificates and Other Documents and Instruments Pertaining Thereto and Authorizing Official Action," adopted by the Board of the Authority at its meeting held June 12, 2017 which resolution has not been amended, modified, supplemented, rescinded or repealed and is in full force and effect as of the date hereof.

Dated: July __, 2017

SAN ELIJO JOINT POWERS AUTHORITY

By

MICHAEL T. THORNTON, P.E.
Secretary

RESOLUTION 2017-__

RESOLUTION AUTHORIZING THE ISSUANCE, SALE AND DELIVERY OF NOT TO EXCEED \$25,000,000 AGGREGATE PRINCIPAL AMOUNT OF SAN ELIJO JOINT POWERS AUTHORITY 2017 REVENUE BONDS (CLEAN WATER PROJECTS) AND APPROVING AGREEMENTS, CERTIFICATES AND OTHER DOCUMENTS AND INSTRUMENTS PERTAINING THERETO AND AUTHORIZING OFFICIAL ACTION

WHEREAS, the San Elijo Joint Powers Authority (the “Authority”) is a joint powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, dated June 17, 1987, by and between the Solana Beach Sanitation District (“Solana Beach Sanitation District”) and the Cardiff Sanitation District (“Cardiff Sanitation District”). and under the provisions of Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with section 6500) of the Government Code of the State of California, as amended (the “Act”), and is authorized pursuant to the Act to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations of, or for the purpose of making loans to, its two member cities (“Cities”) to provide financing for public capital improvements of, pertaining to, or of benefit to the Cities; and

WHEREAS, for the purpose of providing financing for its wastewater treatment facilities, the Authority issued its San Elijo Joint Powers Authority 1990 Revenue Bonds (San Elijo Water Pollution Control Facility Upgrade and Expansion Project) in the aggregate principal amount of \$24,465,000 (the “1990 Bonds”), all pursuant to and secured by an Indenture of Trust, dated as of March 1, 1990, between State Street Bank and Trust Company of California, N.A. (the “Prior Trustee”) and the Authority (the “1990 Indenture”); and

WHEREAS, Solana Beach Sanitation District was merged into the City of Solana Beach (“Solana Beach”) July 1, 1990, and under section 57531 of the Government Code of the State of California, as amended, Solana Beach is the successor in interest to all of the rights and obligations of the Solana Beach Sanitation District; and

WHEREAS, for the purpose of refunding a portion of the 1990 Bonds, the Authority issued its San Elijo Joint Powers Authority 1993 Refunding Revenue Bonds (San Elijo Water Pollution Control Facility) in the aggregate principal amount of \$22,565,000 (the “1993 Bonds”), all pursuant to and secured by an Indenture of Trust, dated as of March 15, 1993, between the Authority and the Prior Trustee (the “1993 Indenture”); and

WHEREAS, for the purpose of refunding in part the 1993 Bonds, the Authority issued its San Elijo Joint Powers Authority 2003 Refunding Revenue Bonds (San Elijo Wastewater Treatment Facilities) in the aggregate principal amount of \$18,640,000 (the “2003 Bonds”), all pursuant to and secured by an Indenture of Trust, dated as of April 1, 2003, between the Authority and the Trustee (the “2003 Indenture”); and

WHEREAS, Cardiff Sanitation District was merged into the City of Encinitas (“Encinitas”) October 18, 2001, and under section 57531 of the Government Code of the State of California, as amended, Encinitas is the successor in interest to all of the rights and obligations of Cardiff Sanitation District; and

WHEREAS, as a result of the aforesaid mergers, Encinitas and Solana Beach as successors in interest are the member Cities of the Authority; and

WHEREAS, for the purpose, among others, of refunding the 2003 Bonds, the Authority issued its San Elijo Joint Powers Authority 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facility) in the aggregate principal amount of \$9,235,000 (the “2011 Bonds”), all pursuant to and secured by an Indenture of Trust, dated as of December 1, 2011, between the Authority and the Trustee (the “2011 Indenture”); and

WHEREAS, the Authority desires to execute the initial phases of its current capital facilities plan, to include (among other things), the planning, design, acquisition, construction, renovation, improvement, equipping, furnishing, upgrading and/or installation of (a) wastewater treatment facilities; (b) water reclamation and recycling facilities; and (c) related and ancillary storage, transport, operations, administrative, safety, security and other public facilities and systems (collectively, the “Project”) for the purpose of serving the public needs of the Cities and other municipal customers of the Authority; and

WHEREAS, for the purpose of providing financing for the Project, the Authority desires to issue San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects) (the “Series 2017 Bonds”) in the aggregate principal amount of not to exceed \$25,000,000, pursuant to the provisions of an Indenture of Trust, dated as of June 1, 2017 (the “Series 2017 Indenture”), by and between the Authority and the Trustee; and

WHEREAS, the Authority desires to fund loans (“Series 2017 Loans”) to Encinitas and to Solana Beach for the purpose of financing the Project and for the payment of the principal of, Redemption Price (as defined in the Series 2017 Indenture) and interest on the Series 2017 Bonds and certain related expenses, pursuant to separate loan agreements (each, a “Series 2017 Loan Agreement”, and together, the “Series 2017 Loan Agreements”), each dated as of June 1, 2017, and by and between the Authority and Encinitas and Solana Beach, respectively; and

WHEREAS, Procopio, Cory, Hargreaves & Savitch, LLP, as disclosure counsel to the Authority (“Disclosure Counsel”), has caused to be prepared an Official Statement describing the Series 2017 Bonds and the Project, the Authority, Encinitas and Solana Beach and their respective sewer systems, a preliminary form of which (the “Preliminary Official Statement”) is on file with the Secretary; and

WHEREAS, the Authority desires to issue and sell the Series 2017 Bonds to Hilltop Securities Inc., as underwriter of the Series 2017 Bonds (the “Underwriter”), pursuant to a Bond Purchase Contract, to be dated the date of sale of the Series 2017 Bonds (the “Bond Purchase Contract”), by and among the Authority, the Underwriter, Encinitas and Solana Beach, a preliminary form of which is on file with the Secretary; and

WHEREAS, Disclosure Counsel has caused to be prepared a Continuing Disclosure Agreement, to be dated the date of sale of the Series 2017 Bonds (the “Disclosure Agreement”), by and among the Authority, Encinitas and Solana Beach, and accepted by Applied Best Practices, LLC, as Dissemination Agent, a preliminary form of which is on file with the Secretary; and

WHEREAS, the Authority has duly considered such transactions and wishes at this time to approve said transactions in the public interests of the Authority.

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED by the Board of Directors (the “Board”) of the San Elijo Joint Powers Authority as follows:

Section 1. Issuance of Series 2017 Bonds and Series 2017 Indenture. The Board hereby authorizes the issuance of the Series 2017 Bonds under and pursuant to the Act and the Series 2017

Indenture for the purposes hereinbefore described, provided that the aggregate principal amount of Series 2017 Bonds issued thereunder shall not exceed \$25,000,000 without prior authorization by the Board. The Board hereby approves the Series 2017 Indenture in substantially the form on file with the Secretary, together with any additions thereto or changes therein deemed necessary or advisable by the General Manager or the Director of Finance/Administration in the course of the offering, issuance and sale of the Series 2017 Bonds; provided, however, that (a) the maximum interest rate on the Series 2017 Bonds of any maturity shall not exceed 5% per annum and (b) the final aggregate principal amounts and maturities of the Series 2017 Bonds thereby issued and the interest rates thereon are determined in the course of the Authority's entering into the Bond Purchase Contract as herein authorized and approved. Each of the General Manager or the Director of Finance/Administration is hereby separately authorized and directed to execute the final form of the Series 2017 Indenture for and in the name and on behalf of the Authority. The Board hereby authorizes the delivery and performance of the Series 2017 Indenture and the Series 2017 Bonds, which shall be executed and authenticated as provided in the Series 2017 Indenture.

Section 2. Approval of Series 2017 Loans and Series 2017 Loan Agreements. The Board hereby authorizes and approves the Series 2017 Loans made by the Authority to Encinitas and Solana Beach, respectively, to be made pursuant to and in accordance with the terms of each of the Series 2017 Loan Agreements, respectively. The Board hereby approves the Series 2017 Loan Agreements in substantially the forms on file with the Secretary, together with any additions thereto or changes therein deemed necessary or advisable by the General Manager or the Director of Finance/Administration in the course of the offering, issuance and sale of the Series 2017 Bonds. Each of the General Manager or the Director of Finance/Administration is hereby separately authorized and directed to execute the final form of each Series 2017 Loan Agreement for and in the name and on behalf of the Authority. The Board hereby authorizes the delivery and performance of each Series 2017 Loan Agreement.

Section 3. Sale of Series 2017 Bonds. The Board hereby authorizes and approves the sale of the Series 2017 Bonds by negotiated sale to the Underwriter pursuant to the provisions of the Bond Purchase Contract, with any changes therein or additions thereto as may be deemed necessary or advisable by the General Manager or the Director of Finance/Administration in the course of the offering, issuance and sale of the Series 2017 Bonds. The purchase price to be received by the Authority for the Series 2017 Bonds shall be not less than 99% of the par amount thereof, exclusive of original issue discount and premium. Each of the General Manager or the Director of Finance/Administration is hereby separately authorized and directed to execute the final form of the Bond Purchase Agreement for and in the name and on behalf of the Authority. The Board hereby authorizes the delivery and performance of the Bond Purchase Agreement.

Section 4. Official Statement. The Board has reviewed and hereby approves the Preliminary Official Statement in substantially the form submitted by Disclosure Counsel and on file with the Secretary. Distribution of the Preliminary Official Statement by the Underwriter is hereby authorized and approved. The Board hereby authorizes the distribution of a modified and final form of the Preliminary Official Statement (the "Official Statement") by the Underwriter. The General Manager or the Director of Finance/Administration are hereby separately authorized and directed to approve any changes in or additions to the final Official Statement. The final Official Statement shall be executed in the name and on behalf of the Authority by the Chair or the General Manager or the Director of Finance/Administration, all of whom are hereby separately authorized and directed to execute the final Official Statement for and in the name and on behalf of the Authority. The General Manager and the Director of Finance/Administration are hereby separately authorized to execute an appropriate certificate stating his determination that the Preliminary Official Statement has been deemed nearly final within the

meaning of Rule 15c2-12 of the United States Securities and Exchange Commission as promulgated under the Securities Exchange Act of 1934, as amended.

Section 5. Continuing Disclosure. The Board hereby approves the Continuing Disclosure Agreement, substantially in the form on file with the Secretary. Each of the General Manager or the Director of Finance/Administration is hereby separately authorized and directed to execute the final form of the Disclosure Agreement for and in the name and on behalf of the Authority. The Board hereby authorizes the delivery and performance of the Disclosure Agreement.

Section 6. Official Action. The General Manager, the Director of Finance/Administration, the Secretary, the Authority's General Counsel and any and all other officers of the Authority (the "Authorized Officers") are hereby authorized and directed, for and in the name and on behalf of the Authority, to do any and all things and take any and all actions, including execution and delivery of any and all assignments, certificates, requisitions, agreements, notices, consents, instruments, warrants, extensions, renewals and other documents (including without limitation the Tax Certificate (as defined in the Series 2017 Indenture) for the Series 2017 Bonds) which they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance and sale of the Series 2017 Bonds and the other transactions as described herein.

Section 7. Post-Issuance Compliance. The Board approves and adopts the Practices and Procedures for Post-Issuance Compliance (the "Procedures") attached to this Resolution as Appendix A and incorporated in full in this Resolution. The Board hereby designates the Director of Finance/Administration as the Responsible Officer (as defined in the Procedures) in connection with ensuring compliance with the Procedures.

Section 8. Ratification; Successors. All actions heretofore taken by any of the Authorized Officers or agents of the Authority in connection with the financing of the Project and in connection with the documents approved herein are hereby approved, confirmed and ratified as acts and deeds of the Authority. All authority hereby granted to any Authorized Officer shall apply with equal force and effect to the respective successors in office of such Authorized Officer.

Section 9. Effective Date. This Resolution shall take effect from and after the date of its passage and adoption.

PASSED AND ADOPTED this 12th day of June, 2017, at a regularly scheduled meeting of the Board of Directors of the San Elijo Joint Powers Authority, by the following vote:

AYES: Directors -

NOES: Directors -

ABSENT: Directors -

ABSTAIN: Directors –

APPENDIX A

SAN ELIJO JOINT POWERS AUTHORITY 2017 REVENUE BONDS (CLEAN WATER PROJECTS)

PRACTICES AND PROCEDURES FOR POST-ISSUANCE COMPLIANCE

San Elijo Joint Powers Authority (the “Authority”) hereby adopts the practices and procedures described herein (these “Procedures”) as the written practices and procedures of the Authority for post-issuance compliance applicable to the captioned bonds (the “Series 2017 Bonds”). These Procedures are intended to supplement any previous post-issuance compliance practices and procedures that have been adopted by the Authority as reported on the related information returns (*e.g.*, Form 8038-G) filed in connection with any prior bond issues of the Authority and the instructions to such information returns. Capitalized terms used in these Procedures and not otherwise defined herein shall have the meanings ascribed to them in the Indenture of Trust, dated as of June 1, 2017, pursuant to which the Series 2017 Bonds are issued.

1. General. The Authority shall take all appropriate action to assure that (a) no use of the proceeds of the Series 2017 Bonds, and no other event or action, will cause the Series 2017 Bonds to violate federal income tax limitations with respect to the exclusion of interest on the Series 2017 Bonds from gross income for federal income tax purposes and (b) all uses of proceeds of the Series 2017 Bonds comply with State and local legal requirements regarding the valid incurrence of debt and permitted uses of proceeds of the Series 2017 Bonds. Without limiting the generality of the foregoing, the Authority shall take the actions set forth in these Procedures to account for and monitor (i) the expenditure and investment of Series 2017 Bond proceeds, (ii) the use of projects and facilities financed with the proceeds of the Series 2017 Bonds and (iii) any changes in the structure of the Series 2017 Bond financing. The Authority has the discretion to make exceptions or to require additional procedures as it deems necessary or desirable. The Authority reserves the right to modify these Procedures at any time or from time to time.

1. Responsible Officer. The Board of Directors of the Authority (the “Board”) has assigned the Director of Finance/Administration as the responsible person (the “Responsible Officer”) for ensuring post-issuance compliance relating to the Series 2017 Bonds. The Responsible Officer is familiar with the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), and the Treasury Regulations (the “Regulations”) governing the tax-exempt status of the Series 2017 Bonds. The Responsible Officer may delegate tasks to other officers or staff of the Authority or to outside attorneys or other experts. The responsibilities in these Procedures are hereby included in the job description for the Responsible Officer.

2. Initial Documentation Review. Upon receipt of the transcript for the Series 2017 Bonds, the Responsible Officer shall review the covenants of the Authority with respect to the tax-exempt status of the Series 2017 Bonds, the use of proceeds certificate, the Tax Certificate with respect to the Series 2017 Bonds and any additional tax documentation, including without limitation filing the applicable information return (*e.g.*, IRS Form 8038-G).

3. Periodic Due Diligence Review. The Responsible Officer shall maintain a written schedule for due diligence reviews based on expectations set forth in the transcript documents for the Series 2017 Bonds.

4. Non-Governmental Uses of Project Financed with the Series 2017 Bonds. Not less than annually, the Responsible Officer shall take the following steps to review and document any non-governmental uses of facilities or capacity of the Project financed with the Series 2017 Bonds (noting that uses by the federal government of the United States are nongovernmental uses for purposes of these Procedures):

- (a) confer with Authority personnel and discuss any existing or planned use of facilities or capacity of the Project, to ensure that those uses are consistent with all covenants and restrictions set forth in the Tax Certificate;
- (b) monitor and document sales, leases, capacity or other use agreements with any nongovernmental entities (excluding uses by members of the general public within the meaning of section 1.141-3(c) of the Regulations) with respect to the facilities or capacity of the Project financed with the Series 2017 Bonds, and compute the percent of private business use or private payments or private security with respect to such nongovernmental uses;
- (c) monitor and document management contracts (see *e.g.*, Rev. Proc. 2017-13) with nongovernmental entities;
- (d) monitor and document other special legal entitlements with respect to the facilities or capacity of the Project financed with the Series 2017 Bonds (*e.g.*, licenses, use agreements, easements, etc.); and
- (e) consult with legal counsel regarding any nongovernmental use or proposed change in use with respect to the facilities or capacity of the Project financed with the Series 2017 Bonds.

5. Compliance with Arbitrage Yield Restriction and Rebate Requirements. The Responsible Officer shall maintain a system to ensure that for the Series 2017 Bonds, not less than six months prior to each five-year anniversary of the Closing Date for the Series 2017 Bonds, the Authority will retain an arbitrage rebate consultant to prepare a report determining the yield of the Series 2017 Bonds under the Code and whether there is any rebate amount owed to the Internal Revenue Service under section 148 of the Code. Under such system: (a) the first installment of rebate payments shall be made not later than 60 days after the end of the fifth Bond Year; (b) succeeding installments of rebate payments shall be made not later than 60 days after the end of every fifth Bond Year thereafter; and (c) the final installment of rebate payments after retirement of the last Series 2017 Bond shall be made not later than 60 days after the date of such retirement.

6. Post-Issuance Transactions. The Responsible Officer shall consult with legal counsel before entering into any post-issuance credit enhancement transactions or any hedging transactions with respect to the Series 2017 Bonds or the proceeds thereof.

7. Response to Noncompliance. Upon a determination of noncompliance, the Responsible Officer shall promptly consult with qualified bond counsel and other legal counsel and advisors to determine what courses of actions can be taken to preserve the tax-exempt status of the Series 2017 Bonds. If the noncompliance will be remediated under existing remedial action provisions or tax-exempt bond closing agreement programs provided for in the Regulations or other published guidance from the IRS, the Responsible Officer shall determine the deadline(s) for taking action(s) and proceed with diligence to cause the Authority to take the required remedial action(s). If remedial actions are unavailable or insufficient to ensure the tax-exempt status of the Series 2017 Bonds, the Responsible

Officer shall determine whether to make a submission to the Tax Exempt Bonds Voluntary Closing Agreement Program (“VCAP”) under Internal Revenue Manual 7.2.3.

8. Record Retention. The Responsible Officer shall maintain a system for maintaining and retaining records relating to these Procedures for at least four years after the earlier of final maturity or redemption in full of the Series 2017 Bonds; provided that if the Series 2017 Bonds are redeemed in connection with a refunding bond issue applicable to the Series 2017 Bonds (a “Refunding Issue”), such records shall be maintained and retained for at least four years after the earlier of final maturity or redemption in full of the Refunding Issue. The Responsible Officer shall maintain special records required under the safe harbor for investment contracts or defeasance escrows under section 1.148-5 of the Regulations. The Responsible Officer shall maintain a record of the identification on the Authority’s books and records of any “qualified hedge” contract under section 1.148-4(h)(2)(viii) and section 1.148-11A(i)(3) of the Regulations. The Responsible Officer shall maintain records of accounting for rebate for a period of at least four years after the earlier of the final maturity or full redemption of the Series 2017 Bonds. Any or all of the foregoing records may be maintained on paper, by electronic media or by any combination thereof.

9. Reissuance. A significant modification of the documents related to the Series 2017 Bonds may result in the Series 2017 Bonds being deemed refunded or “reissued.” Such an event will require, among other things, the filing of new information return(s) with the IRS and the execution and delivery of a new Tax Certificate. Qualified bond counsel should be consulted in the event of modification of the documents related to the Series 2017 Bonds.

10. Succession Planning. The Authority will ensure that, when the current Responsible Officer leaves such person’s current position at the Authority, the responsibility for financing and tax covenant compliance will be explained to his or her successor and such successor will be provided any training as may be deemed necessary.

11. Training. The Authority is encouraged, but is not required, to have the Responsible Officer consult at least annually with bond counsel to discuss monitoring compliance with applicable tax laws and attendance at post-issuance compliance trainings (whether in person or online) organized by bond counsel or the Internal Revenue Service or other entities such as the Municipal Securities Rulemaking Board, the Government Finance Officers Association, the California Debt and Investment Advisory Commission or similar organizations.

12. Ongoing Procedures. The Responsible Officer is encouraged to institute or maintain additional written practices and procedures in order to further ensure that due diligence reviews are completed at regular intervals, that any applicable officials and employees are appropriately trained. That documents and records needed to substantiate compliance are retained, that noncompliance is identified in a timely manner and that any noncompliance is corrected in a timely manner.

13. Acknowledgment by Responsible Officer. The Responsible Officer shall provide the Authority with a written acknowledgment that he or she has primary responsibility on behalf of the Authority for implementation of these Procedures.

**SERIES 2017
INDENTURE OF TRUST**

by and between the

SAN ELIJO JOINT POWERS AUTHORITY
("AUTHORITY")

and

MUFG UNION BANK, N.A., as Trustee
("TRUSTEE")

relating to

\$ _____
San Elijo Joint Powers Authority
2017 Revenue Bonds
(Clean Water Projects)

Dated as of June 1, 2017

TABLE OF CONTENTS

	<u>Page</u>
Article I. DEFINITIONS; AUTHORIZATION AND PURPOSE OF SERIES 2017 BONDS; EQUAL SECURITY; CONTENT OF CERTIFICATES AND OPINIONS; INTERPRETATION	2
Section 1.01 Definitions	2
Section 1.02 Content of Certificates and Opinions.....	9
Section 1.03 Interpretation	9
Section 1.04 Authorization and Purpose of Series 2017 Bonds	10
Section 1.05 Equal Security	10
Article II. AUTHORITY; SPECIAL OBLIGATIONS; GENERAL TERMS AND PROVISIONS OF SERIES 2017 BONDS AND ADDITIONAL BONDS	10
Section 2.01 Authority for Issuance; Special Obligations.....	10
Section 2.02 General Provisions for Issuance of Series 2017 Bonds and Additional Bonds.....	11
Section 2.03 Additional Bonds.....	13
Section 2.04 Refunding Bonds	14
Section 2.05 Medium of Payment; Form and Date; Letters and Numbers.....	14
Section 2.06 Legends.....	15
Section 2.07 Execution and Authentication.....	15
Section 2.08 Interchangeability of Series 2017 Bonds or Additional Bonds.....	15
Section 2.09 Transfer and Exchange of Series 2017 Bonds and Additional Bonds	15
Section 2.10 Regulations With Respect to Exchanges and Transfers.....	16
Section 2.11 Bonds Mutilated, Destroyed, Stolen or Lost.....	16
Section 2.12 Temporary Bonds	16
Section 2.13 Cancellation and Destruction of Bonds	17
Section 2.14 Registration Books	17
Section 2.15 Validity of Bonds.....	17
Section 2.16 Special Provisions as to Book-Entry-Only System for the Series 2017 Bonds	17
Article III. THE SERIES 2017 BONDS.....	19
Section 3.01 Terms of the Series 2017 Bonds.....	19
Section 3.02 Application of Proceeds of Series 2017 Bonds and Certain Other Moneys	19
Section 3.03 Denominations; Form; Medium of Payment; Numbers.....	19
Section 3.04 Place of Payment	20
Article IV. REDEMPTION OF BONDS.....	20
Section 4.01 Privilege of Redemption and Redemption Price.....	20
Section 4.02 Redemption at the Direction of the Authority	20
Section 4.03 Redemption Other Than at the Authority’s Direction	20

Section 4.04	Notice of Redemption.....	21
Section 4.05	Payment of Redeemed Bonds.....	22
Article V. REVENUES AND OTHER FUNDS.....		23
Section 5.01	Pledge and Assignment; Series 2017 Revenue Fund.....	23
Section 5.02	Allocation of Revenues	23
Section 5.03	Series 2017 Rebate Fund.	24
Section 5.04	Establishment and Application of Series 2017 Project Fund.....	25
Section 5.05	Establishment and Application of Costs of Issuance Fund.....	26
Section 5.06	Investment of Moneys in Funds and Accounts.....	26
Article VI. PARTICULAR COVENANTS.....		27
Section 6.01	Punctual Payment	27
Section 6.02	Extension of Payment of Series 2017 Bonds.....	27
Section 6.03	Against Encumbrances	27
Section 6.04	Power To Issue Series 2017 Bonds and Make Pledge and Assignment	27
Section 6.05	Maintenance and Operation of Wastewater Enterprise Facilities in Efficient and Economical Manner.	28
Section 6.06	Against Sale, Eminent Domain.....	28
Section 6.07	Insurance.....	28
Section 6.08	Tax Covenants	28
Section 6.09	Series 2017 Loan Agreements.	29
Section 6.10	No Additional Obligations.....	30
Section 6.11	Waiver of Laws	30
Section 6.12	Further Assurances	30
Section 6.13	Covenant To Enter Into Agreement or Contract To Provide Ongoing Disclosure	30
Article VII. EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS.....		30
Section 7.01	Events of Default	30
Section 7.02	Acceleration of Maturities	31
Section 7.03	Application of Revenues and Other Funds After Default.....	31
Section 7.04	Trustee To Represent Owners of Series 2017 Bonds	32
Section 7.05	Series 2017 Bond Owners' Direction of Proceedings	32
Section 7.06	Limitation on Series 2017 Bond Owners' Right To Sue	32
Section 7.07	Absolute Obligation of Authority	33
Section 7.08	Termination of Proceedings.....	33
Section 7.09	Remedies Not Exclusive.....	33
Section 7.10	No Waiver of Default	33

Article VIII. THE TRUSTEE	33
Section 8.01 Duties, Immunities and Liabilities of Trustee.....	33
Section 8.02 Merger or Consolidation.....	34
Section 8.03 Liability of Trustee	34
Section 8.04 Right of Trustee To Rely on Documents	36
Section 8.05 Accounting Records and Financial Statements.....	36
Section 8.06 Preservation and Inspection of Documents.....	37
Section 8.07 Performance of Duties	37
Article IX. MODIFICATION OR AMENDMENT OF THIS INDENTURE.....	37
Section 9.01 Amendments Permitted.	37
Section 9.02 Effect of Supplemental Indenture	38
Section 9.03 Endorsement of Series 2017 Bonds; Preparation of New Series 2017 Bonds	38
Section 9.04 Amendment of Particular Series 2017 Bonds.....	39
Article X. DEFEASANCE	39
Section 10.01 Discharge of Indenture	39
Section 10.02 Discharge of Liability on Series 2017 Bonds	39
Section 10.03 Deposit of Money or Securities with Trustee	40
Section 10.04 Payment of Series 2017 Bonds After Discharge of Indenture	40
Article XI. MISCELLANEOUS.....	40
Section 11.01 Immunity of Officers and Employees and of the Authority and the Cities.....	40
Section 11.02 Limitation on Authority Obligations	41
Section 11.03 Successor Is Deemed Included in All References to Predecessor	41
Section 11.04 Limitation of Rights to Parties, Cities and Owners of Series 2017 Bonds	41
Section 11.05 Waiver of Notice	41
Section 11.06 Severability of Invalid Provisions	41
Section 11.07 Notices.....	41
Section 11.08 Evidence of Rights of Owners of Series 2017 Bonds.....	42
Section 11.09 Disqualified Series 2017 Bonds.....	42
Section 11.10 Money Held for Particular Series 2017 Bonds	42
Section 11.11 Funds and Accounts.....	42
Section 11.12 Business Days.....	43
Section 11.13 Governing Law, Venue.....	43
Section 11.14 Execution in Several Counterparts	43

EXHIBIT A – FORM OF SERIES 2017 BOND

EXHIBIT B – FORM OF REQUISITION OF THE AUTHORITY FROM COSTS OF ISSUANCE FUND

EXHIBIT C - FORM OF REQUISITION OF THE AUTHORITY FROM SERIES 2017 PROJECT FUND

**SERIES 2017
INDENTURE OF TRUST**

This **SERIES 2017 INDENTURE OF TRUST**, dated as of June 1, 2017 (this “Series 2017 Indenture”), between the **SAN ELIJO JOINT POWERS AUTHORITY**, a joint exercise of powers authority organized and existing under the laws of the State of California (the “Authority”), and **MUFG UNION BANK, N.A.**, a national banking association organized and existing under the laws of the United States of America, and being qualified to accept and administer the trusts hereby created (the “Trustee”), is made under the circumstances summarized in the following recitals (the capitalized terms not defined in the recitals and granting clauses being used therein are defined in Article I hereof);

RECITALS:

WHEREAS, the Authority is a joint powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, dated June 17, 1987, by and between the Solana Beach Sanitation District (“Solana Beach Sanitation District”) and the Cardiff Sanitation District (“Cardiff Sanitation District”), and under the provisions of Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with section 6500) of the Government Code of the State of California, as amended (the “Act”), and is authorized pursuant to the Act to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations of, or for the purpose of making loans to, its two member cities (“Cities”) to provide financing for public capital improvements of, pertaining to, or of benefit to the Cities; and

WHEREAS, for the purpose of providing financing for its wastewater treatment facilities, the Authority issued its San Elijo Joint Powers Authority 1990 Revenue Bonds (San Elijo Water Pollution Control Facility Upgrade and Expansion Project) in the aggregate principal amount of \$24,465,000 (the “1990 Bonds”), all pursuant to and secured by an Indenture of Trust, dated as of March 1, 1990, between State Street Bank and Trust Company of California, N.A. (the “Prior Trustee”) and the Authority (the “1990 Indenture”); and

WHEREAS, Solana Beach Sanitation District was merged into the City of Solana Beach (“Solana Beach”) July 1, 1990, and under section 57531 of the Government Code of the State of California, as amended, Solana Beach is the successor in interest to all of the rights and obligations of the Solana Beach Sanitation District; and

WHEREAS, for the purpose of refunding a portion of the 1990 Bonds, the Authority issued its San Elijo Joint Powers Authority 1993 Refunding Revenue Bonds (San Elijo Water Pollution Control Facility) in the aggregate principal amount of \$22,565,000 (the “1993 Bonds”), all pursuant to and secured by an Indenture of Trust, dated as of March 15, 1993, between the Authority and the Prior Trustee (the “1993 Indenture”); and

WHEREAS, for the purpose of refunding in part the 1993 Bonds, the Authority issued its San Elijo Joint Powers Authority 2003 Refunding Revenue Bonds (San Elijo Wastewater Treatment Facilities) in the aggregate principal amount of \$18,640,000 (the “2003 Bonds”), all pursuant to and secured by an Indenture of Trust, dated as of April 1, 2003, between the Authority and the Trustee (the “2003 Indenture”); and

WHEREAS, Cardiff Sanitation District was merged into the City of Encinitas (“Encinitas”) October 18, 2001, and under section 57531 of the Government Code of the State of California, as amended, Encinitas is the successor in interest to all of the rights and obligations of Cardiff Sanitation District; and

WHEREAS, as a result of the aforesaid mergers, Encinitas and Solana Beach as successors in interest are the member Cities of the Authority; and

WHEREAS, for the purpose, among others, of refunding the 2003 Bonds, the Authority issued its San Elijo Joint Powers Authority 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facility) in the aggregate principal amount of \$9,235,000 (the “2011 Bonds”), all pursuant to and secured by an Indenture of Trust, dated as of December 1, 2011, between the Authority and the Trustee (the “2011 Indenture”); and

WHEREAS, the Authority desires to execute the initial phases of its current capital facilities plan, to include (among other things), the planning, design, acquisition, construction, renovation, improvement, equipping, furnishing, upgrading and/or installation of (a) wastewater treatment facilities; (b) water reclamation and recycling facilities; and (c) related and ancillary storage, transport, operations, administrative, safety, security and other public facilities and systems (collectively, the “Project”) for the purpose of serving the public needs of the Cities and other municipal customers of the Authority; and

WHEREAS, for the purpose of providing financing for the Project, the Authority has authorized the issuance of its San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects) (the “Series 2017 Bonds”) in the aggregate principal amount of \$ _____; and

WHEREAS, the Authority has duly entered into separate loan agreements, each dated as of June 1, 2017 (each, a “Series 2017 Loan Agreement”), with Encinitas and with Solana Beach, respectively, pursuant to which the Authority is funding a loan to Encinitas (the “Encinitas Loan”) and a loan to Solana Beach (the “Solana Beach Loan,” and together with the Encinitas Loan, the “Series 2017 Loans”) for the purpose of financing the Project and for the payment of the principal of, Redemption Price (as defined herein), if any, and interest on the Series 2017 Bonds and certain related expenses; and

WHEREAS, in order to provide for the execution, authentication and delivery of the Series 2017 Bonds, to establish and declare the terms and conditions upon which the Series 2017 Bonds are to be issued and to secure the payment of the principal or Redemption Price, if any, of and interest on the Series 2017 Bonds, the Authority has authorized the execution and delivery of this Series 2017 Indenture; and

WHEREAS, all acts and proceedings required by law necessary to make the Series 2017 Bonds, when executed by the Authority, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal special obligations of the Authority, and to constitute this Series 2017 Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Series 2017 Indenture have been in all respects duly authorized;

NOW, THEREFORE, THIS SERIES 2017 INDENTURE WITNESSETH, that in order to secure the payment of the principal of, Redemption Price, if any, and interest on, all Series 2017 Bonds and any Additional Bonds (as herein defined) at any time issued and Outstanding (as herein defined) under this Series 2017 Indenture, according to their tenor, and to secure the performance and observance of all the covenants, agreements, obligations and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Series 2017 Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Series 2017 Bonds by the Owners (as herein defined) thereof, and for other valuable consideration, the receipt and sufficiency whereof are hereby acknowledged, the Authority has executed and delivered this Series 2017 Indenture and does hereby covenant and agree with the Trustee, for the benefit of the respective Owners from time to time of the Series 2017 Bonds, as follows:

ARTICLE I.

DEFINITIONS; AUTHORIZATION AND PURPOSE OF SERIES 2017 BONDS; EQUAL SECURITY; CONTENT OF CERTIFICATES AND OPINIONS; INTERPRETATION

Section 1.01 **Definitions.** Unless the context otherwise requires, the terms defined in this Section 1.01 shall, for all purposes of this Series 2017 Indenture and of any Supplemental Indenture and of the Series 2017 Bonds and of any certificate, opinion, request, order or other documents herein mentioned, have the meanings herein specified.

“*1933 Act*” means the Securities Act of 1933, as amended and in effect on the date hereof, together with the rules and regulations promulgated thereunder.

“*1934 Act*” means the Securities Exchange Act of 1934, as amended and in effect on the date hereof, together with the rules and regulations promulgated thereunder.

“*2011 Agreements*” means the Third Amended and Restated Loan Agreements, each dated as of December 1, 2011, among the Authority, Union Bank, N.A., as trustee, and each respective City.

“*2011 Bonds*” means the San Elijo Joint Powers Authority 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facility).

“*2011 Trustee*” means MUFG Union Bank, N.A. (formerly known as Union Bank, N.A.), as trustee under the 2011 Indenture.

“*Act*” means Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with section 6500) of the Government Code of the State, as in existence on the Closing Date or as thereafter amended from time to time.

“*Additional Bonds*” means all revenue bonds of the Authority, other than the Series 2017 Bonds initially executed, authenticated, issued and delivered hereunder, authorized by and at any time Outstanding pursuant to and executed, issued and delivered in accordance with the provisions of Article II of this Series 2017 Indenture.

“*Authority*” means the San Elijo Joint Powers Authority, a joint powers authority duly organized and existing under the Basic Agreement and the laws of the State.

“*Authority Representative*” means the General Manager of the Authority and any other officer or employee of the Authority designated by the General Manager or the Board.

“*Authorized Signatory*” means any officer of the Board and any Authority Representative.

“*Basic Agreement*” means that certain Joint Exercise of Powers Agreement, dated June 17, 1987, entered into under the Act by and between the Cardiff Sanitation District and the Solana Beach Sanitation District, together with any amendments and restatements thereof and supplements thereto.

“*Beneficial Owner*” means any Person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2017 Bonds or Additional Bonds, as applicable (including Persons holding such Series 2017 Bonds or Additional Bonds through nominees, depositories or other intermediaries).

“*Beneficial Ownership Interest*” means the beneficial right to receive payments and notices with respect to the Series 2017 Bonds (or any Additional Bonds, as applicable) which are held by the Depository under a Book-Entry System.

“*Board*” means the Board of the Authority.

“*Bond Counsel*” means any firm of nationally recognized municipal bond attorneys, selected by the Authority, experienced in the issuance of municipal bonds and matters relating to the exclusion of the interest thereon from gross income for federal income tax purposes.

“*Bond Purchase Contract*” means (a) the Series 2017 Bond Purchase Contract, dated June __, 2017, by and among the Authority, the Cities and the Underwriter; and (b) as to one or more series of Additional Bonds, the similar agreement with respect to such series of Additional Bonds.

“*Bond Resolution*” means (a) the resolution of the Board providing for the issuance of the Series 2017 Bonds and approving the Series 2017 Loan Agreements, this Series 2017 Indenture, the Tax Certificate and the Bond Purchase Contract and related matters; and (b) as to one or more series of Additional Bonds, the resolution of the Board providing for the issuance of such series of Additional Bonds and approving any amendment or supplement to the Series 2017 Loan Agreements, any Supplemental Indenture and related agreements and matters.

“*Bond Year*” means: (a) as to the Series 2017 Bonds, each twelve-month period extending from March 2 in one calendar year to March 1 of the succeeding calendar year, both dates inclusive, except that the first Bond Year shall extend from the Closing Date to March 1, 2018, both dates inclusive; and (b) as to one or more series of

Additional Bonds, each twelve-month period ending March 1 in any year in which such series of Additional Bonds are Outstanding, except that the first Bond Year shall commence the date such series of Additional Bonds are issued and end March 1 of the year specified in the Supplemental Indenture authorizing the issuance of such series of Additional Bonds.

“*Bonds*” means, collectively, the Series 2017 Bonds and all series of Additional Bonds, if any.

“*Book-Entry System*” means, with respect to the Series 2017 Bonds or one or more series of Additional Bonds, a form or system, as applicable, under which (a) the Beneficial Ownership Interests may be transferred only through a book-entry-only system; and (b) physical certificates of Series 2017 Bonds or Additional Bonds (as applicable) in fully registered form are registered only in the name of a Depository or its nominee as Owner, with the physical certificates of Series 2017 Bonds or Additional Bonds (as applicable) duly “immobilized” in the custody of the Trustee on behalf of the Depository.

“*Business Day*” means any day which is not any of the following: (a) Saturday, Sunday or legal holiday as set forth by the Federal Reserve Bank of San Francisco; (b) any other day on which banks in Los Angeles, California, New York, New York or any city where the Trust Office is located are authorized or required to be closed by the appropriate regulatory authorities; or (c) a day on which the New York Stock Exchange is authorized or required to be closed.

“*Certificate*,” “*Order*,” “*Request*,” “*Requisition*” or “*Statement*” of the Authority means a written certificate, order, request, requisition or statement, signed in the name of the Authority by any Authorized Signatory or by any other officer of the Authority duly authorized by the Board for that purpose. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the provisions of Section 1.02 of this Series 2017 Indenture, each such instrument shall include the statements required under Section 1.02.

“*City*” or “*Cities*” means, severally and collectively, Encinitas, as successor in interest to Cardiff Sanitation District, and Solana Beach, as successor in interest to Solana Beach Sanitation District.

“*Closing Date*” means, with respect to the Series 2017 Bonds, the date of delivery of and payment for the Series 2017 Bonds, being July __, 2017, and with respect to one or more series of Additional Bonds, the date of initial delivery and payment for such series of Additional Bonds.

“*Code*” means the Internal Revenue Code of 1986, as in effect on the date of issuance of the Series 2017 Bonds or (except as otherwise referenced in this Series 2017 Indenture) as it may be amended to apply to obligations issued on the date of issuance of the Series 2017 Bonds, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, thereunder or any successor federal tax code thereto. Reference to any particular Code section shall, in the event of such successor federal tax code, be deemed to be reference to the successor to such Code section, as applicable.

“*Costs of Issuance*” means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Series 2017 Bonds, including but not limited to all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the Authority, each City and the Trustee, compensation of any financial consultants or advisors, compensation of any underwriters, other legal fees and expenses, filing and recording fees and costs, costs of preparation, reproduction and printing of documents, initial fees and charges of the Trustee and its counsel, Rating Agency fees, other fees and charges for preparation, execution, transportation and safekeeping of Series 2017 Bonds, and any other cost, charge or fee in connection with the original issuance of the Series 2017 Bonds.

“*Costs of Issuance Fund*” means the fund by that name established and held by the Trustee pursuant to Section 5.05 of this Series 2017 Indenture.

“*Debt Service*” means, as of any date of calculation and with respect to any period, the amount obtained as of such date or for such period by totaling the following amounts:

(a) the principal amount of all Outstanding Serial Series 2017 Bonds coming due and payable by their terms on such date or during such period; and

(b) the interest which would be due on such date or during such period on the aggregate principal amount of Series 2017 Bonds which would be Outstanding in such period if the Series 2017 Bonds are retired as scheduled, but deducting and excluding from such aggregate amount the principal amount of Series 2017 Bonds no longer Outstanding.

“*Depository*” means: (a) with respect to the Series 2017 Bonds, The Depository Trust Company and its successors and assigns, or any other depository selected as set forth in Section 2.02(a)(v)(H) of this Series 2017 Indenture; and (b) with respect to one or more series of Additional Bonds, the provisions of the Supplemental Indenture authorizing such series of Additional Bonds, with respect to which such Depository agrees to follow the procedures required to be followed by such depository in connection with such series of Additional Bonds.

“*Direct Participant*” means a Participant as defined in the Letter of Representations.

“*Disclosure Agreement*” and “*Dissemination Agent*” mean (a) the Continuing Disclosure Agreement executed and delivered by the Authority, Encinitas and Solana Beach, with (b) Applied Best Practices, LLC, in the capacity of Dissemination Agent, with respect to the Disclosure Requirements and the Rule, pursuant to the provisions of Section 6.13 of this Series 2017 Indenture and Section 4.11 of each Series 2017 Loan Agreement.

“*Disclosure Requirements*” and “*Rule*” mean (a) the continuing disclosure and related requirements provided in paragraph (b)(5)(i) of (b) SEC Rule 15c2-12 promulgated by the SEC under the 1934 Act (17 CFR Part 240 Section 240.15c2-12), as it may be amended from time to time.

“*Electronic Means*” means telecopy, facsimile transmissions, e-mail transmissions or other similar electronic means of communication providing evidence of transmission.

“*EMMA*” means the Electronic Municipal Market Access of the Municipal Securities Rulemaking Board.

“*Encinitas*” means the City of Encinitas, a general law city duly organized and existing under the laws of the State, as successor to the Cardiff Sanitation District.

“*Event of Default*” means any of the events specified in Section 7.01 of this Series 2017 Indenture.

“*Fair Market Value*” has the meaning ascribed to such term in the Tax Certificate.

“*Federal Securities*” means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or other noncallable obligations of any government-sponsored agency the timely payment of principal of and interest on which are directly or indirectly fully and unconditionally guaranteed by the United States of America.

“*Favorable Opinion of Bond Counsel*” means, with respect to any action the occurrence or non-occurrence of which requires such an opinion, an opinion of Bond Counsel to the effect that such action is permitted under this Series 2017 Indenture and will not, in and of itself, cause interest on the Series 2017 Bonds to be included in gross income for purposes of federal income taxation.

“*Fiscal Year*” means the period beginning July 1 of each year and ending the next succeeding June 30 or any other 12-month period selected and designated as the official fiscal year period of the Authority.

“*Indenture*” means this Series 2017 Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

“*Interest Payment Date*” means each March 1 and September 1, commencing September 1, 2017, and continuing thereafter so long as any Series 2017 Bonds remain Outstanding.

“*Letter of Representations*” means, collectively, the Blanket Issuer Letter of Representations filed by the Authority with the Depository and the Operational Arrangements Letter of Representations filed with the Depository.

“*Loan Default Event*” means any Event of Default under the provisions of Section 5.01 of either or both Series 2017 Loan Agreements or under either or both of the 2011 Agreements.

“*Net Proceeds*,” when used with reference to any insurance or eminent domain award or sale of property, means, the respective gross proceeds from the sale of property or insurance or eminent domain award remaining after payment of all expenses (including attorneys’ fees and any extraordinary expenses of the Trustee) incurred in the collection of such gross proceeds.

“*Opinion of Counsel*” means a written opinion of counsel (who may be counsel for the Authority) selected by the Authority. If and to the extent required by the provisions of Section 1.02 of this Series 2017 Indenture, each Opinion of Counsel shall include the statements provided for in Section 1.02.

“*Outstanding*” means, when used as of any particular time with reference to the Series 2017 Bonds or one or more series of Additional Bonds (in each case subject to the provisions of Section 11.09 of this Series 2017 Indenture), all Series 2017 Bonds and Additional Bonds theretofore, or thereupon being, executed, authenticated and delivered under this Series 2017 Indenture except:

(a) Series 2017 Bonds and Additional Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(b) Series 2017 Bonds and Additional Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the provisions of Section 10.02 of this Series 2017 Indenture, including Series 2017 Bonds and Additional Bonds (or portions of Series 2017 Bonds and Additional Bonds) referred to in Section 11.10 of this Series 2017 Indenture;

(c) Series 2017 Bonds and Additional Bonds in lieu of or in substitution for which other Series 2017 Bonds and Additional Bonds, as applicable, shall have been executed, authenticated and delivered pursuant to this Series 2017 Indenture or any Supplemental Indenture authorizing such Additional Bonds; and

(d) with respect to any voting or consents of rights, Series 2017 Bonds and Additional Bonds held by the Authority.

“*Owner*” means, whenever used herein with respect to a Series 2017 Bond or any Additional Bond, the Person in whose name such Series 2017 Bond or Additional Bond, as applicable, is registered in the Registration Books.

“*Participating Underwriter*” means any broker, dealer or municipal securities dealer acting as an underwriter in a primary offering of municipal securities subject to SEC Rule 15c2-12 under the 1934 Act.

“*Permitted Investments*” means the following, but only to the extent that the same are acquired at Fair Market Value, which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(a) Federal Securities;

(b) interest-bearing demand or time deposits (including certificates of deposit) in federal or State chartered savings and loan associations or in federal or State banks (including without limitation the Trustee), fully secured as to the payment of principal and interest by Federal Securities;

(c) money market funds the policy of which is to invest solely in Federal Securities or in obligations which are fully defeased or collateralized by Federal Securities, including funds for which the Trustee or an affiliate of the Trustee provides banking or trust services;

(d) obligations the interest on which is excludable from gross income pursuant to section 103 of the Code and which are fully secured as to the payment of principal and interest by Federal Securities; and

(e) the Local Agency Investment Fund – Bond Proceeds Pool established and maintained by the Treasurer of the State of California.

“*Person*” or words importing persons means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including any governmental entity or any agency or political subdivision thereof.

“*Project*” has the meaning ascribed to such term in the recitals of this Series 2017 Indenture and in the Series 2017 Loan Agreements.

“*Rating Agency*” means S&P.

“*Rating Category*” means one of the general rating categories of any Rating Agency, without regard to any refinement or gradation of such rating category by a numerical or symbolic modifier or otherwise.

“*Record Date*” means, with respect to any Interest Payment Date, the fifteenth calendar day of the month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

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

“*Refunding Bonds*” means all revenue bonds of the Authority authorized by and at any time Outstanding pursuant hereto and executed, issued and delivered in accordance with the provisions of Article II of this Series 2017 Indenture, proceeds of which are used to refund all or any portion of Outstanding Series 2017 Bonds or Outstanding Additional Bonds, as applicable.

“*Registration Books*” means the records maintained by the Trustee pursuant to the provisions of Section 2.14 of this Series 2017 Indenture for the registration and transfer of ownership of the Series 2017 Bonds.

“*Revenues*” means (a) all amounts payable by the Cities pursuant to the Series 2017 Loan Agreements (taking into account any limitations contained therein with respect to such payment), other than (i) administrative fees and expenses and indemnity against claims payable to the Authority and the Trustee and (ii) amounts payable to the United States of America pursuant to the provisions of Section 4.06 of each Series 2017 Loan Agreement; (b) any proceeds of Series 2017 Bonds originally deposited with the Trustee and all moneys deposited and held from time to time by the Trustee in the funds and accounts established under this Series 2017 Indenture; and (c) income and gains with respect to the investment of amounts on deposit in the funds and accounts established under this Series 2017 Indenture.

“*S&P*” means S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, its successors and assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Authority by notice to the Trustee.

“SEC” means the United States Securities and Exchange Commission and any successor thereto.

“*Serial Series 2017 Bonds*” means all Series 2017 Bonds other than the Series 2017 Bonds maturing March 1, 20__ or thereafter.

“*Series 2017 Bonds*” means the Series 2017 Bonds authorized by and at any time Outstanding pursuant to the provisions of this Series 2017 Indenture.

“*Series 2017 Interest Account*” means the account by that name established and held by the Trustee pursuant to the provisions of Section 5.02(a) of this Series 2017 Indenture.

“*Series 2017 Loan Agreements*” means, severally and collectively, (a) the Series 2017 Loan Agreement, dated as of June 1, 2017, by and between the Authority and Encinitas, relating to the Series 2017 Loan to Encinitas in the amount of \$ _____; and (b) the Series 2017 Loan Agreement, dated as of June 1, 2017, by and between the Authority and Solana Beach, relating to the Series 2017 Loan to Solana Beach in the amount of \$ _____.

“*Series 2017 Loans*” mean: (a) as to the Series 2017 Bonds, the loans by the Authority to Encinitas and Solana Beach, respectively, of the proceeds received from the sale of the Series 2017 Bonds; and (b) each additional loan made by the Authority to the Cities of the proceeds received from the sale of one or more series of Additional Bonds.

“*Series 2017 Principal Account*” means the account by that name established and held by the Trustee pursuant to the provisions of Section 5.02(b) of this Series 2017 Indenture.

“*Series 2017 Proceeds Fund*” means the temporary trust account by that name established and held by the Trustee pursuant to the provisions of Section 3.02(c) of this Series 2017 Indenture.

“*Series 2017 Project Costs*” means all costs paid or incurred by or on behalf of the Authority at any time prior to or after the issuance of the Series 2017 Bonds for or in connection with the planning, design, acquisition, construction, renovation, improvement, equipping, furnishing and/or installation of the Project, and shall include, but not be limited to, any sums required to reimburse the Authority for advances and payments made by or on behalf of the Authority at any time prior to or after the issuance of the Series 2017 Bonds for capital expenditures related to the Project, or for any other cost incurred or work done by or with the approval of the Authority which is properly allocable to the Project.

“*Series 2017 Project Fund*” means the fund by that name established and held in trust by the Trustee pursuant to the provisions of Section 5.04 of this Series 2017 Indenture.

“*Series 2017 Rebate Fund*” means the fund by that name established and held by the Trustee pursuant to the provisions of Section 5.03 of this Series 2017 Indenture.

“*Series 2017 Revenue Fund*” means the fund by that name established pursuant to Section 5.01 of this Series 2017 Indenture.

“*Solana Beach*” means the City of Solana Beach, a general law city duly organized and existing under the laws of the State, as successor to the Solana Beach Sanitation District.

“*State*” means the State of California.

“*Subordinate Debt*” means (a) Additional Bonds issued and so designated and secured pursuant to the provisions of Section 2.03 of this Series 2017 Indenture that are secured by and payable from Revenues on a basis that is subordinate and junior to the pledge of Revenues for the Series 2017 Bonds; and (b) any loan or other form of indebtedness (including without limitation notes, other debt instruments or financing leases) that are secured by and

payable from Revenues on a basis that is subordinate and junior to the pledge of Revenues for the Series 2017 Bonds.

“*Supplemental Indenture*” means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending this Series 2017 Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under this Series 2017 Indenture.

“*Tax Certificate*” means the *Tax Certificate Pertaining to Arbitrage and Other Matters under sections 103 and 141 through 150, inclusive, of the Internal Revenue Code of 1986* executed and delivered by the Authority with respect to the Series 2017 Bonds, as originally executed and as the same may be amended and supplemented from time to time in accordance with the terms of the Tax Certificate.

“*Treasury Regulations*” has the meaning ascribed to such term in the Tax Certificate.

“*Trust Office*” means the corporate trust office of the Trustee at 445 South Figueroa Street, Suite 401, Los Angeles, California 90071 (Attention: Corporate Trust Services), fax: 213.972.5694, email: AccountAdministration-CorporateTrust@unionbank.com and CashControlGroup-LosAngeles@unionbank.com, or such other address or addresses as the Trustee may designate in writing to the Authority from time to time.

“*Trustee*” means MUFG Union Bank, N.A., a national banking association organized and existing under the laws of the United States of America, and its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as Trustee as provided in Section 8.01 of this Series 2017 Indenture.

“*Underwriter*” means Hilltop Securities, Inc., as initial purchaser of the Series 2017 Bonds.

“*Wastewater Enterprise Facilities*” means any and all facilities of any kind or purpose of or used by the Authority (excluding the Authority’s Water Reclamation Facilities) used for the treatment and disposal of wastewater, including without limitation sewage treatment plants, certain intercepting and collecting sewers, outfall sewers, certain force mains, certain pumping stations, ejector stations, pipes, valves, machinery, safety and systems for the protection, monitoring, command, control and operation thereof, and all other appurtenances necessary, useful or convenient for the foregoing, and any necessary lands, rights of way and other real or personal property useful in connection therewith.

“*Water Reclamation Facilities*” means the Authority’s recycled water production and distribution facilities to the extent such facilities are used or useful in the Authority’s tertiary treatment, sale and delivery of recycled water.

Section 1.02 Content of Certificates and Opinions. Every certificate or opinion provided for in this Series 2017 Indenture with respect to compliance with any provision hereof shall include all of the following: (a) a statement that the Person making or giving such certificate or opinion has read such provision and related definitions in this Series 2017 Indenture; (b) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (c) a statement that, in the opinion of such Person, (s)he has made or caused to be made such examination or investigation as is necessary to enable such Person to express an informed opinion with respect to the subject matter referred to in the instrument to which such Person’s signature is affixed; (d) a statement of the assumptions upon which such certificate or opinion is based, and that such assumptions in the opinion of such Person are reasonable; and (e) a statement as to whether or not, in the opinion of such Person, such provision has been satisfied.

Section 1.03 Interpretation.

(a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of any gender-identity terminology is for convenience only and shall be deemed to mean and include all gender-identity terminology.

(b) Headings of articles and sections in this Series 2017 Indenture, its Table of Contents and its Exhibits are solely for convenience of reference, do not constitute a part of this Series 2017 Indenture and shall not affect the meaning, construction or effect of any provision of this Series 2017 Indenture.

(c) Unless the context otherwise indicates, all references herein to “Articles,” “Sections,” “subsections,” “paragraphs,” “subparagraphs,” “clauses” and other subdivisions are to the corresponding Articles, Sections, subsections, paragraphs, subparagraphs, clauses or other subdivisions of this Series 2017 Indenture; the words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Series 2017 Indenture as a whole and not to any particular Article, section, subsection, paragraph, subparagraph, clause or other subdivision of this Series 2017 Indenture.

Section 1.04 Authorization and Purpose of Series 2017 Bonds. The Authority has reviewed all proceedings heretofore taken relative to the authorization of the Series 2017 Bonds and has found, as a result of such review, and hereby finds and determines that all things, conditions and acts required by law to exist, occur and be performed precedent to and in the issuance of the Series 2017 Bonds do exist, have occurred and have been performed in due time, form and manner as required by law, and the Authority is now authorized under the Basic Agreement and the Act and each and every requirement of law, to issue the Series 2017 Bonds in the manner and form provided in this Series 2017 Indenture. Accordingly, the Authority hereby authorizes the issuance of the Series 2017 Bonds pursuant to the Act and this Series 2017 Indenture for the purpose of providing funds to make the Series 2017 Loans to the Cities under the Series 2017 Loan Agreements.

Section 1.05 Equal Security. In consideration of the acceptance of the Series 2017 Bonds and any Additional Bonds by the Owners thereof, this Series 2017 Indenture shall be deemed to be and shall constitute a contract between the Authority and the Owners from time to time of all Series 2017 Bonds and Additional Bonds authorized, executed, issued and delivered under this Series 2017 Indenture or under any Supplemental Indenture, as applicable, and then Outstanding to secure the full and final payment of the principal or Redemption Price of and interest on all Series 2017 Bonds and Additional Bonds, as applicable, which may from time to time be authorized, executed, issued and delivered under this Series 2017 Indenture or under any Supplemental Indenture, as applicable, subject to the agreements, conditions, covenants and provisions contained in this Series 2017 Indenture or any Supplemental Indenture; and all agreements and covenants set forth herein and therein to be performed by or on behalf of the Authority shall be for the equal and proportionate benefit, protection and security of all Owners of the Series 2017 Bonds and Additional Bonds without distinction, preference or priority as to security or otherwise of any Series 2017 Bonds or Additional Bonds over any other Series 2017 Bonds or Additional Bonds by reason of the number or date thereof or the time of authorization, sale, execution, issuance or delivery thereof or otherwise for any cause whatsoever, except as expressly provided in this Series 2017 Indenture or any Supplemental Indenture, as applicable.

ARTICLE II.

AUTHORITY; SPECIAL OBLIGATIONS; GENERAL TERMS AND PROVISIONS OF SERIES 2017 BONDS AND ADDITIONAL BONDS

Section 2.01 Authority for Issuance; Special Obligations.

(a) This Series 2017 Indenture provides for the authorization of the Series 2017 Bonds of the Authority to be designated as its “San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects).” The aggregate principal amount of the Series 2017 Bonds which may be executed, authenticated and delivered under this Series 2017 Indenture is not limited except as provided in this Series 2017 Indenture or as may be limited by law. The Series 2017 Bonds may be issued in one or more series, and the designation thereof, in addition to the name “San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects),” shall include such further appropriate particular designation added to or incorporated in such title for the Series 2017 Bonds of any particular series as the Authority may determine. Each Series 2017 Bond shall bear upon its face the designation so determined for the series to which it belongs.

(b) The Authority is duly authorized by law to issue the Series 2017 Bonds and to enter into this Series 2017 Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned under this

Series 2017 Indenture in the manner and to the extent provided in this Series 2017 Indenture. The Authority has duly authorized the execution, sale and delivery of the Series 2017 Bonds and this Series 2017 Indenture under the terms and provisions of the Act and a resolution adopted by its Board and further represents, covenants and warrants that all requirements have been met and procedures have occurred in order to ensure the enforceability against the Authority of the Series 2017 Bonds and this Series 2017 Indenture. The Authority has taken all necessary action and has complied with all provisions of the Act required to make the Series 2017 Bonds and this Series 2017 Indenture the valid, legal and binding special obligations of the Authority.

(c) None of the Authority, the Cities or any Person executing the Series 2017 Bonds is liable personally on the Series 2017 Bonds or subject to any personal liability or accountability by reason of their issuance. The Series 2017 Bonds are special obligations of the Authority, payable solely from and secured by the pledge of Revenues under this Series 2017 Indenture. Neither the Authority, the Cities, the State, nor any political subdivision of the State shall be directly, indirectly, contingently, morally or otherwise obligated to use any other moneys or assets to pay all or any portion of the Debt Service due on the Series 2017 Bonds, to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Series 2017 Bonds are not a pledge of the faith and credit of the Authority, either of the Cities, the State or any political subdivision of the State, nor do they constitute indebtedness within the meaning of any constitutional or statutory debt limitation. The Authority has no taxing power.

(d) The Authority shall not be liable for payment of the principal of, Redemption Price or interest on the Series 2017 Bonds or any other costs, expenses, losses, damages, claims or actions of any conceivable kind on any conceivable theory, under or by reason of or in connection with this Series 2017 Indenture, the Series 2017 Bonds or any other documents, except only to the extent Revenues are received for the payment thereof under the Series 2017 Loan Agreements.

Section 2.02 General Provisions for Issuance of Series 2017 Bonds and Additional Bonds.

(a) All (but not less than all) of the Series 2017 Bonds and Additional Bonds of each series shall be executed by the Authority for issuance under this Series 2017 Indenture and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered by the Trustee to the Authority or upon its Order, but only upon the receipt by the Trustee of each of the following items (upon which receipt the Trustee may rely conclusively in determining whether the conditions precedent for the issuance and authentication of the Series 2017 Bonds and such series of Additional Bonds have been satisfied):

(i) with respect to the Series 2017 Bonds, an executed copy of this Series 2017 Indenture as originally executed, a copy of each Series 2017 Loan Agreement as originally executed and an executed copy of the Tax Certificate as originally executed;

(ii) an opinion of Bond Counsel to the Authority, to the effect that: (A) this Series 2017 Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority; (B) this Series 2017 Indenture creates a valid pledge of the Revenues and the funds and accounts created under this Series 2017 Indenture (except the Series 2017 Rebate Fund) to secure the payment of the principal of, Redemption Price, if any, and interest on the Series 2017 Bonds subject to the provisions of this Series 2017 Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in this Series 2017 Indenture; (C) the Series 2017 Bonds constitute the valid and binding special obligations of the Authority; and (D) the interest on the Series 2017 Bonds is not included in gross income for federal income tax purposes;

(iii) an opinion of counsel for each City to the effect that the applicable Series 2017 Loan Agreement and the Tax Certificate have been duly authorized, executed and delivered by such City, and are legal, valid and binding agreements of such City, as applicable, enforceable against such City in accordance with its their respective terms;

(iv) an Order as to the delivery of the Series 2017 Bonds, signed by an Authorized Signatory;

(v) except in the case of the Series 2017 Bonds, an executed copy of the Supplemental Indenture authorizing such series of Additional Bonds, certified by an Authority Representative to be in full force and effect, which shall, among other provisions, specify:

(A) the authorized principal amount of the Additional Bonds of such series and the series designation of such Additional Bonds;

(B) the purpose or purposes for which such series of Additional Bonds is being issued, which shall be solely for the purposes: (1) specified in Section 2.03 or Section 2.04 of this Series 2017 Indenture, (2) of payment of all costs incidental to or connected with such series of Additional Bonds, (3) of making deposits, if any, into such reserve fund or account as may be required under the terms of the Supplemental Indenture authorizing such series of Additional Bonds, and/or (4) of making any deposits into the funds and accounts required by the provisions of the Supplemental Indenture authorizing such series of Additional Bonds;

(C) the date, and the maturity date or dates, of the Additional Bonds of such series; provided that (1) each maturity date or principal payment date shall be March 1, and (2) serial maturities for serial bonds or mandatory sinking account payments for term bonds, or any combination thereof, shall be established to provide for the retirement of such Additional Bonds of such series on or before their respective maturity dates;

(D) the interest rate or rates on the Additional Bonds of such series, and the Interest Payment Dates therefor; provided that the Interest Payment Dates shall be each March 1 and September 1;

(E) the authorized denominations of, and the manner of dating, numbering and lettering the Additional Bonds of such series;

(F) the place or places of payment of the principal of, Redemption Price, and interest on, the Additional Bonds of such series;

(G) the Redemption Price or prices, if any, and, subject to the provisions of Article IV of this Series 2017 Indenture, the redemption terms for the Additional Bonds of such series;

(H) whether the Additional Bonds of such series are to be registered in the name of a Depository, or its nominee, and any provisions appropriate or necessary with respect to the arrangements made with the Depository for such Additional Bonds;

(I) the application of the proceeds of the sale of such Additional Bonds including the amount, if any, to be deposited in the funds and accounts and subaccounts, if any, established under this Series 2017 Indenture or under the Supplemental Indenture authorizing such Additional Bonds, as applicable;

(J) the forms of the Additional Bonds of such series and of the Trustee's certificate of authentication thereon;

(K) provisions relating to compliance with the continuing disclosure provisions of the Rule, if applicable; and

(L) such other provisions as are necessary and appropriate and not inconsistent with the provisions of this subsection (a)(v);

(vi) the amount, if any, necessary for deposit in any reserve fund or account established under the terms of the Supplemental Indenture immediately after the authentication and delivery of such series of Additional Bonds;

(vii) except in the case of the Series 2017 Bonds, a certificate of an Authority Representative stating that the Authority is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Series 2017 Indenture and applicable to the Authority; provided, however, that in the case of Refunding Bonds such certificate may state that upon the application of the proceeds of such Refunding Bonds in accordance with the provisions of the Supplemental Indenture authorizing their issuance, the Authority shall not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in this Series 2017 Indenture and applicable to the Authority;

(viii) except in the case of the Series 2017 Bonds, an executed copy of each Series 2017 Loan Agreement amended or restated so as to increase the Series 2017 Loan payments by amounts sufficient to pay at least the principal of, Redemption Price, if any, and interest on such Additional Bonds as the same become due, certified by an Authority Representative to be in full force and effect;

(ix) a copy of the applicable Bond Resolution, certified by the Authority;

(x) except in the case of the Series 2017 Bonds, written confirmation from each Rating Agency then rating the Series 2017 Bonds and any Additional Bonds then Outstanding to the effect that the issuance of the Additional Bonds will not result in a downgrade or withdrawal of the rating then in effect on the Series 2017 Bonds and Additional Bonds then Outstanding; and

(xi) such further documents, moneys and securities as are required by the provisions of Section 2.03 or Section 2.04 of this Series 2017 Indenture or any Supplemental Indenture entered into pursuant to the provisions of Article IX of this Series 2017 Indenture.

(b) All the serial bonds of each series of Additional Bonds and all the term bonds of each series of Additional Bonds of like maturity shall be identical in all respects, except as to denominations, numbers and letters, Owners and interest rate. After the original issuance of Additional Bonds of any series, no Additional Bonds of the same series shall be issued except in lieu of or in substitution for other Additional Bonds of such series pursuant to the provisions of this Series 2017 Indenture.

Section 2.03 **Additional Bonds.** The Authority may (but shall not be required to) issue Additional Bonds from time to time for any purpose permitted by the Act, provided that:

(a) Any Additional Bonds shall be secured and payable on a parity with or subordinate to the Series 2017 Bonds and any Additional Bonds theretofore or thereafter issued and Outstanding as to the assignment to the Trustee of the Authority's right, title and interest in the Revenues and Series 2017 Loan Agreements and any undisbursed Series 2017 Bond proceeds on deposit in the Series 2017 Project Fund and any account therein to provide for payment of Debt Service on the Series 2017 Bonds; provided, that nothing herein shall prevent payment of Debt Service on any series of Additional Bonds from (i) being otherwise secured and payable from sources or by property or instruments not applicable to the Series 2017 Bonds or any one or more series of Additional Bonds, or (ii) not being secured or payable from sources or by property or instruments applicable to the Series 2017 Bonds or one or more series of Additional Bonds; and

(b) In addition to the items set forth in Section 2.02 of this Series 2017 Indenture, the Trustee shall have received an opinion or report of the applicable City to the effect that the conditions, if any, for the incurrence of additional Series 2017 Loan amounts set forth in Section 5.05 of the applicable Series 2017 Loan Agreement have been satisfied.

Section 2.04 **Refunding Bonds.**

(a) In accordance with the provisions of Section 2.02 of this Series 2017 Indenture and the additional requirements of this Section 2.04, one or more series of Refunding Bonds may be issued, authenticated and delivered to refund all or any portion of the Outstanding Series 2017 Bonds or Additional Bonds of one or more series including any portion of any maturity within one or more series. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding, including providing amounts for the costs incidental to or connected with any such financing and the making of any deposits into any reserve fund or other fund or account required by the provisions of the Supplemental Indenture authorizing such series of Refunding Bonds.

(b) Refunding Bonds of each series shall be authenticated and delivered by the Trustee only upon all of the following:

(i) satisfaction of the provisions of Section 10.02 of this Series 2017 Indenture with respect to the applicable refunded Series 2017 Bonds or Additional Bonds;

(ii) receipt by the Trustee of the documents required by the provisions of Section 2.02 of this Series 2017 Indenture; and

(iii) receipt by the Trustee of a Certificate of an Authority Representative to the effect that the requirements of Section 5.06 of each applicable Series 2017 Loan Agreement are satisfied in connection with the issuance of such Refunding Bonds.

Section 2.05 **Medium of Payment; Form and Date; Letters and Numbers.**

(a) The Series 2017 Bonds shall be payable, with respect to interest, principal and Redemption Price, if any, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts. The interest so payable with respect to any Series 2017 Bond on any Interest Payment Date will be paid to the Owner in whose name the Series 2017 Bond is registered as of the Record Date for such Interest Payment Date, except as provided below. Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Owner on such Record Date and shall be paid to the Owner in whose name the Series 2017 Bond is registered at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee, notice of such special record date being given by first class mail to the Owners not fewer than 15 days prior to such special record date.

(b) Interest on the Series 2017 Bonds shall be payable on each Interest Payment Date by the Trustee by check mailed on the date on which due to the Owners of Series 2017 Bonds at the close of business on the Record Date with respect to such Interest Payment Date at the registered addresses of Owners as shall appear on the Registration Books. Any Owner of Series 2017 Bonds in an aggregate principal amount in excess of \$1,000,000 as shown on the Registration Books who, prior to the Record Date next preceding any Interest Payment Date, shall have provided the Trustee with written wire transfer instructions to a bank account located in the United States of America, shall be paid the interest payable on such Series 2017 Bonds in accordance with the wire transfer instructions provided by the Owner of such Series 2017 Bonds.

(c) Payments of principal or Redemption Price, if any, of and interest on the Series 2017 Bonds shall be made to the Depository by wire transfer in immediately available funds to the account specified by the Depository without the necessity of the presentation and surrender of the Series 2017 Bonds. Without notice to or the consent of the Owner, the Trustee, with the consent of the Authority and the Depository, may agree in writing to make payments of principal of, Redemption Price, if any, and interest in a manner different from that set out in this subsection (c). In such event, the Trustee shall make payments with respect to the Series 2017 Bonds in the manner determined pursuant to the preceding sentence.

(d) The Series 2017 Bonds and Additional Bonds of each series shall be issued in the form of fully registered Series 2017 Bonds and Additional Bonds without coupons.

(e) Each Series 2017 Bond shall be lettered and numbered as provided in Section 3.03 of this Series 2017 Indenture with respect to the Series 2017 Bonds, or the Supplemental Indenture authorizing the series of which such Additional Bond is a part and so as to be distinguished from every other Series 2017 Bond or Additional Bond.

(f) The Series 2017 Bonds and Additional Bonds of each series shall be dated the date specified in the Supplemental Indenture authorizing such series of Additional Bonds or, with respect to the Series 2017 Bonds, as provided in Article III of this Series 2017 Indenture. The Series 2017 Bonds and Additional Bonds of each series shall bear interest from their respective dated date.

(g) Unless otherwise provided in the Supplemental Indenture authorizing a series of Additional Bonds or Refunding Bonds, the interest payable on the Series 2017 Bonds and any Additional Bonds and Refunding Bonds shall be calculated on the basis of a 360-day year of twelve 30-day months.

Section 2.06 **Legends.** The Series 2017 Bonds and Additional Bonds of each series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Series 2017 Indenture as may be necessary or desirable to comply with custom, the rules of any securities depository, exchange, commission or brokerage board, or otherwise, as may be determined by the Authority prior to the authentication and delivery thereof.

Section 2.07 **Execution and Authentication.**

(a) The Series 2017 Bonds shall be executed in the name and on behalf of the Authority with the manual or facsimile signature of an Authorized Signatory. The Series 2017 Bonds shall then be delivered to the Trustee for authentication by the Trustee. In case any Authorized Signatory who shall have signed or attested any of the Series 2017 Bonds shall cease to be such Authorized Signatory before the Series 2017 Bonds so signed or attested shall have been authenticated or delivered by the Trustee or issued by the Authority, such Series 2017 Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Authority as though any Authorized Signatory who signed and attested the same had continued to be such Authorized Signatory, and any Series 2017 Bond may be signed and attested on behalf of the Authority by such Persons as at the actual date of execution of such Series 2017 Bond shall be any Authorized Signatory although at the nominal date of such Series 2017 Bond any such Person shall not have been an Authorized Signatory.

(b) The Series 2017 Bonds and Additional Bonds of each series shall bear thereon a certificate of authentication, in the form set forth in this Series 2017 Indenture with respect to the Series 2017 Bonds or in the Supplemental Indenture authorizing such series of Additional Bonds, executed manually by the Trustee. Only such Series 2017 Bonds and Additional Bonds as shall bear thereon such certificate of authentication shall be entitled to any right or benefit under this Series 2017 Indenture, and no Series 2017 Bond or Additional Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Series 2017 Bond or Additional executed on behalf of the Authority shall be conclusive evidence that the Series 2017 Bond or Additional Bond so authenticated has been duly authenticated and delivered under this Series 2017 Indenture and that the Owner thereof is entitled to the benefits of this Series 2017 Indenture.

Section 2.08 **Interchangeability of Series 2017 Bonds or Additional Bonds.** Series 2017 Bonds or Additional Bonds, as applicable, upon surrender thereof at the Trust Office of the Trustee, together with a written instrument of transfer satisfactory to the Trustee and duly executed by the Owner or such Owner's attorney-in-fact duly authorized in writing, may, at the option of the Owner thereof, and upon payment by such Owner of any charges which the Trustee may make as provided in Section 2.10 of this Series 2017 Indenture, be exchanged for an equal aggregate principal amount of Series 2017 Bonds or Additional Bonds, as applicable, of the same series, terms and maturity.

Section 2.09 **Transfer and Exchange of Series 2017 Bonds and Additional Bonds.**

(a) Series 2017 Bonds and Additional Bonds, as applicable, shall be transferable only upon the Registration Books upon surrender thereof, together with a written instrument of transfer satisfactory to the Trustee, duly

executed by the Owner or such Owner's duly authorized attorney-in-fact. Upon the transfer of any such Series 2017 Bond or Additional Bond, the Authority shall execute and the Trustee shall authenticate and deliver and the Trustee shall register in the name of the transferee a new Series 2017 Bond or Series 2017 Bonds or Additional Bond or Additional Bonds of the same aggregate principal amount, series, terms and maturity as the surrendered Series 2017 Bond or Additional Bond.

(b) The Authority and the Trustee may deem and treat the Owner in whose name any Series 2017 Bond or Additional Bond shall be registered upon the Registration Books as the absolute Owner of such Series 2017 Bond or Additional Bond, as applicable, whether such Series 2017 Bond or Additional Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of, Redemption Price, if any, of, and interest on, such Series 2017 Bond or Additional Bond and for all other purposes, and all such payments so made to any such Owner or upon the order of such Owner shall be valid and effectual to satisfy and discharge the liability upon such Series 2017 Bond or Additional Bond, as applicable, to the extent of the sum or sums so paid, and neither the Authority nor the Trustee shall be affected by any notice to the contrary.

(c) The Trustee shall not be required to transfer or exchange any Series 2017 Bond or Additional Bond during the period from the Record Date next preceding any Interest Payment Date of such Series 2017 Bond or Additional Bond, as applicable, through such Interest Payment Date nor to transfer or exchange any Series 2017 Bond or Additional Bond after the mailing of notice calling all or any portion of such Series 2017 Bond or Additional Bond, as applicable, for redemption has been given as herein provided nor during the period of 15 days next preceding the giving of such notice of redemption.

Section 2.10 Regulations With Respect to Exchanges and Transfers. In all cases in which the privilege of exchanging Series 2017 Bonds or Additional Bonds or transferring Series 2017 Bonds or Additional Bonds is exercised, the Authority shall execute and the Trustee shall authenticate and deliver Series 2017 Bonds or Additional Bonds, as applicable, in accordance with the provisions of this Series 2017 Indenture. All Series 2017 Bonds and Additional Bonds surrendered in any such exchanges or transfers shall forthwith be delivered to the Trustee and canceled by the Trustee. Unless this Series 2017 Indenture provides that such transfer or exchange shall be made without charge to the Owner, for every such exchange or transfer of Series 2017 Bonds or Additional Bonds, whether temporary or definitive, the Authority or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid and any other cost incurred by the Authority or the Trustee with respect to such exchange or transfer.

Section 2.11 Bonds Mutilated, Destroyed, Stolen or Lost. If any Series 2017 Bond or any Additional Bond becomes mutilated or is lost, stolen or destroyed, the Authority may execute and the Trustee shall authenticate and deliver a new Series 2017 Bond or Additional Bond of like series, date of issue, maturity date, principal amount and interest rate per annum as the Series 2017 Bond or Additional Bond so mutilated, lost, stolen or destroyed; provided that: (a) in the case of such mutilated Series 2017 Bond or Additional Bond, as applicable, such Series 2017 Bond or Additional Bond is first surrendered to the Authority or the Trustee; (b) in the case of any such lost, stolen or destroyed Series 2017 Bond or Additional Bond, there is first furnished evidence of such loss, theft or destruction satisfactory to the Trustee, together with indemnity satisfactory to the Trustee; (c) all other reasonable requirements of the Authority and the Trustee are complied with; and (d) expenses in connection with such transaction are paid by the Owner. Any Series 2017 Bond or Additional Bond surrendered for exchange shall be canceled. Any such new Series 2017 Bonds or Additional Bonds issued pursuant to this Section 2.11 in substitution for Series 2017 Bonds or Additional Bonds, as applicable, alleged to be destroyed, stolen or lost shall constitute original additional contractual obligations on the part of the Authority, whether or not the Series 2017 Bonds or Additional Bonds so alleged to be destroyed, stolen or lost be at any time enforceable by anyone, and shall be equally secured by and entitled to equal and proportionate benefits with all other Series 2017 Bonds and Additional Bonds issued under this Series 2017 Indenture, in any moneys or securities held by the Authority or the Trustee for the benefit of the Owners of the Series 2017 Bonds and Additional Bonds, respectively.

Section 2.12 Temporary Bonds.

(a) Until the definitive Series 2017 Bonds or Additional Bonds of any series are prepared, the Authority may execute, in the same manner as is provided in Section 2.07 of this Series 2017 Indenture, and upon the order of the Authority, the Trustee shall authenticate and deliver, in lieu of definitive Series 2017 Bonds or Additional Bonds, as

applicable, but subject to the same provisions, limitations and conditions as the definitive Series 2017 Bonds or Additional Bonds, as applicable, except as to the denominations thereof and as to exchangeability for Series 2017 Bonds or Additional Bonds, one or more temporary Series 2017 Bonds or Additional Bonds, as applicable, substantially of the tenor of the definitive Series 2017 Bonds or Additional Bonds in lieu of which such temporary Series 2017 Bonds or Additional Bonds are issued, in authorized denominations, and with such omissions, insertions and variations as may be appropriate to temporary Series 2017 Bonds or Additional Bonds, as applicable. The installments of interest payable on such temporary Series 2017 Bonds and Additional Bonds shall be payable in the same manner as interest is payable on the definitive Series 2017 Bonds and Additional Bonds in lieu of which such temporary Series 2017 Bonds and Additional Bonds, as applicable, were issued. The Authority at its own expense shall prepare and execute and, upon the surrender of such temporary Series 2017 Bonds or Additional Bonds, as applicable, for exchange and the cancellation of such surrendered temporary Series 2017 Bonds or Additional Bonds, the Trustee shall authenticate and, without charge to the Owner thereof, deliver in exchange therefor, definitive registered Series 2017 Bonds or Additional Bonds of the same aggregate principal amount, series, maturity and date of issue as the temporary Series 2017 Bonds or Additional Bonds, as applicable, surrendered. Until so exchanged, the temporary Series 2017 Bonds and Additional Bonds shall in all respects be entitled to the same benefits and security as definitive Series 2017 Bonds and Additional Bonds, respectively, authenticated and issued pursuant to this Series 2017 Indenture.

(b) All temporary Series 2017 Bonds and Additional Bonds surrendered in exchange either for another temporary Series 2017 Bond or Additional Bond, as applicable, or for a definitive Series 2017 Bond or Additional Bond, as applicable, shall be forthwith canceled by the Trustee.

Section 2.13 Cancellation and Destruction of Bonds. All Series 2017 Bonds and Additional Bonds paid or redeemed, either at or before maturity, and all Series 2017 Bonds and Additional Bonds surrendered for transfer or exchange, shall be delivered to the Trustee when such payment, redemption or surrender is made, and such Series 2017 Bonds and Additional Bonds, together with all Series 2017 Bonds and Additional purchased by the Trustee, shall thereupon be promptly canceled. Series 2017 Bonds and Additional Bonds so canceled shall be destroyed by the Trustee, who shall execute a certificate of destruction by the signature of one of its authorized officers describing the Series 2017 Bonds or Additional Bonds so destroyed, and such certificate shall be filed with the Authority.

Section 2.14 Registration Books. The Trustee will keep or cause to be kept sufficient Registration Books for the registration and transfer of the Series 2017 Bonds and each series of Additional Bonds, respectively, which shall at all times, upon reasonable notice, be open to inspection by any Owner or any Owner's agent duly authorized in writing or the Authority; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such Registration Books, Series 2017 Bonds or Additional Bonds, as applicable and as hereinbefore provided.

The Person in whose name any Series 2017 Bond or Additional Bond shall be registered shall be deemed the Owner thereof for all purposes thereof, and payment of or on account of the interest and principal or Redemption Price, if any, represented by such Series 2017 Bond or Additional Bond, as applicable, shall be made only to or upon the order in writing of such Owner, which payment shall be valid and effectual to satisfy and discharge the liability upon such Series 2017 Bond or Additional Bond, as applicable, to the extent of the sum or sums so paid.

Section 2.15 Validity of Bonds. The validity of the authorization and issuance of the Series 2017 Bonds is not dependent on and shall not be affected in any way by any proceedings taken by the Authority, either City or the Trustee with respect to or in connection with any Series 2017 Loan Agreement. The recital contained in the Series 2017 Bonds that all acts, conditions and things required by the same are issued pursuant to the Constitution and laws of the State to exist, to have happened and to have been performed precedent to and in the issuance thereof shall be conclusive evidence of the validity of the Series 2017 Bonds and the validity of the obligations which they represent and of compliance with the provisions of law in their issuance.

Section 2.16 Special Provisions as to Book-Entry-Only System for the Series 2017 Bonds.

(a) Except as otherwise provided in subsections (b) and (c) of this Section 2.16, all of the Series 2017 Bonds initially issued shall be registered in the name of Cede & Co., as nominee for The Depository Trust Company,

New York, New York (“DTC”), or such other nominee as DTC shall request pursuant to the Letter of Representations. Payment of the interest on any Series 2017 Bond registered in the name of Cede & Co. shall be made on each Interest Payment Date for such Bonds to the account, in the manner and at the address indicated in or pursuant to the Letter of Representations.

(b) The Series 2017 Bonds initially shall be issued in the form of a single authenticated fully registered bond for each stated maturity of the Series 2017 Bonds, representing the aggregate principal amount of the Series 2017 Bonds of such maturity. Upon initial issuance, the ownership of all such Series 2017 Bonds shall be registered in the Registration Books in the name of Cede & Co., as nominee of DTC, or such other nominee as DTC shall request pursuant to the Letter of Representations. The Trustee, the Authority and any paying agent may treat DTC (or its nominee) as the sole and exclusive Owner of the Series 2017 Bonds registered in its name for the purposes of payment of the principal or Redemption Price, if any, of and interest on such Series 2017 Bonds, selecting the Series 2017 Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Owners under this Series 2017 Indenture, registering the transfer of Series 2017 Bonds, obtaining any consent or other action to be taken by Owners of the Series 2017 Bonds and for all other purposes whatsoever; and neither the Trustee nor the Authority or any paying agent shall be affected by any notice to the contrary. Neither the Trustee nor the Authority or any paying agent shall have any responsibility or obligation to any Participant (which shall mean, for purposes of this Section 2.16, securities brokers and dealers, banks, trust companies, clearing corporations and other entities, some of whom directly or indirectly own DTC), any Person claiming a beneficial ownership interest in the Series 2017 Bonds under or through DTC or any Direct Participant, or any other Person which is not shown on the registration records as being an Owner, with respect to: (i) the accuracy of any records maintained by DTC or any Direct Participant, (ii) the payment by DTC or any Direct Participant of any amount in respect of the principal or Redemption Price, if any, of or interest on the Series 2017 Bonds, (iii) any notice which is permitted or required to be given to Owners of Series 2017 Bonds under this Series 2017 Indenture, (iv) the selection by DTC or any Direct Participant of any Person to receive payment in the event of a partial redemption of the Series 2017 Bonds or (v) any consent given or other action taken by DTC as Owner of Series 2017 Bonds. The Trustee shall pay all principal and Redemption Price, if any, and interest on the Series 2017 Bonds only at the times, to the accounts, at the addresses and otherwise in accordance with the Letter of Representations, and all such payments shall be valid and effective to satisfy fully and discharge the Authority’s obligations with respect to the principal of and Redemption Price, if any, and interest on the Series 2017 Bonds to the extent of the sum or sums so paid. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of its then existing nominee, the Series 2017 Bonds will be transferable to such new nominee in accordance with the provisions of subsection (f) of this Section 2.16.

(c) In the event that the Authority determines that it is in the best interests of the Beneficial Owners of the Series 2017 Bonds that they be able to obtain bond certificates, the Trustee shall, upon the written instruction of the Authority, so notify DTC, whereupon DTC shall notify the Direct Participants of the availability through DTC of bond certificates. In such event, the Series 2017 Bonds will be transferable in accordance with the provisions of subsection (e) of this Section 2.16. DTC may determine to discontinue providing its services with respect to the Series 2017 Bonds at any time by giving written notice of such discontinuance to the Authority or the Trustee and discharging its responsibilities with respect thereto under applicable law. In such event, the Series 2017 Bonds will be transferable in accordance with the provisions of subsection (e) of this Section 2.16. Whenever DTC requests the Authority and the Trustee to do so, the Trustee and the Authority will cooperate with DTC in taking appropriate action after reasonable notice to arrange for another Depository to maintain custody of all certificates evidencing the Series 2017 Bonds then Outstanding. In such event, the Series 2017 Bonds will be transferable to such Depository in accordance with the provisions of subsection (e) of this Section 2.16, and thereafter, all references in this Series 2017 Indenture to DTC or its nominee shall be deemed to refer to such successor Depository and its nominee, as appropriate.

(d) Notwithstanding any other provision of this Series 2017 Indenture to the contrary, so long as all the Series 2017 Bonds Outstanding are registered in the name of any nominee of DTC, all payments with respect to the principal of or Redemption Price, if any, and interest on each such Series 2017 Bond and all notices with respect to each such Series 2017 Bond shall be made and given, respectively, to DTC as provided in the Letter of Representations.

(e) In the event that any transfer or exchange of the Series 2017 Bonds is authorized under the provisions of subsection (b) or (c) of this Section 2.16, such transfer or exchange shall be accomplished upon receipt by the Trustee from the registered Owner thereof of the Series 2017 Bonds to be transferred or exchanged and appropriate instruments of transfer to the transferee, all in accordance with the applicable provisions of Section 2.09 of this Series 2017 Indenture. In the event the Series 2017 Bond certificates are issued to Owners other than Cede & Co., its successor as nominee for DTC as holder of all the Series 2017 Bonds, another Depository as Owner of all the Series 2017 Bonds, or the nominee of such successor Depository, the provisions of Section 2.09 of this Series 2017 Indenture shall also apply to, among other things, the registration, exchange and transfer of the Series 2017 Bonds and the method of payment of principal or Redemption Price, if any, and interest on the Series 2017 Bonds.

ARTICLE III.

THE SERIES 2017 BONDS

Section 3.01 Terms of the Series 2017 Bonds.

(a) Pursuant to the provisions of this Series 2017 Indenture, the Series 2017 Bonds entitled to the benefit, protection and security of such provisions is hereby authorized and shall be designated “San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects).” The Series 2017 Bonds are to be issued in the aggregate principal amount of \$_____ in denominations of \$5,000 or any integral multiple of \$5,000.

(b) The Series 2017 Bonds shall be registered in accordance with the provisions set forth in Section 2.14 of this Series 2017 Indenture. The Series 2017 Bonds shall be dated the date of their delivery and shall bear interest from their date of delivery. Interest on the Series 2017 Bonds shall be payable September 1, 2017, and each Interest Payment Date thereafter at the applicable interest rate per annum set forth in subsection (c) of this Section 3.01, calculated on the basis set forth in Section 2.05(g) of this Series 2017 Indenture until maturity (except as the provisions set forth in this Series 2017 Indenture with respect to redemption prior to maturity may become applicable thereto).

(c) The Series 2017 Bonds shall mature March 1 in the years and in the principal amounts, and shall bear interest, as follows:

<u>Maturity Date</u> <u>(March 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
	\$	%
		%
		%

Section 3.02 Application of Proceeds of Series 2017 Bonds and Certain Other Moneys. The Underwriter shall wire the proceeds from the sale of the Series 2017 Bonds in the amount of \$_____.00, consisting of the aggregate par amount of the Series 2017 Bonds of \$_____, less an underwriter’s discount of \$_____, to the Trustee, who shall forthwith deposit such funds into a temporary account called the Series 2017 Proceeds Fund, which the Trustee shall establish, maintain and hold in trust, and which shall be disbursed in full on the Closing Date (whereupon the Series 2017 Proceeds Fund shall be closed), as follows:

(a) The Trustee shall deposit in the Costs of Issuance Fund the sum of \$_____.

(b) The Trustee shall deposit in the Series 2017 Project Fund the sum of \$_____.

(c) The Trustee may, in its discretion, establish one or more temporary funds, accounts or subaccounts in its books or records to facilitate the foregoing deposits and transfers.

Section 3.03 Denominations; Form; Medium of Payment; Numbers. The Bonds shall be issued as fully registered bonds in authorized denominations. The Bonds shall be substantially in the form set forth in Exhibit A attached to this Series 2017 Indenture, with such variations, insertions or omissions as are appropriate and not

inconsistent therewith and shall conform generally to the rules and regulations of any governmental authority or usage or requirement of law with respect thereto. The Series 2017 Bonds shall be lettered "R-" and numbered consecutively commencing with "R-1".

Section 3.04 **Place of Payment.** The principal or Redemption Price, if any, of the Series 2017 Bonds shall be payable at the Trust Office of the Trustee. The principal or Redemption Price, if any, of all Series 2017 Bonds shall also be payable at any other place which may be provided for such payment by the appointment of any other Trustee as permitted by this Series 2017 Indenture.

ARTICLE IV.

REDEMPTION OF BONDS

Section 4.01 **Privilege of Redemption and Redemption Price.** The Series 2017 Bonds and Additional Bonds subject to redemption prior to maturity pursuant to the provisions of Article II (or with respect to the Series 2017 Bonds, pursuant to the provisions of this Article IV) of this Series 2017 Indenture or applicable Supplemental Indenture shall be redeemable, upon giving notice as provided in this Article IV, at such times, at such Redemption Prices and upon such terms in addition to the terms contained in this Article IV as may be specified with respect to the Series 2017 Bonds, or with respect to any series of Additional Bonds, in the Supplemental Indenture authorizing such series.

Section 4.02 **Redemption at the Direction of the Authority.**

(a) The Series 2017 Bonds are subject to redemption prior to their stated maturity on or after March 1, 20__, at the option of the Authority, from any source of available funds, as a whole or in part on any date specified by the Authority in a notice of redemption given by the Trustee to the Owners of the Series 2017 Bonds at least 30 days prior to such redemption date (in such amounts and of such mandatory sinking account payments as specified by the Authority, which shall be in inverse order of mandatory sinking account payments), at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

(b) In the case of any redemption of any Series 2017 Bonds at the option of the Authority, the Authority shall give written notice to the Trustee of its direction so to redeem at least 45 days prior to such redemption date as provided in Section 4.04 of this Series 2017 Indenture, and the Authority shall pay or cause to be paid, on or prior to the date fixed for redemption to the Trustee, an amount which, in addition to other moneys, if any, available therefor held by the Trustee, shall be sufficient to redeem on the date fixed for redemption at the Redemption Price thereof, plus interest accrued and unpaid to the date fixed for redemption, all of the Series 2017 Bonds to be redeemed.

Section 4.03 **Redemption Other Than at the Authority's Direction.** Subject to the terms and conditions set forth in this Section 4.03, the Series 2017 Bonds maturing March 1, 20__ shall be redeemed (or paid at maturity, as the case may be) by application of mandatory sinking fund payments in the following amounts and on the following dates:

**Mandatory Sinking
Fund Payment Dates
(March 1)**

**Mandatory Sinking Fund
Payments**

†

†maturity

In addition to the foregoing, and subject to the terms and conditions set forth in this Section 4.03, the Series 2017 Bonds maturing March 1, 20__ shall be redeemed (or paid at maturity, as the case may be) by application of mandatory sinking fund payments in the following amounts and on the following dates:

Mandatory Sinking Fund Payment Dates (March 1)	Mandatory Sinking Fund Payments
†maturity	†

In addition to the foregoing, and subject to the terms and conditions set forth in this Section 4.03, the Series 2017 Bonds maturing March 1, 20__ shall be redeemed (or paid at maturity, as the case may be) by application of mandatory sinking fund payments in the following amounts and on the following dates:

Mandatory Sinking Fund Payment Dates (March 1)	Mandatory Sinking Fund Payments
†maturity	†

Whenever by the terms of this Series 2017 Indenture or any Supplemental Indenture the Trustee is required or authorized to redeem Series 2017 Bonds or Additional Bonds other than at the direction of the Authority, and this Series 2017 Indenture or the Supplemental Indenture authorizing such Additional Bonds does not expressly set forth the series of Series 2017 Bonds or Additional Bonds or the principal amount of Series 2017 Bonds or Additional Bonds of each maturity of such series to be redeemed, the Authority, may, subject to any limitations with respect thereto contained in this Series 2017 Indenture, select one or more series of Series 2017 Bonds or Additional Bonds, as applicable, and the principal amounts of the Series 2017 Bonds or Additional Bonds, as applicable, of each maturity of each such series to be redeemed, and if the Authority does not notify the Trustee of such series, maturities and principal amounts to be redeemed on or before the 60th day preceding the date fixed for redemption, the Trustee shall select the series, maturities and principal amounts of Series 2017 Bonds or Additional Bonds to be redeemed in inverse order of maturity by lot, give the notice of redemption and pay out of moneys available therefor the principal or Redemption Price, if any, thereof, plus interest accrued and unpaid to the date fixed for redemption, in accordance with the terms of this Article IV.

Section 4.04 Notice of Redemption.

(a) When the Trustee shall receive notice from the Authority of the Authority’s direction to redeem Series 2017 Bonds pursuant to the provisions of Section 4.02 of this Series 2017 Indenture, and when redemption of Series 2017 Bonds is authorized or required pursuant to the provisions of Section 4.03 of this Series 2017 Indenture, the Trustee shall give notice, at the expense and in the name of the Authority, of the redemption of such Series 2017 Bonds, which notice shall specify the series and maturities of the Series 2017 Bonds to be redeemed, the date fixed for redemption and the place or places where amounts due upon such redemption shall be payable and, if less than all of the Series 2017 Bonds of any like series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Series 2017 Bonds so to be redeemed, and, in the case of Series 2017 Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state any conditions that must be satisfied prior to the redemption of the Series 2017 Bonds to be redeemed and that on such date there shall become due and payable upon each Series 2017

Bond to be redeemed the principal or the Redemption Price, if any, of the specified portions of the principal amount thereof in the case of Series 2017 Bonds to be redeemed in part only, together with interest accrued but unpaid on such principal amount of the Series 2017 Bonds to be redeemed to the date fixed for redemption, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall send a copy of such notice by Electronic Means and to EMMA, and by first class mail, postage prepaid, not more than 60 days nor fewer than 30 days before the date fixed for redemption, to the Owners of any Series 2017 Bonds or portions of Series 2017 Bonds which are to be redeemed, at their last addresses appearing upon the Registration Books, but receipt of such notice shall not be a condition precedent to such redemption and failure of any Owner of a Series 2017 Bond to receive any such notice or any defect in such notice shall not affect the validity of the proceedings for the redemption of Series 2017 Bonds.

(b) Failure to give the notices described in this Section 4.04, or any defects therein, shall not in any manner affect the proceedings for redemption of any Series 2017 Bonds or Additional Bonds. Neither the Authority nor the Trustee shall have any responsibility for any defect in any CUSIP[®] number that appears on any Series 2017 Bonds or Additional Bonds or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP[®] numbers have been assigned by an independent service for convenience of reference and that neither the Authority nor the Trustee shall be liable for any inaccuracy in such numbers.

(c) The Authority shall have the right to rescind any optional redemption notice by written notice to the Trustee, on or prior to the date fixed for redemption. Any such notice of redemption shall be canceled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Series 2017 Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under this Series 2017 Indenture. The Authority and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner and to the same recipients as the original notice of redemption was sent.

Section 4.05 Payment of Redeemed Bonds.

(a) Notice having been given in the manner provided in Section 4.04, the Series 2017 Bonds (or Additional Bonds, as applicable) or portions thereof so called for redemption shall become due and payable on the date fixed for redemption so designated at the Redemption Price, plus, if applicable, interest accrued and unpaid to the date fixed for redemption, and, upon presentation and surrender thereof at the office specified in such notice, such Series 2017 Bonds (or Additional Bonds, as applicable) or portions thereof, shall be paid at the Redemption Price, plus, if applicable, interest accrued and unpaid to the date fixed for redemption. If there shall be called for redemption less than all of the full principal amount of a Series 2017 Bond (or Additional Bond, as applicable), the Authority shall execute and the Trustee shall authenticate and the Trustee shall deliver, upon the surrender of such Series 2017 Bond (or Additional Bond, as applicable), without charge to the Owner thereof, for the unredeemed balance of the principal amount of the Series 2017 Bond (or Additional Bond, as applicable) so surrendered, a Series 2017 Bond or Series 2017 Bonds (or Additional Bonds, as applicable) of like series, terms, and maturity in any authorized denomination. If, on the date fixed for redemption, moneys for the redemption of all the Series 2017 Bonds (or Additional Bonds, as applicable) or portions thereof of any like series and maturity to be redeemed, and, if applicable, interest accrued but unpaid on the principal amount of the Series 2017 Bonds (or Additional Bonds, as applicable) to be redeemed to the date fixed for redemption, shall be held by the Trustee so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the date fixed for redemption interest on the Series 2017 Bonds (or Additional Bonds, as applicable) or portions thereof so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the date fixed for redemption, such Series 2017 Bonds (or Additional Bonds, as applicable) or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

(b) If the date fixed for redemption for any Series 2017 Bond (or Additional Bond, as applicable) shall be a date other than an Interest Payment Date for such Series 2017 Bond (or Additional Bond, as applicable), accrued interest payable on the redemption of such Series 2017 Bond (or Additional Bond, as applicable) shall be paid to the Owner of such Series 2017 Bond (or Additional Bond, as applicable) as of the date fixed for redemption.

ARTICLE V.

REVENUES AND OTHER FUNDS

Section 5.01 **Pledge and Assignment; Series 2017 Revenue Fund.**

(a) Subject only to the provisions of this Series 2017 Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, there are hereby pledged to secure the payment of the principal of, Redemption Price and interest on the Series 2017 Bonds in accordance with their terms and the provisions of this Series 2017 Indenture, all of the Revenues and the right to receive the Revenues and any other amounts (including proceeds of the sale of Series 2017 Bonds) held in any fund or account established pursuant to this Series 2017 Indenture (excepting only moneys on deposit in the Series 2017 Rebate Fund) and all proceeds thereon or therefrom and any and all other property, rights and interests of every kind or description that from time to time hereafter is granted, conveyed, pledged, transferred, assigned or delivered as additional security under this Series 2017 Indenture. Said pledge shall constitute a first lien on and security interest in such assets and shall attach and be valid and binding from and after delivery by the Trustee of the Series 2017 Bonds, without any physical delivery thereof or further act.

(b) The Authority hereby transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Series 2017 Bonds, all of the Revenues and other assets pledged in subsection (a) of this Section 5.01 and all of the right, title and interest of the Authority in the Series 2017 Loan Agreements. Such assignment to the Trustee is solely to the Trustee in its capacity as Trustee and is subject to the provisions of this Series 2017 Indenture. The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and, subject to the provisions of this Series 2017 Indenture, shall take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Authority and all of the obligations of each City under its respective Series 2017 Loan Agreement.

(c) All Loan Installments pursuant to the provisions of Section 2.02 of each Series 2017 Loan Agreement shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Series 2017 Revenue Fund" which the Trustee shall establish, maintain and hold in trust, except as otherwise provided in Section 5.02. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in this Series 2017 Indenture.

(d) If the Trustee has not received the amounts required to make the transfers and deposits required by Section 5.02 of this Series 2017 Indenture on or before the fourth Business Day prior to the next succeeding Interest Payment Date, and unless such deficiency has been cured prior to such notification, the Trustee shall notify the Authority and each City by Electronic Means of such deficiency at least one Business Day prior to the next succeeding Interest Payment Date.

(e) Notwithstanding anything to the contrary in this Series 2017 Indenture, the Authority shall have no obligation to and instead the Trustee may, without further direction from the Authority, take any and all steps, actions and proceedings, to enforce any or all rights of the Authority under this Series 2017 Indenture or each Series 2017 Loan Agreement, including, without limitation, the rights to enforce the remedies upon the occurrence and continuation of an Event of Default and the obligations of the respective City under the applicable Series 2017 Loan Agreement.

Section 5.02 Allocation of Revenues. On or before each Interest Payment Date the Trustee shall transfer from the Series 2017 Revenue Fund and deposit into the following respective funds, accounts and subaccounts (each of which the Trustee shall establish and maintain within the Series 2017 Revenue Fund) the following amounts, in the following order of priority, the requirements of each such account, subaccount or fund (including the making up of any deficiencies in any such account, subaccount or fund resulting from lack of Revenues or other payments sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account, subaccount or fund subsequent in priority:

FIRST: (a) on or before each Interest Payment Date, the Trustee shall deposit in the Series 2017 Interest Account an amount required to cause the aggregate amount on deposit in the Series 2017 Interest Account to equal the amount of interest coming due and payable on such Interest Payment Date on all Outstanding Series 2017 Bonds. No deposit need be made into the Series 2017 Interest Account if the amount contained therein is at least equal to the interest becoming due and payable upon all Outstanding Bonds on the next succeeding Interest Payment Date. All amounts on deposit in the Series 2017 Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Series 2017 Bonds as it shall become due and payable (including accrued interest on any Series 2017 Bonds redeemed prior to maturity). All amounts on deposit in the Series 2017 Interest Account on the first day of any Bond Year, to the extent not required to pay any interest then having come due and payable on the Outstanding Series 2017 Bonds, shall be retained in or withdrawn from the Series 2017 Interest Account by the Trustee and: (i) in the absence of any written Request as provided in clause (ii) of this paragraph: (A) such amounts shall be retained in the Series 2017 Interest Account and credited toward the payment of interest on the Series 2017 Bonds on the next succeeding Interest Payment Date, or (B) to the extent such amounts exceed the amount of interest payable on the Bonds on the next succeeding Interest Payment Date, such amounts shall be transferred to the Series 2017 Principal Account and credited toward the payment of principal of the Series 2017 Bonds coming due on the next succeeding March 1; and (ii) at the written Request of the Authority, transferred to the Authority, or to each of the Cities if so stated in the Request. Any transfer to the Cities as provided in clause (ii) shall be in proportion to the Revenues (determined with reference solely to Revenues described in clause (a) of the definition of Revenues in Section 1.01 of this Series 2017 Indenture) received from each City; in each case to be used for any lawful purposes of the Authority or the Cities, as applicable;

SECOND: on or before each Interest Payment Date (or redemption date if not an Interest Payment Date) on which the principal of the Series 2017 Bonds shall be payable, the Trustee shall deposit in the Series 2017 Principal Account an amount required to cause the aggregate amount on deposit in the Series 2017 Principal Account to equal the amount of principal coming due and payable on such Interest Payment Date or redemption date on all Outstanding Series 2017 Bonds, or the Redemption Price of the Series 2017 Bonds required to be redeemed on such Interest Payment Date or redemption date pursuant to any of the provisions of Section 4.02 and Section 4.03 of this Series 2017 Indenture. All moneys in the Series 2017 Principal Account shall be used and withdrawn by the Trustee solely for the purposes of paying (i) the principal of the Series 2017 Bonds at the maturity thereof or (ii) paying the Redemption Price on any Outstanding Series 2017 Bonds upon the redemption thereof pursuant to any of the provisions of Section 4.02 and Section 4.03 of this Series 2017 Indenture. All amounts on deposit in the Series 2017 Principal Account on the first day of any Bond Year, to the extent not required to pay any principal of the Outstanding Series 2017 Bonds then having come due and payable, shall be retained in or withdrawn from the Series 2017 Principal Account by the Trustee and: (i) in the absence of any written Request as provided in clause (ii) of this paragraph, such amounts shall be retained in the Series 2017 Principal Account and credited toward the payment of principal of the Series 2017 Bonds on the next succeeding March 1 (or redemption date, if earlier); and (ii) at the written Request of the Authority, transferred to the Authority, or to each of the Cities if so stated in the Request. Any transfer to the Cities as provided in clause (ii) shall be in proportion to the Revenues (determined with reference solely to Revenues described in clause (a) of the definition of Revenues in Section 1.01 of this Series 2017 Indenture) received from each City; in each case to be used for any lawful purposes of the Authority or the Cities, as applicable; and

THIRD: to the Series 2017 Rebate Fund such amounts as are required to be deposited therein by the provisions of Section 5.03 of this Series 2017 Indenture.

Section 5.03 Series 2017 Rebate Fund.

(a) The Trustee shall establish and maintain, when required, a fund separate from any other fund established and maintained hereunder designated as the Series 2017 Rebate Fund. Within the Series 2017 Rebate Fund, the Trustee shall maintain such accounts as shall be necessary to comply with written instructions of the Authority given pursuant to the terms and conditions of the Tax Certificate. Subject to the transfer provisions provided in subsection (e) below, all money at any time deposited in the Series 2017 Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Series 2017 Rebate Requirement, for payment to the federal government of

the United States of America. Neither the Authority nor the Owner of any Series 2017 Bond shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Series 2017 Rebate Fund shall be governed by this Section 5.03, by Section 6.08 of this Series 2017 Indenture and by the Tax Certificate. The Trustee shall be deemed conclusively to have complied with such provisions if it follows the directions of the Authority including supplying all necessary information in the manner provided in the Tax Certificate, and shall have no liability or responsibility to enforce compliance by the Authority with the terms of the Tax Certificate or any other tax covenants contained herein or therein. The Trustee shall not be responsible for calculating rebate amounts or for the adequacy or correctness of any rebate report or rebate calculations. The Trustee shall have no independent duty to review such calculations or enforce the compliance by the Authority with any Series 2017 Rebate Requirement. The Trustee shall have no duty or obligation to determine the applicability of the Code and shall be obligated to act only in accordance with written instructions provided by the Authority.

(b) Upon the Authority's written direction, an amount shall be deposited to the Series 2017 Rebate Fund by the Trustee from deposits by the Authority, if and to the extent required, so that the balance in the Series 2017 Rebate Fund shall equal the Series 2017 Rebate Requirement. Calculations of the Rebate Requirement shall be furnished by or on behalf of the Authority in accordance with the provisions of the Tax Certificate. The Trustee shall supply to the Authority all necessary information in the manner provided in the Tax Certificate to the extent such information is reasonably available to the Trustee.

(c) The Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to this Section 5.03, other than from moneys held in the funds and accounts created under this Series 2017 Indenture or from other moneys provided to it by the Authority.

(d) At the written direction of the Authority, the Trustee shall invest all amounts held in the Series 2017 Rebate Fund in Permitted Investments, subject to the restrictions set forth in the Tax Certificate. Moneys shall not be transferred from the Series 2017 Rebate Fund except as provided in subsection (e) below. The Trustee shall not be liable for any consequences arising from such investment.

(e) Upon receipt of the Authority's written directions, the Trustee shall remit part or all of the balances in the Series 2017 Rebate Fund to the United States of America, as so directed. In addition, if the Authority so directs, the Trustee will deposit money into or transfer money out of the Series 2017 Rebate Fund from or into such accounts or funds as directed by the Authority's written directions; provided, however, only moneys in excess of the Rebate Requirement may, at the written direction of the Authority, be transferred out of the Series 2017 Rebate Fund to such other accounts or funds or to anyone other than the United States of America in satisfaction of the arbitrage rebate obligation. Any funds remaining in the Series 2017 Rebate Fund after each five-year remittance to the United States of America or redemption and payment of all of the Series 2017 Bonds and payment and satisfaction of any Rebate Requirement, or provision made therefor satisfactory to the Trustee, shall be withdrawn and remitted to the Authority.

(f) Notwithstanding any other provision of this Series 2017 Indenture, including in particular Article X, the obligation to remit the Rebate Requirement to the United States of America and to comply with all other requirements of this Section 5.03, Section 6.08 of this Series 2017 Indenture and the Tax Certificate shall survive the defeasance or payment in full of the Series 2017 Bonds.

Section 5.04 Establishment and Application of Series 2017 Project Fund.

(a) The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Series 2017 Project Fund." Except as expressly provided or permitted in this Section 5.04, all moneys in the Series 2017 Project Fund shall be disbursed pursuant to Requisitions of the Authority in substantially the form attached hereby as Exhibit C to this Series 2017 Indenture for the payment of Series 2017 Project Costs.

(b) Upon the Trustee's receipt of the Certificate of Completion, any moneys remaining in the Series 2017 Project Fund shall be transferred to the Series 2017 Interest Account.

(c) The completion date of the Project shall be evidenced to the Trustee by the delivery of a written Certificate signed by any Authority Representative, stating that the Project has been completed.

Section 5.05 Establishment and Application of Costs of Issuance Fund.

The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Costs of Issuance Fund.” Moneys deposited in said fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance of the Series 2017 Bonds upon Requisition of the Authority in substantially the form attached hereto as Exhibit B stating the Person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On the 180th day following the initial issuance of the Series 2017 Bonds, or upon the earlier Request of the Authority, amounts, if any, remaining in the Costs of Issuance Fund shall be transferred to the Series 2017 Project Fund.

Section 5.06 Investment of Moneys in Funds and Accounts. All moneys in any of the funds or accounts established with the Trustee pursuant to this Series 2017 Indenture shall be invested and reinvested by the Trustee, upon the written direction of the Authority prior to the making of such investments, solely in Permitted Investments that are available at the times required. The Trustee shall be entitled to rely upon any investment direction provided to it under this Section 5.06 as a certification to the Trustee that such investment constitutes a Permitted Investment. In the absence of any written investment direction from the Authority, the Trustee shall invest solely in Permitted Investments described in paragraph (c) of the definition thereof in Section 1.01 of this Series 2017 Indenture; provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a written direction specifying a money market fund (including the name of the fund and its designated depository or custodian), and if no such written direction is received by the Trustee, the Trustee shall hold uninvested all funds otherwise subject to the provisions of this sentence. All Permitted Investments shall be acquired subject to the limitations set forth in Section 6.08 of this Series 2017 Indenture and the Tax Certificate. The Trustee is hereby authorized to trade with itself, or with any bank affiliated with the Trustee, in the purchase and sale of Permitted Investments.

Permitted Investments purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Trustee may deliver such Permitted Investments for repurchase under such agreement. Permitted Investments that are registrable securities shall be registered in the name of the Trustee or its nominee.

All interest, profits, gain and other income received from the investment of moneys in the Series 2017 Rebate Fund shall be deposited when received in such Fund. All interest, profits and other income received from the investment of moneys in any other fund or account established pursuant to this Series 2017 Indenture (other than the Series 2017 Rebate Fund) shall be deposited when received (a) prior to the completion of the Project, in the Series 2017 Project Fund; and (b) thereafter, in the Series 2017 Revenue Fund. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Permitted Investment equal to the amount of accrued interest, if any, paid as part of the purchase price of such Permitted Investment shall be credited to the fund or account for the credit of which such Permitted Investment was acquired.

Permitted Investments acquired as an investment of moneys in any fund or account established under this Series 2017 Indenture shall be credited to such fund or account. For the purpose of determining the amount in any such fund or account all Permitted Investments credited to such fund or account shall be valued at market value (plus, prior to the first payment of interest following acquisition, the amount of interest paid as part of the purchase price). Notwithstanding the foregoing, (a) except as provided in clause (b) of this paragraph, the Authority covenants that all investments of amounts deposited in any fund or account created by or pursuant to this Series 2017 Indenture, or otherwise containing gross proceeds of the Series 2017 Bonds (within the meaning of section 148 of the Code) shall be acquired, disposed of, and valued (as of the date that valuation is required by this Series 2017 Indenture or the Code) at Fair Market Value; and (b) investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Code shall be valued at their present value (within the meaning of section 148 of the Code).

The Trustee may commingle any of the funds or accounts established pursuant to this Series 2017 Indenture (other than the Series 2017 Rebate Fund) into a separate fund or funds for investment purposes only; provided that all funds or accounts held by the Trustee hereunder shall be accounted for separately as required by this Series 2017

Indenture. The Trustee or any of its affiliates may act as principal or agent in the making or disposing of any investment and shall be paid its customary fee therefor. The Trustee may sell or present for redemption, any Permitted Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Permitted Investments is credited, and, subject to the provisions of Section 8.03, the Trustee shall not be liable or responsible for any loss resulting from any investment made in accordance with provisions of this Section 5.06.

The Authority acknowledges that regulations of the Comptroller of the Currency grant the Authority the right to receive broker confirmations of security transactions as they occur. The Authority specifically waives such notification to the extent permitted by law and acknowledges that the Authority will receive periodic cash transaction statements which will detail all investment transactions. Upon the Authority's election, such statements will be delivered via the Trustee's online service, and upon electing such service, paper statements will be provided only upon Request. The Authority further understands that trade confirmations for securities transactions effected by the Trustee will be available upon Request and at no additional cost, and other trade confirmations may be obtained from the applicable broker. Unless contrary to written investment directions previously submitted to the Trustee, an account statement delivered by the Trustee to the Authority shall be deemed written confirmation by the Authority that the investment transactions identified therein accurately reflect the investment directions given to the Trustee by the Authority unless the Authority notifies the Trustee in writing to the contrary within 30 days after the date of such statement.

ARTICLE VI.

PARTICULAR COVENANTS

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

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

Section 6.03 **Against Encumbrances.** Except as expressly permitted by Section 2.03 of this Series 2017 Indenture, or in connection with the issuance of any Subordinate Debt, as the case may be, the Authority shall not create any pledge, lien, charge, or other encumbrance upon the Revenues and other assets pledged or assigned under this Series 2017 Indenture while any of the Series 2017 Bonds are Outstanding, except the pledge and assignment created by this Series 2017 Indenture, and will assist the Trustee in contesting any such pledge, lien, charge, or other encumbrance which may be created.

Section 6.04 **Power To Issue Series 2017 Bonds and Make Pledge and Assignment.** The Authority is duly authorized pursuant to law to issue the Series 2017 Bonds and to enter into this Series 2017 Indenture and to pledge and assign the Revenues, the Series 2017 Loan Agreements and other assets purported to be pledged and assigned under this Series 2017 Indenture in the manner and to the extent provided in this Series 2017 Indenture. The Authority has duly authorized the execution and delivery of the Series 2017 Bonds and this Series 2017 Indenture under the terms and provisions of the Act and a resolution adopted by its Board and further represents, covenants and warrants that all requirements have been met and procedures have occurred in order to ensure the enforceability against the Authority of the Series 2017 Bonds and this Series 2017 Indenture. The Authority has taken all necessary action and has complied with all provisions of the Act required to make the Series 2017 Bonds and this

Series 2017 Indenture the valid, legal and binding special obligations of the Authority. The Authority and the Trustee (subject to the provisions of Section 8.03 of this Series 2017 Indenture) shall at all times, to the extent permitted by law, defend, preserve and protect the pledge and assignment of the Revenues, the Series 2017 Loan Agreements and other assets and all the rights of the Owners of the Series 2017 Bonds under this Series 2017 Indenture against all claims and demands of any and all Persons.

Section 6.05 Maintenance and Operation of Wastewater Enterprise Facilities in Efficient and Economical Manner.

The Authority covenants and agrees to maintain and operate the Wastewater Enterprise Facilities in an efficient and economical manner, and to operate, maintain, preserve and secure the Wastewater Enterprise Facilities in good repair and working order.

Section 6.06 Against Sale, Eminent Domain.

(a) The Authority will not sell, lease or otherwise dispose of the Wastewater Enterprise Facilities or any part thereof essential to the proper operation of the Wastewater Enterprise Facilities or the maintenance of Revenues, except as expressly permitted in this Series 2017 Indenture. The Authority will not enter into any lease or agreement which impairs the operation of the Wastewater Enterprise Facilities or any part thereof necessary to realize adequate Revenues for the payment of Debt Service on the Series 2017 Bonds or which would otherwise impair the rights of Owners with respect to Revenues or the operation of the Wastewater Enterprise Facilities. Any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Wastewater Enterprise Facilities, or any material or equipment which has worn out or otherwise is no longer useful for such purposes, may be sold if such sale in and of itself will not reduce Revenues.

(b) Any amounts received as awards as a result of the taking of all or any part of the Wastewater Enterprise Facilities by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the Authority, shall either (i) be used for the acquisition or construction of improvements or extensions of the Wastewater Enterprise Facilities or (ii) be deposited in the Series 2017 Revenue Fund.

Section 6.07 Insurance.

The Authority covenants that it shall at all times maintain such insurance on the Wastewater Enterprise Facilities as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. In satisfaction of the covenants in this Section 6.07, the Authority may maintain insurance provided by the California Sanitation Risk Management Authority (“CSRMA”), a joint powers authority organized pursuant to the provisions of the Act, as well as pursuant to Chapter 3, Part 6, Division 3.6, Title 1 of the California Government Code (beginning with section 989) having to do with insurance and self-insurance coverage for local public entities. If any useful part of the Wastewater Enterprise Facilities shall be damaged or destroyed, such part shall be restored to use. The Net Proceeds of insurance against accident to or destruction of the physical Wastewater Enterprise Facilities shall be used for repair, reconstruction, restoration or replacement of the damaged or destroyed portions of the Wastewater Enterprise Facilities. Any such insurance shall be in the form of policies or contracts for insurance with insurers of good standing in the State, such as CSRMA or a similar joint powers authority or State or other local agency permitted to pool the self-insurance claims of two or more local public entities as referred to in California Government Code section 6512.2, and any claims or losses shall be payable to the Authority or may be in the form of self-insurance maintained by or on behalf of the Authority.

Section 6.08 Tax Covenants. The Authority shall at all times do and perform all acts and things permitted by law and this Series 2017 Indenture which are necessary or desirable in order to assure that interest paid on the Series 2017 Bonds will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being excluded from gross income for federal income tax purposes. All covenants and requirements of this Section 6.08 shall survive payment in full or defeasance of the Series 2017 Bonds. Without limiting the generality of the foregoing:

(a) the Authority agrees to comply with the provisions of the Tax Certificate;

(b) the Authority shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Series 2017 Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Series 2017 Bonds would have caused the Series 2017 Bonds to be “arbitrage bonds” within the meaning of section 148 of the Code;

(c) the Authority shall assure that the proceeds of the Series 2017 Bonds are not used so as to cause the Series 2017 Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code;

(d) the Authority shall not take any action or permit or suffer any action to be taken if the result of such action would be to cause any of the Series 2017 Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code; and

(e) the Authority shall take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that said section 148(f) is applicable to the Series 2017 Bonds.

Section 6.09 Series 2017 Loan Agreements.

(a) The Trustee, as assignee of the Authority’s rights pursuant to Section 5.01 of this Series 2017 Indenture, but subject to the provisions of Article VIII of this Series 2017 Indenture, (i) shall promptly collect all amounts due from the Cities pursuant to the Series 2017 Loan Agreements, (ii) shall exercise all rights assigned to it pursuant to the Series 2017 Loan Agreements and (iii) shall diligently enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the rights of the Authority and all of the obligations of the Cities under the Series 2017 Loan Agreements.

(b) Except with respect to amendments to or restatements of the Series 2017 Loan Agreements pursuant to the provisions of Article II of this Series 2017 Indenture and in connection with the issuance of Additional Bonds, the Authority, the Trustee and the Cities shall not amend, modify or terminate any of the terms of the Series 2017 Loan Agreements or consent to any such amendment unless (i) the Trustee first obtains the written consent of the Owners of a majority in aggregate principal amount of the Series 2017 Bonds then Outstanding to such amendment, modification or termination, or (ii) without the consent of any of the Owners of the Series 2017 Bonds if such amendment, modification or termination is for any one or more of the following purposes:

(A) to add to the covenants and agreements of, or to limit or surrender any rights or power reserved to or conferred upon, either or both of the Cities in the applicable Series 2017 Loan Agreements; or

(B) to make such provisions for the purpose of curing any ambiguity or of curing, correcting or supplementing any defective provision contained in the applicable Series 2017 Loan Agreements, or in any other respect whatsoever as either or both of the Cities, as applicable, may deem necessary or desirable, provided under no circumstances shall any such provision become effective for any purpose if it materially and adversely affects the interests of the Owners of the Series 2017 Bonds; or

(C) to amend any provision of the Series 2017 Loan Agreements relating to the Code, to any extent whatsoever, but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest on any of the Series 2017 Bonds under the Code, as confirmed with a Favorable Opinion of Bond Counsel.

Prior to entering into any amendment, modification or restatement of either Series 2017 Loan Agreement pursuant to the provisions of this Section 6.09, the Trustee may require the Authority to deliver to the Trustee a Favorable Opinion of Bond Counsel to the effect that such amendment, modification or restatement has been

adopted in accordance with the requirements of this Series 2017 Indenture and will not adversely affect the exclusion from gross income of interest on the Series 2017 Bonds under the Code.

Section 6.10 **No Additional Obligations.** Except as expressly permitted under this Series 2017 Indenture, the Authority shall not issue or incur additional bonds, notes or other indebtedness which are payable, in whole or in part, from the Revenues.

Section 6.11 **Waiver of Laws.** The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension of law now or at any time hereafter in force that may affect the covenants and agreements contained in this Series 2017 Indenture or in the Series 2017 Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the Authority to the extent permitted by law.

Section 6.12 **Further Assurances.** Whenever and so often as requested to do so by the Trustee or any Owner of any Series 2017 Bond, the Authority will make, execute and deliver any and all such further indentures, instruments and assurances and promptly do or cause to be done all such other and further things as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Series 2017 Indenture and for the better assuring and confirming to and for the benefit of Owners of the Series 2017 Bonds all of the rights and benefits provided in this Series 2017 Indenture and more fully vest in the Trustee and the Owners of the Series 2017 Bonds all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them in this Series 2017 Indenture and in the Series 2017 Loan Agreements.

Section 6.13 **Covenant To Enter Into Agreement or Contract To Provide Ongoing Disclosure.** The Authority hereby covenants, and each City has covenanted pursuant to the provisions of Section 4.11 of each Series 2017 Loan Agreement, to enter into an agreement or contract, constituting an undertaking, to provide ongoing disclosure for the benefit of the Owners of the Series 2017 Bonds and Beneficial Owners of the Series 2017 Bonds as required by Paragraph (b)(5)(i) of SEC Rule 15c2-12 under the 1934 Act (17 CFR Part 240 Section 240.15c2-12) (the "Disclosure Requirements"), but only to the extent the Series 2017 Bonds are at any time not exempt from the Disclosure Requirements. The provisions of Section 4.11 of each Series 2017 Loan Agreement shall be enforceable by any Owner of Series 2017 Bonds, Participating Underwriter or Beneficial Owner. However, neither the Authority nor the Trustee shall have any duty to enforce the provisions of Section 4.11 of either Series 2017 Loan Agreement. The Authority shall have no liability to the Owners of the Series 2017 Bonds, Participating Underwriters, Beneficial Owners or any other Person with respect to the actions of either City relating to the Disclosure Requirements. Notwithstanding any other provision of this Series 2017 Indenture, failure of either City to comply with the provisions of Section 4.11 of its respective Series 2017 Loan Agreement shall not be considered an Event of Default; provided, however, any Beneficial Owner may, take such action as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause each of the Cities to comply with its respective obligations under Section 4.11 of the Series 2017 Loan Agreements.

ARTICLE VII.

EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS

Section 7.01 **Events of Default.** Any one or more of the following events shall be Events of Default:

(a) default in the due and punctual payment of the principal or Redemption Price of any Series 2017 Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;

(b) default in the due and punctual payment of any installment of interest on any Series 2017 Bond when and as such interest installment shall become due and payable;

(c) default by the Authority in the observance of any of the covenants, agreements or conditions on its part in this Series 2017 Indenture or in the Series 2017 Bonds contained, other than as referred to in subsections (a) and (b) of this Section 7.01, if such default shall have continued for a period of 60 days after written notice thereof,

specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee, or to the Authority and the Trustee by the Owners of not less than 25% in aggregate principal amount of the Series 2017 Bonds at the time Outstanding; or

(d) a Loan Default Event.

Section 7.02 **Acceleration of Maturities.** If an Event of Default occurs and is continuing, the Trustee may, upon notice in writing to the Authority, declare the principal of the Series 2017 Bonds, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Series 2017 Indenture or in the Series 2017 Bonds contained to the contrary notwithstanding. Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority shall deposit with the Trustee a sum sufficient to pay all the principal or Redemption Price of and installments of interest on the Series 2017 Bonds payment of which is overdue, with interest on such overdue principal at the rates borne by the respective Series 2017 Bonds, and the reasonable fees, charges and expenses of the Trustee, including those of its attorneys and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Series 2017 Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee, by written notice to the Authority, shall rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Section 7.03 **Application of Revenues and Other Funds After Default.** If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of this Series 2017 Indenture (subject to the provisions of Section 11.10 and other than moneys required to be deposited in the Series 2017 Rebate Fund) shall be applied by the Trustee as follows and in the following order:

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

(b) to the payment of the principal or Redemption Price of and interest then due on the Series 2017 Bonds (upon presentation of the Series 2017 Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of this Series 2017 Indenture, as follows:

(i) Unless the principal of all of the Series 2017 Bonds shall have become or have been declared due and payable,

FIRST, to the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

SECOND, to the payment to the Persons entitled thereto of the unpaid principal (including mandatory sinking account payments) or Redemption Price of any Series 2017 Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Series 2017 Bonds, and, if the amount available shall not be sufficient to pay in full all the Series 2017 Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the Persons entitled thereto, without any discrimination or preference.

(ii) If the principal of all of the Series 2017 Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Series 2017 Bonds, with interest on the overdue principal at the rate borne by the respective Series 2017 Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Series 2017 Bond over any other Series 2017 Bond, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

Section 7.04 Trustee To Represent Owners of Series 2017 Bonds. The Trustee is hereby irrevocably appointed (and the successive respective Owners of the Series 2017 Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Series 2017 Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Series 2017 Bonds, this Series 2017 Indenture, the Series 2017 Loan Agreements or applicable provisions of any law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Owners of the Series 2017 Bonds, the Trustee in its discretion may, and upon the written request of the Owners of not less than 25% in aggregate principal amount of the Series 2017 Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus, or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the provisions of the Series 2017 Bonds, this Series 2017 Indenture, the Series 2017 Loan Agreements or applicable provisions of any law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under this Series 2017 Indenture, pending such proceedings. All rights of action under this Series 2017 Indenture or the Series 2017 Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Series 2017 Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Series 2017 Bonds, subject to the provisions of this Series 2017 Indenture (including without limitation the provisions of Section 8.02).

Section 7.05 Series 2017 Bond Owners' Direction of Proceedings. Anything in this Series 2017 Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Series 2017 Bonds then Outstanding, shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnifying the Trustee to its satisfaction therefor, to direct the method of conducting all remedial proceedings taken by the Trustee hereunder; provided that: (a) such direction shall not be otherwise than in accordance with law and the provisions of this Series 2017 Indenture; (b) the Trustee shall have the right to decline to follow any such direction if such direction, in the opinion of the Trustee, would be unjustly prejudicial to any Owners of Series 2017 Bonds not parties to such direction, it being understood that (subject to the provisions of Section 8.01) the Trustee shall have no duty to ascertain whether or not such action or forbearance may be unduly prejudicial to such Owners of Series 2017 Bonds; and (c) such direction shall not involve the Trustee in personal liability.

Section 7.06 Limitation on Series 2017 Bond Owners' Right To Sue. No Owner of any Series 2017 Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under this Series 2017 Indenture, the Series 2017 Loan Agreements or applicable provisions of any law with respect to such Series 2017 Bond, unless all of the following events and conditions have occurred or been satisfied: (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than 25% in aggregate principal amount of the Series 2017 Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) such Owner or said Owners shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee. Such notification, request, tender of indemnity, and refusal or omission are hereby declared, in every case, to be

conditions precedent to the exercise by any Owner of Series 2017 Bonds of any remedy hereunder or under law; it being understood and intended that no one or more Owners of Series 2017 Bonds shall have any right in any manner whatever by any action to affect, disturb or prejudice the security of this Series 2017 Indenture or the rights of any other Owners of Series 2017 Bonds, or to enforce any right under this Series 2017 Indenture, the Series 2017 Loan Agreements or applicable provisions of any law with respect to the Series 2017 Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the benefit and protection of all Owners of the Outstanding Series 2017 Bonds, subject to the provisions of this Series 2017 Indenture (including without limitation the provisions of Section 8.02) of this Series 2017 Indenture.

Section 7.07 Absolute Obligation of Authority. Nothing in Section 7.06 or in any other provision of this Series 2017 Indenture, or in the Series 2017 Bonds, shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal or Redemption Price of and interest on the Series 2017 Bonds to the respective Owners of the Series 2017 Bonds at their respective dates of maturity, or upon call for redemption, as herein provided, but only out of the Revenues and other assets herein pledged therefor, and not otherwise, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Series 2017 Bonds.

Section 7.08 Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Owners of Series 2017 Bonds on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or Owners of Series 2017 Bonds, then in every such case the Authority, the Trustee and the Owners of Series 2017 Bonds, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Owners of Series 2017 Bonds shall continue as though no such proceedings had been taken.

Section 7.09 Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners of the Series 2017 Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

Section 7.10 No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Series 2017 Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by this Series 2017 Indenture to the Trustee or to the Owners of the Series 2017 Bonds may be exercised from time to time and as often as may be deemed expedient.

ARTICLE VIII.

THE TRUSTEE

Section 8.01 Duties, Immunities and Liabilities of Trustee.

(a) The Authority hereby appoints MUFG Union Bank, N.A., a national banking association, as Trustee. The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Series 2017 Indenture, and, except to the extent required by law, no implied covenants or obligations shall be read into this Series 2017 Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by this Series 2017 Indenture, and use the same degree of care and skill in their exercise, as a prudent Person would exercise or use under the circumstances in the conduct of such Person's own affairs.

(b) The Authority may remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Series 2017 Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall

cease to be eligible in accordance with the provisions of subsection (e) of this Section 8.01, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to the Authority and by giving the Owners of Series 2017 Bonds notice of such resignation by mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing.

(d) The Trustee shall not be relieved of its duties under this Series 2017 Indenture until its successor Trustee has accepted its appointment and assumed said duties. Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within 30 days after giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Owner of Series 2017 Bonds (on behalf of such Owner and all other Owners of Series 2017 Bonds) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice, if any, as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Series 2017 Indenture shall signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless at the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Series 2017 Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the Authority shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection (d), the Authority shall cause such Trustee to mail a notice of the succession of such Trustee to the trusts hereunder to the Owners of Series 2017 Bonds at the addresses shown on the Registration Books.

(e) Any successor Trustee shall be a trust company or bank having the powers of a trust company having (or, in the case of a trust company or bank included in a bank holding company system, with a bank holding company having) a combined capital and surplus of at least \$100,000,000.00 and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection (e) the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this Section 8.01.

Section 8.02 Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under subsection (e) of Section 8.01 of this Series 2017 Indenture, shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything in this Series 2017 Indenture to the contrary notwithstanding.

Section 8.03 Liability of Trustee.

(a) The recitals of facts in this Series 2017 Indenture and contained in the Series 2017 Bonds shall be taken as statements of the Authority, and the Trustee assumes no responsibility for the correctness of the same, and makes no representations as to the legality, validity or sufficiency of this Series 2017 Indenture, the Series 2017 Loan

Agreements or any other document related thereto, or of the Series 2017 Bonds, and shall incur no responsibility in respect thereof, other than in connection with the duties or obligations in this Series 2017 Indenture or in the Series 2017 Bonds assigned to or imposed upon the Authority except for any recital or representation specifically relating to the Trustee or its powers. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Series 2017 Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct; provided, that this shall not be construed to limit the effect of subsection (f) of this Section 8.03. The Trustee may become the Owner of Series 2017 Bonds with the same rights it would have if it were not the Trustee, and, to the extent permitted by law, may act as depositary for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of Series 2017 Bonds, whether or not such committee shall represent the Owners of a majority in principal amount of the Series 2017 Bonds then Outstanding.

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

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

(d) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Series 2017 Indenture at the request, order or direction of any of the Owners of Series 2017 Bonds pursuant to the provisions of this Series 2017 Indenture unless such Owners of Series 2017 Bonds shall have offered to the Trustee security or indemnity acceptable to it against the costs, expenses and liabilities which may be incurred therein or thereby.

(e) The Trustee shall not be liable for any action taken by it in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Series 2017 Indenture unless it shall be proved that the Trustee was negligent.

(f) Pursuant to the provisions of Section 3.04 of each Series 2017 Loan Agreement, each City is obligated:

(i) to pay the Trustee from time to time compensation for all services rendered by the Trustee under this Series 2017 Indenture in accordance with each such Series 2017 Loan Agreement;

(ii) except as otherwise expressly provided in this Series 2017 Indenture, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Series 2017 Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to the Trustee's negligence, willful misconduct or bad faith; and

(iii) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence, default, willful misconduct or bad faith on the Trustee's part, arising out of or in connection with the acceptance or administration of this trust or the performance of its duties under this Series 2017 Indenture, including the reasonable costs and expenses of defending itself against or investigating any claim or liability in connection with the exercise or performance of any of its powers or duties under this Series 2017 Indenture, under the Series 2017 Loan Agreements or any other document related thereto.

(g) No provision of this Series 2017 Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under this Series 2017 Indenture, or in the exercise of any of its rights or powers.

(h) Whether or not therein expressly so provided, every provision of this Series 2017 Indenture, the Series 2017 Loan Agreements or other documents relating to the issuance of the Series 2017 Bonds, relating to the conduct, or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Article VIII.

(i) Subject to the other provisions of this Section 8.03 and the provisions of Section 8.01 and Section 8.04 of this Series 2017 Indenture, the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document, but the Trustee, in its discretion and at its expense, may make such further investigation or inquiry into such facts or matters as it may deem fit, and, if the Trustee shall determine to make such further inquiry or investigation, the Authority shall assure that the Trustee shall be entitled to examine the books, records and premises of each City personally or by agent or attorney.

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

(k) The Trustee shall not be required to take notice or be deemed to have notice of any Event of Default under this Series 2017 Indenture, except an Event of Default under Section 7.01(a) and Section 7.01(b) of this Series 2017 Indenture, under the Series 2017 Loan Agreements or any other document related to the Series 2017 Bonds unless an officer in the corporate trust department of the Trustee has actual notice thereof or the Trustee shall be specifically notified in writing of such Event of Default by the Authority or the Owners of at least a majority in aggregate principal amount of Series 2017 Bonds then Outstanding. All notices or other instruments required by this Series 2017 Indenture to be delivered to the Trustee, must, in order to be effective, be delivered at the address of the Trustee provided for in Section 11.07, and, in the absence of such notice so delivered, the Trustee may conclusively assume that there is no Event of Default except as aforesaid.

Section 8.04 Right of Trustee To Rely on Documents. The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. Before the Trustee acts or refrains from acting, it may consult with counsel, who may be counsel of or to the Authority, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

With the exception of Persons in whose names Series 2017 Bonds are registered on the Registration Books, the Trustee shall not be bound to recognize any Person as the Owner of a Series 2017 Bond unless and until such Series 2017 Bond is submitted for inspection, if required, and the Owner's title thereto is satisfactorily established, if disputed.

Whenever in the administration of the trusts imposed upon it by this Series 2017 Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the Authority, and such Certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of this Series 2017 Indenture in reliance upon such Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable.

Section 8.05 Accounting Records and Financial Statements

The Trustee shall at all times keep, or cause to be kept, proper books of record and account prepared in accordance with industry standards, in which complete and accurate entries shall be made of all transactions relating to the receipt, investment, disbursement, allocation and application of the proceeds of the Series 2017 Bonds, the Revenues and all funds and accounts established by the Trustee pursuant to this Series 2017 Indenture. Such books of record and account shall be available for inspection by the Authority, either City and any Series 2017 Bond Owner, or any agent or representative duly authorized in writing by any of them, upon reasonable notice at reasonable hours and under reasonable circumstances.

Section 8.06 **Preservation and Inspection of Documents.** All documents received by the Trustee under the provisions of this Series 2017 Indenture shall be retained in its possession, subject to its records retention policy, and shall be subject at all reasonable times to the inspection of the Authority, the Cities, and any Owner of any Series 2017 Bond, and their agents and representatives duly authorized in writing (if such Person provides to the Trustee 30 days' prior written notice and such notice specifies a date upon which such inspection shall occur), during normal business hours and under reasonable conditions.

Section 8.07 **Performance of Duties.** The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder either directly or by or through attorneys or agents and shall be entitled to advice of counsel concerning all matters of trust and its duties hereunder and shall be absolutely protected in relying thereon. The Trustee shall not be responsible for the misconduct of such Persons selected by it with reasonable care.

ARTICLE IX.

MODIFICATION OR AMENDMENT OF THIS INDENTURE

Section 9.01 **Amendments Permitted.**

(a) This Series 2017 Indenture and the rights and obligations of the Authority, of the Trustee and of the Owners of the Series 2017 Bonds may be modified or amended from time to time and at any time by a Supplemental Indenture, and when the written consent of the Owners of a majority in aggregate principal amount of the Series 2017 Bonds then Outstanding shall have been filed with the Trustee (the procedure for which is described below). No such modification or amendment shall: (i) extend the fixed maturity of any Series 2017 Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any mandatory sinking fund payment, or reduce the rate of interest thereon, or change the method of determining the accrual of interest thereon, or extend the time of payment of interest thereon, or reduce any Redemption Price payable upon the redemption thereof, without the consent of the Owner of each Series 2017 Bond so affected; or (ii) reduce the aforesaid percentage of Series 2017 Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under this Series 2017 Indenture prior to or on a parity with the lien created by this Series 2017 Indenture (except as expressly permitted by this Series 2017 Indenture, as in the issuance of Additional Bonds), or deprive the Owners of the Series 2017 Bonds of the lien created by this Series 2017 Indenture on such Revenues and other assets (except as expressly provided in this Series 2017 Indenture), without the consent of the Owners of all Series 2017 Bonds then Outstanding. It shall not be necessary for the consent of the Owners of Series 2017 Bonds to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture pursuant to this subsection (a), the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Owners of Series 2017 Bonds at the addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) If at any time the Authority shall request the Trustee to enter into a Supplemental Indenture for any of the purposes of this Section 9.01, the Trustee shall mail by first-class mail notice of the proposed execution of such Supplemental Indenture to the Owners of the Series 2017 Bonds at their addresses as the same shall last appear upon the Registration Books. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that copies thereof are on file at the designated office of the Trustee for inspection by all Owners. If, within 60 days following the mailing of such notice, the Owners of the requisite principal amount of the Series 2017 Bonds Outstanding at the time of the execution of any such Supplemental Indenture shall have consented to and approved the execution thereof as provided in this Section 9.01, no Owner of any Series 2017 Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof.

(c) Notwithstanding anything to the contrary in this Series 2017 Indenture, this Series 2017 Indenture and the rights and obligations of the Authority, of the Trustee and of the Owners of the Series 2017 Bonds may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee

may enter into without the consent of any Owners of Series 2017 Bonds, only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority in this Series 2017 Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Series 2017 Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the Authority; provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Owners of the Series 2017 Bonds;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in this Series 2017 Indenture, or in regard to matters or questions arising under this Series 2017 Indenture, as the Authority or the Trustee may deem necessary or desirable and not inconsistent with this Series 2017 Indenture, and which shall not materially adversely affect the interests of the Owners of the Series 2017 Bonds;

(iii) to modify, amend or supplement this Series 2017 Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Series 2017 Bonds;

(iv) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of the interest on the Series 2017 Bonds, including the amendment of any Tax Certificate;

(v) to provide for the issuance of Additional Bonds pursuant to the terms of this Series 2017 Indenture; or

(vi) to make any other changes which will not materially adversely affect the interests of the Owners of the Series 2017 Bonds.

(d) The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by subsections (a) or (b) of this Section 9.01 which materially adversely affects the Trustee's own rights, duties or immunities under this Series 2017 Indenture or otherwise. In executing, or accepting the additional trusts created by, any Supplemental Indenture permitted by this Article IX or the modifications thereby of the trusts created by this Series 2017 Indenture, the Trustee shall be entitled to receive, and shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such Supplemental Indenture is authorized by and in compliance with this Series 2017 Indenture.

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

Section 9.03 Endorsement of Series 2017 Bonds; Preparation of New Series 2017 Bonds. Series 2017 Bonds delivered after the execution of any Supplemental Indenture pursuant to this Article IX may, and if the Authority so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand of the Owner of any Series 2017 Bond Outstanding at the time of such execution and presentation of such Owner's Series 2017 Bond for the purpose at the Trust Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation shall be made on such Series 2017 Bond. If the Supplemental Indenture shall so provide, new Series 2017 Bonds so modified as to conform, in the opinion of

the Authority, to any modification or amendment contained in such Supplemental Indenture, shall be prepared by the Trustee at the expense of the Authority, executed by the Authority and authenticated by the Trustee, and upon demand of the Owners of any Series 2017 Bonds then Outstanding shall be exchanged at the Trust Office of the Trustee, without cost to any Series 2017 Bond Owner, for Series 2017 Bonds then Outstanding, upon surrender for cancellation of such Series 2017 Bonds, in equal aggregate principal amounts of the same maturity.

Section 9.04 **Amendment of Particular Series 2017 Bonds.** The provisions of this Article IX shall not prevent any Owner of any Series 2017 Bonds from accepting any amendment as to the particular Series 2017 Bonds owned by such Owner, provided that due notation of such amendment and its acceptance are made on such Series 2017 Bonds.

ARTICLE X.

DEFEASANCE

Section 10.01 **Discharge of Indenture.** The Series 2017 Bonds of any series may be paid by the Authority or the Trustee on behalf of the Authority in any of the following ways:

(a) by paying or causing to be paid the principal or Redemption Price of and interest on all Series 2017 Bonds of such series Outstanding, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided in Section 10.03) to pay when due or redeem all Series 2017 Bonds of such series then Outstanding; or

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

If the Authority shall pay Series 2017 Bonds of all series then Outstanding and shall also pay or cause to be paid all other sums payable hereunder by the Authority, then and in that case at the election of the Authority (evidenced by a Certificate of the Authority filed with the Trustee signifying the intention of the Authority to discharge all such indebtedness and this Series 2017 Indenture), and notwithstanding that any Series 2017 Bonds shall not have been surrendered for payment, this Series 2017 Indenture and the pledge of Revenues and other assets made under this Series 2017 Indenture and all covenants, agreements and other obligations of the Authority under this Series 2017 Indenture (except as otherwise provided in Section 6.08 of this Series 2017 Indenture) shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the request of the Authority, the Trustee shall cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and shall execute and deliver to the Authority all such instruments as may be necessary to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the Authority all moneys or securities or other property held by the Trustee pursuant to this Series 2017 Indenture which are not required for the payment or redemption of Series 2017 Bonds not theretofore surrendered for such payment or redemption; provided that in all events moneys in the Series 2017 Rebate Fund shall be subject to the provisions of Section 5.03 and Section 6.08 of this Series 2017 Indenture.

Section 10.02 **Discharge of Liability on Series 2017 Bonds.** Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay or redeem any Outstanding Series 2017 Bond (whether upon or prior to its maturity or the redemption date of such Series 2017 Bond); provided that, if such Series 2017 Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in Article IV of this Series 2017 Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Series 2017 Bond shall cease, terminate become void and be completely discharged and satisfied, except only that thereafter the Owner thereof shall be entitled to payment of the principal of and interest on such Series 2017 Bond by the Authority, and the Authority shall remain liable for such payments, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of Section 10.04 of this Series 2017 Indenture. The Authority may at any time surrender to the Trustee for cancellation by it any Series 2017 Bonds previously issued and delivered, which the Authority may have acquired in any manner

whatsoever, and such Series 2017 Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

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

(a) lawful money of the United States of America in an amount equal to the principal amount of such Series 2017 Bonds and all unpaid interest thereon to maturity, except that, in the case of Series 2017 Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in Article IV of this Series 2017 Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Series 2017 Bonds and all unpaid interest thereon to the redemption date; or

(b) Permitted Investments described in paragraph (a) of the definition thereof in Section 1.01 of this Series 2017 Indenture (not callable by the issuer thereof prior to maturity), the principal of and interest on which when due (without any income from the reinvestment thereof) will provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Series 2017 Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due; provided that, in the case of Series 2017 Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Article IV of this Series 2017 Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, that, in each case, that the Trustee shall have been irrevocably instructed (by the terms of this Series 2017 Indenture or by Request of the Authority) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Series 2017 Bond; and provided further, in each case, that the Trustee shall have received a certificate from a firm of independent certified public accountants certifying as to the sufficiency of the deposit made pursuant to subsection (a) or (b) of this Section 10.03.

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

ARTICLE XI.

MISCELLANEOUS

Section 11.01 Immunity of Officers and Employees and of the Authority and the Cities. No director, member, officer, agent or employee of the Authority or of either of the Cities shall be individually or personally liable for the payment of any principal (or Redemption Price) or interest on the Series 2017 Bonds or any other sum under this Series 2017 Indenture or be subject to any personal liability or accountability by reason of the execution and delivery of this Series 2017 Indenture, but nothing in this Series 2017 Indenture contained shall relieve any such

member, director, officer, agent or employee from the performance of any official duty provided by law or by this Series 2017 Indenture.

Section 11.02 Limitation on Authority Obligations. None of the Authority, either City or any Person executing the Series 2017 Bonds is liable personally on the Series 2017 Bonds or subject to any personal liability or accountability by reason of their issuance. The Series 2017 Bonds are special obligations of the Authority, payable solely from and secured by the pledge of Revenues under this Series 2017 Indenture. Neither the Authority, the Cities, the State, nor any of the State's political subdivisions shall be directly, indirectly, contingently or morally obligated to use any other moneys or assets to pay all or any portion of the principal of, Redemption Price, if any, or interest on the Series 2017 Bonds, to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Series 2017 Bonds are not a pledge of the faith and credit of the Authority, the Cities, the State, nor any of the State's political subdivisions and do not constitute indebtedness within the meaning of any constitutional or statutory debt limitation. The Authority has no taxing power.

Section 11.03 Successor Is Deemed Included in All References to Predecessor. Whenever in this Series 2017 Indenture either the Authority or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Series 2017 Indenture contained by or on behalf of the Authority or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 11.04 Limitation of Rights to Parties, Cities and Owners of Series 2017 Bonds. Nothing in this Series 2017 Indenture or in the Series 2017 Bonds expressed or implied is intended or shall be construed to give to any Person other than the Authority, the Trustee, the Cities and the Owners of the Series 2017 Bonds, any legal or equitable right, remedy or claim under or in respect of this Series 2017 Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Authority, the Trustee, the Cities and the Owners of the Series 2017 Bonds. Without limitation on the foregoing, nothing in this Series 2017 Indenture or in the Series 2017 Bonds or otherwise, pertaining in any way, directly or indirectly, to each and every deposit, investment, withdrawal, disbursement, remittance, delivery or payment of any moneys or investments, to, in or from any fund, account or subaccount established and maintained under this Series 2017 Indenture as herein authorized, directed or permitted under the provisions hereof, shall create or give rise to any such right, remedy or claim of any kind as aforesaid for or on behalf of or for the benefit of any Person other than the Authority, the Trustee, the Cities and the Owners of the Series 2017 Bonds, whether a direct or indirect payee or recipient of payments or remittances hereunder or pursuant to the terms hereof or of any other agreement, document or instrument of any kind, and no such Person shall be, or deemed to be, equitably or otherwise, and express or implied, any third-party or other beneficiary of any provision of this Series 2017 Indenture or other agreement, document or instrument or any act or failure to act hereunder or thereunder.

Section 11.05 Waiver of Notice. Whenever in this Series 2017 Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the Person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

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

Section 11.07 Notices. All notices to Owners of Series 2017 Bonds shall be given by Electronic Means unless otherwise provided herein and, if by a telecommunications device not capable of producing a written notice,

confirmed in writing as soon as practicable. Any notice to or demand upon the Trustee may be served or presented, and such demand may be made, at the Trust Office of the Trustee or at such other address as may have been filed in writing by the Trustee with the Authority. Any notice to or demand upon the Authority shall be deemed to have been sufficiently given or served for all purposes by being delivered or sent by Electronic Means to any address designated by the Authority in writing (initially fax 760.753.5935 or email kinkelp@SEJPA.org) or by being deposited, postage prepaid, in a U.S. Postal Service letter box, addressed to the Authority at 2695 Manchester Avenue, Cardiff, California 92007, Attention: General Manager (or such other addresses as may have been filed in writing by the Authority with the Trustee). Notwithstanding the foregoing provisions of this Section 11.07, the Trustee shall not be deemed to have received, and shall not be liable for failing to act upon the contents of any notice, unless and until the Trustee actually receives such notice.

Section 11.08 Evidence of Rights of Owners of Series 2017 Bonds. Any request, consent or other instrument required or permitted by this Series 2017 Indenture to be signed and executed by Owners of Series 2017 Bonds may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Owners of Series 2017 Bonds in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Series 2017 Bonds transferable by delivery, shall be sufficient for any purpose of this Series 2017 Indenture and shall be conclusive in favor of the Trustee and of the Authority if made in the manner provided in this Section 11.08. The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged as to the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer. The ownership of Series 2017 Bonds shall be proved by the Registration Books. Any request, consent, or other instrument or writing of the Owner of any Series 2017 Bond shall bind every future Owner of the same Series 2017 Bond and the Owner of every Series 2017 Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority in accordance therewith or reliance thereon.

Section 11.09 Disqualified Series 2017 Bonds. In determining whether the Owners of the requisite aggregate principal amount of Series 2017 Bonds have concurred in any demand, request, direction, consent or waiver under this Series 2017 Indenture, Series 2017 Bonds which are owned or held by or for the account of the Authority, either City or any other obligor on the Series 2017 Bonds, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority, either City or any other obligor on the Series 2017 Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, but only to the extent the Trustee has actual knowledge of such ownership. Series 2017 Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section 11.09 if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Series 2017 Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority, either City or any other obligor on or with respect to the Series 2017 Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

Section 11.10 Money Held for Particular Series 2017 Bonds. The money held by the Trustee for the payment of the interest, principal, or Redemption Price due on any date with respect to particular Series 2017 Bonds (or portions of Series 2017 Bonds in the case of Series 2017 Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Series 2017 Bonds entitled thereto, subject, however, to the provisions of Section 10.04 of this Series 2017 Indenture.

Section 11.11 Funds and Accounts. The Trustee may establish such funds and accounts as it deems necessary or appropriate to fulfill its obligations under this Series 2017 Indenture. Any fund required by this Series 2017 Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds shall at all times be maintained in accordance with customary standards of the industry, to the extent practicable, and with due regard for the requirements of Section 8.05 of this Series 2017 Indenture and for the protection of the security of the Series 2017 Bonds and the rights of every Owner thereof.

Notwithstanding any other provision of this Series 2017 Indenture, the Trustee shall be required to open any funds or accounts only when it receives, or is notified that it will receive, funds or moneys to be deposited and maintained in such funds or accounts.

Section 11.12 **Business Days.** If any date specified herein shall not be a Business Day, any action required on such date may be made on the next succeeding Business Day with the same effect as if made on such date.

Section 11.13 **Governing Law, Venue.** This Series 2017 Indenture and the Series 2017 Bonds are contracts made under the laws of the State, and shall be construed in accordance with and governed by the constitution and the laws of the State applicable to contracts made and performed in the State. This Series 2017 Indenture and the Series 2017 Bonds shall be enforceable in the State, and, to the extent permitted by law, any action arising hereunder shall (unless waived by the Authority in writing) be filed and maintained in the County of San Diego, California.

Section 11.14 **Execution in Several Counterparts.** This Series 2017 Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the SAN ELIJO JOINT POWERS AUTHORITY has caused this Series 2017 Indenture to be signed in its name by an authorized representative of the Authority and MUFU UNION BANK, N.A., as Trustee, in token of its acceptance of the trusts created hereunder, has caused this Series 2017 Indenture to be signed in its corporate name by its duly authorized officer, all as of the day and year first above written.

SAN ELIJO JOINT POWERS AUTHORITY

By: _____
General Manager

MUFU UNION BANK, N.A., as Trustee

By: _____
Authorized Officer

EXHIBIT A

FORM OF SERIES 2017 BOND

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

NUMBER	AMOUNT
R 1	\$ _____

SAN ELIJO JOINT POWERS AUTHORITY

2017 REVENUE BONDS
(CLEAN WATER PROJECTS)

Interest Rate	Maturity Date	Dated Date	CUSIP Number
%	March 1, 20__	July __, 2017	_____

REGISTERED HOLDER: CEDE & CO., INC.

PRINCIPAL AMOUNT: _____

SAN ELIJO JOINT POWERS AUTHORITY, a joint exercise of powers authority organized and existing under the laws of the State of California (herein called the "Authority"), for value received, hereby promises to pay (but only out of the Revenues and other assets pledged therefor) to the registered holder stated above, or registered assigns, on the maturity date specified above (subject to any right of prior redemption), the principal amount stated above in lawful money of the United States of America; and to pay interest thereon (but only from said Revenues and other assets so pledged therefor) in like lawful money from the date hereof until payment of such principal sum shall be discharged as provided in the Series 2017 Indenture hereinafter mentioned, at the rate per annum stated above, payable March 1 and September 1 of each year, commencing September 1, 2017. Capitalized terms used and not otherwise defined herein have the meanings provided in the Series 2017 Indenture of Trust, dated as of June 1, 2017 (the "Series 2017 Indenture"), by and between the Authority and MUFG Union Bank, N.A., as trustee (together with any successor trustee, herein called the "Trustee"), pursuant to which the Series 2017 Bonds are issued. The principal (or Redemption Price) hereof is payable upon surrender at the Trust Office of the Trustee. Interest hereon is payable by check mailed by first-class mail on each interest payment date (except with respect to defaulted interest) to the Person whose name appears on the bond Registration Books of the Trustee as the registered Owner hereof as of the close of business on the fifteenth calendar day of the month preceding such interest payment date (the "Record Date"), whether or not such day is a Business Day, at the address appearing on the Registration Books, or by wire transfer to an account within the United States of America to any registered Owner of at least \$1,000,000 in principal amount of Series 2017 Bonds if such registered Owner has submitted a written request for such wire transfer or by deposit to the Trustee at least one Business Day prior to the Record Date. Interest shall be calculated on a 360-day year basis of twelve 30-day months.

This Bond is one of a duly authorized issue of bonds of the Authority designated as “San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects)” (herein called the “Bonds”), limited in aggregate principal amount to \$_____ and issued pursuant to the Series 2017 Indenture. The Bonds are issued for the purpose of making loans to the City of Encinitas and the City of Solana Beach (herein called the “Cities”), pursuant to Series 2017 Loan Agreements, each dated as of June 1, 2017 (herein called the “Series 2017 Loan Agreements”), between the Authority and each of the Cities, respectively, for the purposes and on the terms and conditions set forth in said Series 2017 Loan Agreements.

Reference is hereby made to the Series 2017 Indenture (a copy of which is on file at said Trust Office of the Trustee) and all indentures supplemental thereto and, to the Series 2017 Loan Agreements (copies of which are on file at said Trust Office of the Trustee) for a description of the rights thereunder of the registered Owners of the Bonds, of the nature and extent of the security, of the rights, duties and immunities of the Trustee and of the rights and obligations of the Authority thereunder, to all the provisions of the Series 2017 Indenture and Series 2017 Loan Agreements the registered Owner of this Bond, by acceptance hereof, assents and agrees. All capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Series 2017 Indenture.

The Bonds and the interest thereon are payable from Revenues and, from certain funds and accounts established and maintained under the Series 2017 Indenture, and are secured by a pledge and assignment of said Revenues and of amounts held in the funds and accounts established pursuant to the Series 2017 Indenture (including proceeds of the sale of the Bonds but excluding amounts held in the Series 2017 Rebate Fund), subject only to the provisions of the Series 2017 Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Series 2017 Indenture.

THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. THE AUTHORITY SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS, OR THE REDEMPTION PRICE OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED THEREFOR UNDER THE SERIES 2017 INDENTURE, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE REDEMPTION PRICE OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

None of the Authority, either of the Cities or any Person executing the Bonds is liable personally on the Bonds or subject to any personal liability or accountability by reason of their issuance.

The Authority shall not be liable for payment of the principal of, Redemption Price, if any, or interest on the Bonds or any other costs, expenses, losses, damages, claims or actions of any conceivable or other kind on any conceivable or other theory, under or by reason of or in connection with the Series 2017 Indenture, the Bonds or any other documents, except only to the extent amounts are received for the payment thereof from the Cities under the respective Series 2017 Loan Agreements.

The Bonds are subject to redemption prior to their stated maturity, at the times and Redemption Prices, upon the notice and subject to the terms and conditions set forth in the Series 2017 Indenture. If this Bond is called for redemption and payment is duly provided therefor as specified in the Series 2017 Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

If an Event of Default shall occur, the principal of all Bonds may be declared due and payable upon the conditions, in the manner and with the effect provided in the Series 2017 Indenture. The Series 2017 Indenture provides that in certain events such declaration and its consequences may be rescinded by the Owners of not less than a majority in aggregate principal amount of the Bonds then outstanding or by the Trustee.

The Bonds are issuable only as fully registered Bonds in denominations of \$5,000 or any integral multiple of \$5,000. Subject to the limitations and upon payment of the charges, if any, provided in the Series 2017 Indenture, Bonds may be exchanged, at the Trust Office of the Trustee, for a like aggregate principal amount of Series 2017 Bonds of authorized denominations of the same series, terms and maturity.

This Bond is transferable by the registered holder hereof, in person or by an attorney duly authorized in writing, at the Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges, if any, provided in the Series 2017 Indenture, and upon surrender and cancellation of this Bond. Upon such transfer a Bond or Bonds, of authorized denomination or denominations, of the same series, terms and maturity and for the same aggregate principal amount, will be issued to the transferee in exchange therefor.

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

The Series 2017 Indenture and the rights and obligations of the Authority and of the registered Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time in the manner, to the extent, subject to the conditions and upon the terms provided in this Series 2017 Indenture.

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

This Series 2017 Bond shall not be entitled to any benefit under the Series 2017 Indenture, or become valid or obligatory for any purpose, until the certificate of authentication and registration hereon endorsed shall have been signed by the Trustee.

IN WITNESS WHEREOF, SAN ELIJO JOINT POWERS AUTHORITY has caused this Bond to be executed in its name and on its behalf by the facsimile signature of its General Manager, as of the date set forth above.

SAN ELIJO JOINT POWERS AUTHORITY

By: _____
General Manager

[FORM OF TRUSTEE'S CERTIFICATE OF
AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within mentioned Series 2017 Indenture, which has been authenticated on the date set forth below.

Dated: _____

MUFG UNION BANK, N.A., as Trustee

By: _____
Authorized Officer

[FORM OF ASSIGNMENT]

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto

(Social Security or Federal Taxpayer Identification Number)

(Please print or typewrite Name and Address, including Zip Code, of Assignee)

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints the Trustee under the Series 2017 Indenture as registrar and attorney to register the transfer of the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature guaranteed by:

NOTICE: Signature(s) must be guaranteed by an “eligible guarantor institution” that is a member of or a participant in a “signature guarantee program” (e.g., the Securities Transfer Agents Medallion Program, the Stock Exchange Medallion Program or the New York Stock Exchange, Inc. Medallion Signature Program.

NOTICE: The signature of the registered Owner to this assignment must correspond with the name as it appears on the face of the within Bond in every particular, without alteration or enlargement or any change whatsoever.

EXHIBIT B

FORM OF REQUISITION OF THE AUTHORITY FROM COSTS OF ISSUANCE FUND

**SAN ELIJO JOINT POWERS AUTHORITY
2017 REVENUE BONDS (CLEAN WATER PROJECTS)**

COSTS OF ISSUANCE FUND REQUISITION 2017-__

NOTE: All payments pursuant to this Requisition shall be made by check or wire transfer in accordance with the payment instructions set forth in Schedule I attached hereto ("Schedule I"), and the Trustee shall rely on such payment instructions with no duty to investigate or inquire as to the authenticity of the payment instructions or the authority under which they were given.

The undersigned Authorized Representative of San Elijo Joint Powers Authority ("Authority") hereby requests MUFG Union Bank, N.A., as trustee (the "Trustee") under that certain Indenture of Trust, dated as of June 1, 2017 (the "Series 2017 Indenture"), between the San Elijo Joint Powers Authority and the Trustee, to pay to the Persons listed on Schedule I, the fixed (or not-to-exceed, where expressly so stated) amounts shown for the purposes indicated from the Costs of Issuance Fund established and maintained under the Series 2017 Indenture.

The Authority hereby certifies that obligations in amounts stated in this Requisition have been incurred by or on behalf of the Authority and are presently due and payable and each item is a proper charge against the Costs of Issuance Fund and has not been previously paid from the Costs of Issuance Fund.

Dated: _____

SAN ELIJO JOINT POWERS AUTHORITY

By: _____
Authorized Signatory

**SAN ELIJO JOINT POWERS AUTHORITY
2017 REVENUE BONDS (CLEAN WATER PROJECTS)**

SCHEDULE I

(COSTS OF ISSUANCE FUND REQUISITION)

Item no.	Name/Address/Payment Instructions	Amount	Purpose
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EXHIBIT C

FORM OF REQUISITION OF THE AUTHORITY FROM SERIES 2017 PROJECT FUND

**SAN ELIJO JOINT POWERS AUTHORITY
2017 REVENUE BONDS (CLEAN WATER PROJECTS)**

SERIES 2017 PROJECT FUND REQUISITION 2017-__

NOTE: All payments pursuant to this Requisition shall be made by check or wire transfer in accordance with the payment instructions set forth in Schedule I attached hereto ("Schedule I"), and the Trustee shall rely on such payment instructions with no duty to investigate or inquire as to the authenticity of the payment instructions or the authority under which they were given.

The undersigned Authorized Representative of San Elijo Joint Powers Authority ("Authority") hereby requests MUFG Union Bank, N.A., as trustee (the "Trustee") under that certain Indenture of Trust, dated as of June 1, 2017 (the "Series 2017 Indenture"), between the San Elijo Joint Powers Authority and the Trustee, to pay to the Persons listed on Schedule I, the amounts shown for the purposes indicated from the Series 2017 Project Fund established and maintained under the Series 2017 Indenture.

The Authority hereby certifies that obligations in amounts stated in this Requisition have been incurred by or on behalf of the Authority and are presently due and payable and each item is a proper charge against the Series 2017 Project Fund and has not been previously paid from the Series 2017 Project Fund.

Dated: _____

SAN ELIJO JOINT POWERS AUTHORITY

By: _____
Authorized Signatory

SCHEDULE I

(SERIES 2017 PROJECT FUND REQUISITION)

Item no.	Name/Address/Payment Instructions	Amount	Purpose
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SERIES 2017 LOAN AGREEMENT

by and between the

CITY OF ENCINITAS

("ENCINITAS")

(as successor to the CARDIFF SANITATION DISTRICT)

and the

SAN ELIJO JOINT POWERS AUTHORITY

("AUTHORITY")

relating to

\$ _____

San Elijo Joint Powers Authority

2017 Revenue Bonds

(Clean Water Projects)

Dated as of June 1, 2017

TABLE OF CONTENTS

ARTICLE I. DEFINITIONS; RULES OF CONSTRUCTION; 2011 AGREEMENT 2
 Section 1.01 Definitions 2
 Section 1.02 Rules of Construction 4
 Section 1.03 2011 Agreement 4

ARTICLE II. THE SERIES 2017 LOAN; LOAN INSTALLMENTS, PAYMENTS AND PREPAYMENTS;
APPLICATION OF SERIES 2017 LOAN PROCEEDS 4
 Section 2.01 Authorization 4
 Section 2.02 Loan Payments 4
 Section 2.03 Optional Prepayment 4
 Section 2.04 Validity of Series 2017 Loan 5

ARTICLE III. PLEDGE OF SYSTEM REVENUES; RATE COVENANT; PARITY DEBT 5
 Section 3.01 Pledge of System Revenues; Deposits to Pay Loan Installments 5
 Section 3.02 Rate Covenant 5
 Section 3.03 Limitations on Future Obligations Secured by System Revenues 5
 Section 3.04 Additional Payments 6

ARTICLE IV. OTHER COVENANTS OF ENCINITAS 6
 Section 4.01 Punctual Payment 6
 Section 4.02 Limitation on Superior Debt 6
 Section 4.03 Payment of Claims 6
 Section 4.04 Books and Accounts; Financial Statements 6
 Section 4.05 Protection of Security and Rights 7
 Section 4.06 Payments of Taxes and Other Charges 7
 Section 4.07 Operation of Its City System 7
 Section 4.08 Payment of Expenses; Indemnification 7
 Section 4.09 Private Activity Bond Limitation 7
 Section 4.10 Federal Guarantee Prohibition 7
 Section 4.11 Continuing Disclosure 7
 Section 4.12 No Termination of Basic Agreement 7
 Section 4.13 Further Assurances 8

ARTICLE V. EVENTS OF DEFAULT AND REMEDIES 8
 Section 5.01 Events of Default 8
 Section 5.02 Application of Funds Upon Default 9
 Section 5.03 No Waiver 9
 Section 5.04 Effects of Outcome 9
 Section 5.05 Remedies Not Exclusive 9

ARTICLE VI. MISCELLANEOUS 9
 Section 6.01 Benefits Limited to Parties and Trustee 9
 Section 6.02 Successor Is Deemed Included in All References to Predecessor 10
 Section 6.03 Discharge of Amended Agreement 10
 Section 6.04 Amendment 10
 Section 6.05 Waiver of Personal Liability 10
 Section 6.06 Payment or Performance on Business Days 10
 Section 6.07 Notices 10
 Section 6.08 Partial Invalidity 11
 Section 6.09 Governing Law 11

EXHIBIT A: LOAN INSTALLMENTS A-1

SERIES 2017 LOAN AGREEMENT

This **SERIES 2017 LOAN AGREEMENT** (“Series 2017 Loan Agreement”) is made and entered into as of June 1, 2017, by and between the **CITY OF ENCINITAS** (“Encinitas”), a general law city duly organized and existing under the laws of the State of California (the “State”), as successor to the **CARDIFF SANITATION DISTRICT** (the “Cardiff Sanitation District”), a county sanitation district duly organized and existing under the laws of the State, and the **SAN ELIJO JOINT POWERS AUTHORITY** (the “Authority”), a joint powers authority organized and existing under the laws of the State.

RECITALS:

WHEREAS, the Cardiff Sanitation District existed as a county sanitation district duly established and authorized to transact business and exercise powers under and pursuant to the provisions of Chapter 3, Part 3 of Division 5 of the Health and Safety Code of the State of California (the “County Sanitation District Act”), and had the power under section 4764 of the County Sanitation District Act to borrow money and incur indebtedness; and

WHEREAS, the Cardiff Sanitation District borrowed amounts under a loan agreement, dated as of March 1, 1990, by and among the Cardiff Sanitation District, State Street Bank and Trust Company of California, N.A., as trustee, and the Authority (the “1990 Agreement”) for the purpose of raising funds to assist in the financing of the wastewater treatment facilities; and

WHEREAS, concurrent with the execution and delivery of the 1990 Agreement, the Authority issued its \$24,465,000 aggregate principal amount of San Elijo Joint Powers Authority 1990 Revenue Bonds (San Elijo Water Pollution Control Facility Upgrade and Expansion Project) for the purpose of providing funds to make a loan to the Cardiff Sanitation District pursuant to the 1990 Agreement, as well as a loan to the Solana Beach Sanitation District (“Solana Beach Sanitation District”); and

WHEREAS, the Cardiff Sanitation District borrowed amounts under that certain Amended and Restated Loan Agreement, dated as of March 15, 1993, among the Cardiff Sanitation District, State Street Bank and Trust Company of California, N.A., as trustee, and the Authority (the “1993 Agreement”) for the purpose of raising funds to refund the 1990 Agreement in part; and

WHEREAS, concurrent with the execution and delivery of the 1993 Agreement, the Authority issued its \$22,565,000 aggregate principal amount of San Elijo Joint Powers Authority 1993 Refunding Revenue Bonds (San Elijo Water Pollution Control Facility) (the “1993 Bonds”) for the purpose of refunding in part the 1990 Bonds; and

WHEREAS, the Cardiff Sanitation District was merged into Encinitas October 18, 2001, and under section 57531 of the Government Code of the State of California, as amended, Encinitas is the successor in interest to all of the rights and obligations of the Cardiff Sanitation District; and

WHEREAS, Encinitas borrowed amounts under that certain Second Amended and Restated Loan Agreement, dated as of April 1, 2003, among the Authority, Union Bank of California, N.A. (now known as MUFG Union Bank, N.A.), as trustee, and Encinitas (the “2003 Agreement”) for the purpose of raising funds to refund the 1993 Agreement; and

WHEREAS, concurrent with the execution and delivery of the 2003 Agreement, the Authority issued its \$18,640,000 aggregate principal amount of San Elijo Joint Powers Authority 2003 Refunding Revenue Bonds (San Elijo Wastewater Treatment Facilities) (the “2003 Bonds”) for the purpose of refunding the 1993 Bonds; and

WHEREAS, Encinitas borrowed amounts under that certain Third Amended and Restated Loan Agreement, dated as of December 1, 2011, among the Authority, Union Bank, N.A. (now known as MUFG Union Bank, N.A.), as trustee (the “2011 Trustee”), and Encinitas (the “2011 Agreement”) for the purpose of raising funds to refund the 2003 Agreement; and

WHEREAS, concurrent with the execution and delivery of the 2011 Agreement, the Authority issued its \$9,235,000 aggregate principal amount of San Elijo Joint Powers Authority 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facility) (the “2011 Bonds”) for the purpose, among others, of refunding the

2003 Bonds, all pursuant to that certain Indenture of Trust, dated as of December 1, 2011 (the “2011 Indenture”), by and between the Authority and the 2011 Trustee; and

WHEREAS, as of the date of this Series 2017 Loan Agreement, certain 2011 Bonds remain Outstanding (as such term is defined in the 2011 Indenture) and secured by and payable from certain revenues received by the 2011 Trustee under the 2011 Agreement; and

WHEREAS, the Authority, Encinitas and the City of Solana Beach (“Solana Beach”) desire that the Authority execute the initial phases of a new capital facilities construction plan, to include (among other things) the planning, design, acquisition, construction, renovation, improvement, equipping, furnishing, upgrading and/or installation of (a) wastewater treatment facilities; (b) water reclamation and recycling facilities; and (c) related and ancillary storage, transport, operations, administrative, safety, security and other public facilities and systems (collectively, the “Project”) for the purpose of serving the public needs of Encinitas, Solana Beach and other municipal customers of the Authority; and

WHEREAS, for the purpose of providing financing for the Project, the Authority has authorized the issuance of its San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects) (the “Series 2017 Bonds”) in the aggregate principal amount of \$_____, pursuant to the provisions of that certain Series 2017 Indenture of Trust, dated as of June 1, 2017 (the “Series 2017 Indenture”), by and between the Authority and the Trustee; and

WHEREAS, the Authority and Encinitas desire that the Authority fund a loan (“Series 2017 Loan”) to Encinitas for the purpose of financing the Project and for the payment of the principal of, Redemption Price (as defined in the Series 2017 Indenture), and interest on the Series 2017 Bonds and certain related expenses pursuant to this Series 2017 Loan Agreement; and

WHEREAS, in order to establish and declare the terms and conditions upon which the Series 2017 Loan is to be made and secured, Encinitas and the Authority wish to enter into this Series 2017 Loan Agreement; and

WHEREAS, all acts and proceedings required by law necessary to make this Series 2017 Loan Agreement, when executed by Encinitas and the Authority, the valid, binding and legal obligation of Encinitas and to constitute this Series 2017 Loan Agreement a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Series 2017 Loan Agreement have been in all respects duly authorized;

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained and for other valuable consideration, the receipt and sufficiency whereof are hereby acknowledged, the parties to this Series 2017 Loan Agreement hereby agree as follows:

ARTICLE I.

DEFINITIONS; RULES OF CONSTRUCTION; 2011 AGREEMENT

Section 1.01 **Definitions**. Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms in this Series 2017 Loan Agreement shall have the respective meanings which such terms have in the Series 2017 Indenture. In addition, the following terms defined in this Section 1.01 shall, for all purposes of this Series 2017 Loan Agreement, have the respective meanings herein specified. All terms defined in the recitals hereof shall have the meanings ascribed to those terms in the recitals.

“*2011 Agreement*” means the Third Amended and Restated Loan Agreement, dated as of December 1, 2011, among the Authority, the 2011 Trustee and Encinitas.

“*2011 Bonds*” means the San Elijo Joint Powers Authority 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facility).

“*2011 Trustee*” means MUFJ Union Bank, N.A. (formerly known as Union Bank, N.A.), as trustee under the 2011 Indenture.

“*Basic Agreement*” means the Basic Agreement, dated June 17, 1987, between the Cardiff Sanitation District and the Solana Beach Sanitation District, as amended from time to time, under which the Authority was created.

“*City System*” means the Cardiff Sanitary Division system owned and operated for the purpose of wastewater collection, treatment, reclamation, recycling and disposal.

“*Due Date*” means the date occurring four Business Days before each March 1 and September 1, commencing four Business Days prior to September 1, 2017.

“*Event of Default*” means any of the events described in Section 5.01 of this Series 2017 Loan Agreement.

“*Fiscal Year*” means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority as its official fiscal year period.

“*Gross Revenues*” means all gross income and revenue received by Encinitas for the collection, treatment, reclamation, recycling and disposal of wastewater, including, without limiting the generality of the foregoing, (a) all income, rents, rates, fees, charges or other moneys derived from the services, facilities and commodities sold, furnished or supplied through the facilities of its City System and the Wastewater Enterprise Facilities, and (b) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys, and (c) transfers to the Cardiff Sanitary Division enterprise fund of Encinitas (but exclusive of any transfers to) any rate stabilization reserve accounts; provided, that the term “Gross Revenues” shall not include customers’ deposits or any other deposits subject to refund until such deposits have become the property of Encinitas.

“*Loan Installments*” means installments of principal and interest components of the Series 2017 Loan, payable in the amounts and at the times specified in Section 2.02 of this Series 2017 Loan Agreement.

“*Operation and Maintenance Expenses*” means: (a) all expenses and costs of management, operation, maintenance and repair incurred by Encinitas for the collection of wastewater in the Cardiff Sanitation Division, as well as the cost of maintaining its City System, and all incidental costs, fees and expenses properly chargeable to its City System in the Cardiff Sanitation Division (but excluding debt service or other similar payments on Parity Debt or other obligations and depreciation and obsolescence charges or reserves therefor and amortization of intangibles and inter-fund transfers or other bookkeeping entries of a similar nature); and (b) all expenses and costs of management, operation, maintenance and repair billed by the Authority to Encinitas for the treatment of wastewater at the Wastewater Enterprise Facilities, as well as the cost of maintaining the Wastewater Enterprise Facilities and all incidental costs, fees and expenses properly chargeable to the Wastewater Enterprise Facilities, which expenses and costs are billed to Encinitas. “Operation and Maintenance Expenses” does not include the Loan Installments or the expenses and costs of management, operation, maintenance and repair of the Water Reclamation Facilities.

“*Parity Debt*” means indebtedness or other obligations (including leases and loan agreements) hereafter issued or incurred and secured by a pledge of and lien on System Revenues equally and ratably with the Loan Installments and, until no 2011 Bonds remain Outstanding under the 2011 Indenture, the 2011 Agreement.

“*Proportionate Share*” means fifty percent (50 %).

“*Series 2017 Bonds*” means the \$ _____ aggregate principal amount of the Series 2017 Bonds issued and at any time Outstanding under the Series 2017 Indenture.

“*Series 2017 Indenture*” means the Series 2017 Indenture of Trust, dated as of June 1, 2017, by and between the Authority and the Trustee, as originally entered into or as amended or supplemented pursuant to the provisions thereof.

“*Series 2017 Loan*” means the loan made by the Authority to Encinitas pursuant to this Series 2017 Loan Agreement.

“*System Revenues*” means Gross Revenues less Operation and Maintenance Expenses.

“*Trustee*” means MUFG Union Bank, N.A., as trustee under the Series 2017 Indenture, and in no other capacity.

“*Wastewater Enterprise Facilities*” means any and all facilities of any kind or purpose of or used by the Authority (excluding the Authority’s Water Reclamation Facilities) used for the treatment and disposal of wastewater, including without limitation sewage treatment plants, intercepting and collecting sewers, outfall sewers,

force mains, pumping stations, ejector stations, pipes, valves, machinery, safety and systems for the protection, monitoring, command, control and operation thereof, and all other appurtenances necessary, useful or convenient for the foregoing, and any necessary lands, rights of way and other real or personal property useful in connection therewith.

“*Water Reclamation Facilities*” means the Authority’s recycled water production and distribution facilities to the extent such facilities are used or useful in the Authority’s tertiary treatment, sale and delivery of recycled water.

“*Written Request of Encinitas*” or “*Written Certificate of Encinitas*” means a request or certificate, in writing, signed by the Encinitas City Manager, the Finance Director or City Clerk of Encinitas or by any other officer of Encinitas duly authorized by Encinitas for that purpose.

Section 1.02 **Rules of Construction.** All references in this Series 2017 Loan Agreement to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Series 2017 Loan Agreement, and the words “herein,” “hereof,” “hereunder” and other words of similar import refer to this Series 2017 Loan Agreement as a whole and not to any particular Article, Section or subdivision of this Series 2017 Loan Agreement.

Section 1.03 **2011 Agreement.** This Agreement does not amend the 2011 Agreement, and for all purposes of or in connection with the 2011 Bonds, the provisions of the 2011 Agreement shall remain in full force and effect. To the extent any provision of this Series 2017 Loan Agreement may conflict with any provision of the 2011 Agreement, the provisions of the 2011 Agreement as in effect immediately prior to the execution and delivery of this Series 2017 Loan Agreement shall control and govern as to all matters related to the 2011 Bonds until no 2011 Bonds remain Outstanding under the 2011 Indenture. All references to the 2011 Trustee in this Series 2017 Loan Agreement are to the 2011 Trustee acting solely in such capacity and not with respect to the Series 2017 Bonds. Accordingly, the 2011 Trustee is neither a party to, nor shall have any obligation under, this Series 2017 Loan Agreement.

ARTICLE II.

THE SERIES 2017 LOAN; LOAN INSTALLMENTS, PAYMENTS AND PREPAYMENTS; APPLICATION OF SERIES 2017 LOAN PROCEEDS

Section 2.01 **Authorization.** Encinitas hereby agrees to pay the Series 2017 Loan, in the aggregate principal amount of _____ Dollars (\$ _____) pursuant to the terms of this Series 2017 Loan Agreement. This Series 2017 Loan Agreement constitutes a continuing agreement with the Authority to secure the full and final payment of the Series 2017 Loan, subject to the covenants, agreements, provisions and conditions contained in this Series 2017 Loan Agreement.

Section 2.02 **Loan Payments.** The principal of and interest on the Series 2017 Loan shall be payable in Loan Installments on each Due Date in each of the years and in the amounts as set forth in Exhibit A to this Series 2017 Loan Agreement. The interest component of each Loan Installment of the Series 2017 Loan shall be calculated on the basis of a 360-day year of twelve 30-day months, and shall accrue on the principal components of each Loan Installment from and including the Closing Date to but not including the September 1 or March 1 with respect to which such Loan Installment is payable. Interest on the Series 2017 Loan shall be payable on each Interest Payment Date. Any Loan Installment of principal or interest which is not paid when due shall continue to accrue interest from and including the Interest Payment Date with respect to which such principal or interest is payable to but not including the date of actual payment. Principal of and interest on the Series 2017 Loan shall be payable by Encinitas to the Trustee, as assignee of the Authority under the Series 2017 Indenture, in immediately available funds which constitute lawful money of the United States of America. Payment of such principal and interest shall be secured, and amounts for the payment thereof shall be deposited with the Trustee at the times, as set forth in Article III of this Series 2017 Loan Agreement.

Section 2.03 **Optional Prepayment.** If and when the Authority is permitted under the Series 2017 Indenture to exercise its option to redeem Series 2017 Bonds prior to their stated maturity, then Encinitas may prepay the Series 2017 Loan under the terms of this Section 2.03. Encinitas shall be required to give the Authority and the Trustee written notice (which may be revocable) of its intention to prepay the Series 2017 Loan under this Section

2.03 at least 60 days prior to the date fixed for such prepayment, and shall transfer to the Trustee all amounts required for such prepayment at least four Business Days prior to the date fixed for such prepayment.

Section 2.04 **Validity of Series 2017 Loan.** The validity of the Series 2017 Loan shall not be dependent upon the operation or functioning of the City System or the Wastewater Enterprise Facilities or upon the performance by any Person of any obligation with respect to the City System or the Wastewater Enterprise Facilities.

ARTICLE III.

PLEDGE OF SYSTEM REVENUES; RATE COVENANT; PARITY DEBT

Section 3.01 **Pledge of System Revenues; Deposits to Pay Loan Installments.**

(a) *Pledge of System Revenues.* Encinitas hereby agrees that the payment of the Loan Installments shall be secured by a first and prior pledge, charge and lien upon System Revenues, and System Revenues sufficient to pay the Loan Installments as they become due and payable are hereby pledged, charged, assigned, transferred and set over by Encinitas to the Authority and its assigns for the purpose of securing payment of the Loan Installments. The System Revenues shall constitute a trust fund for the security and payment of the Loan Installments. If System Revenues are ever insufficient to pay Loan Installments as the same becomes due and payable, Encinitas shall pay Loan Installments from funds of Encinitas lawfully available therefor. Encinitas further agrees that none of the System Revenues shall be transferred or paid into its general fund unless and until the then required payments of the Loan Installments and all other payments required hereby have been made. The obligation to pay Loan Installments constitutes an absolute and unconditional special obligation of Encinitas, payable from a first and prior lien on its System Revenues, together with other funds of Encinitas lawfully available therefor, and certain interest and other income derived from the investment of the funds and accounts held by the Trustee pursuant to the Series 2017 Indenture (other than the Series 2017 Rebate Fund). Encinitas's liability for the payment of its Loan Installments is limited to System Revenues and other funds of Encinitas lawfully available therefor.

(b) *Transfer To Pay Loan Installments.* In order to provide for the payment of Loan Installments when due, Encinitas shall, on or before each Due Date, transfer to the Trustee for deposit into the Revenue Fund the amount required under Section 2.02 of this Series 2017 Loan Agreement as required for the next occurring Interest Payment Date; provided, however, that, to the extent interest or income earned on the Revenue Fund are remaining in the Revenue Fund, Encinitas' payment obligations for interest on such Due Date shall be paid from such interest or income.

Section 3.02 **Rate Covenant.** Encinitas hereby covenants that it shall prescribe, revise and collect such charges for the services and facilities provided by its City System and the Wastewater Enterprise Facilities which, after allowances for contingencies and error in the estimates, shall produce Gross Revenues sufficient in each Fiscal Year to provide System Revenues equal to at least 1.3 times the sum of (a) the Loan Installments coming due and payable during such Fiscal Year and (b) all payments required with respect to Parity Debt coming due and payable during such Fiscal Year.

Section 3.03 **Limitations on Future Obligations Secured by System Revenues.**

(a) *No Obligations Superior to Loan Installments.* In order to protect further the availability of the System Revenues and the security for the Loan Installments and any Parity Debt, Encinitas hereby agrees that Encinitas shall not, so long as any Series 2017 Bonds are outstanding, issue or incur any obligations payable from the System Revenues superior to the Loan Installments or such Parity Debt.

(b) *Parity Debt.* Encinitas further covenants that Encinitas shall not issue or incur any Parity Debt unless each of the following conditions is satisfied:

(i) Encinitas is not in default under the terms of this Series 2017 Loan Agreement;

(ii) System Revenues, calculated on sound accounting principles, as shown by the books of Encinitas for the latest Fiscal Year or any more recent 12-month period selected by Encinitas ending not more than 60 days prior to the adoption of the resolution pursuant to which instrument such Parity Debt is issued or incurred, as shown by the books of Encinitas, plus, at the option of Encinitas, either or both of the items hereinafter in this subsection designated (A) and (B), shall have amounted to at least 1.3 times the sum of the maximum Loan

Installments coming due and payable in any future Fiscal Year and the maximum annual debt service on all Parity Debt outstanding immediately subsequent to the incurring of such additional obligations.

Either or both of the following items may be added to such System Revenues for the purpose of applying the restriction contained in this subsection 00:

(A) An allowance for revenues from any additions to or improvements or extensions of its City System and the Wastewater Enterprise Facilities to be made with the proceeds of such additional obligations, and also for net revenues from any such additions, improvements or extensions which have been made from moneys from any source but which, during all or any part of such Fiscal Year, were not in service, all in an amount equal to 75% of the estimated additional average annual revenues to be derived from such additions, improvements and extensions for the first 36-month period following closing of the proposed Parity Debt, all as shown by the certificate or opinion of a qualified independent engineer employed by Encinitas or the Authority; and

(B) An allowance for earnings arising from any increase in the charges made for service from its City System and the Wastewater Enterprise Facilities which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year, was not in effect, in an amount equal to 100% of the amount by which revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year and any period prior to the incurring of such additional obligations, as shown by the certificate or opinion of a qualified independent engineer or rate consultant employed by Encinitas or the Authority.

Section 3.04 **Additional Payments.** In addition to the Loan Installments, Encinitas shall pay, from System Revenues, when due, its Proportionate Share of all costs and expenses incurred by the Authority to comply with the provisions of the Series 2017 Indenture and this Series 2017 Loan Agreement, including, without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund), compensation due to the Trustee for its fees, costs and expenses incurred under the Series 2017 Indenture and all costs and expenses of the Trustee.

ARTICLE IV.

OTHER COVENANTS OF ENCINITAS

Section 4.01 **Punctual Payment.** Encinitas will punctually pay or cause to be paid the principal of and interest on the Series 2017 Loan together with any prepayment premiums thereon, in strict conformity with the terms of this Series 2017 Loan Agreement, and it will faithfully observe and perform all of the conditions, covenants and requirements of this Series 2017 Loan Agreement.

Section 4.02 **Limitation on Superior Debt.** Encinitas hereby covenants that, so long as the Series 2017 Loan remains unpaid, Encinitas shall not issue any bonds, notes or other obligations, enter into any agreement or otherwise incur any loan, advances or indebtedness, which are in any case secured by a lien on all or any part of the System Revenues which is superior to or on a parity with the lien established under this Series 2017 Loan Agreement for the security of the Series 2017 Loan, excepting only Parity Debt issued pursuant to Section 3.03 of this Series 2017 Loan Agreement. Nothing herein is intended or shall be construed in any way to prohibit or impose any limitations upon the issuance by Encinitas of loans, bonds, notes, advances or other indebtedness which are unsecured or which are secured by any lien on the System Revenues that is subordinate to the lien established under this Series 2017 Loan Agreement.

Section 4.03 **Payment of Claims.** Encinitas will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the properties owned by Encinitas or upon the System Revenues or any part thereof, or upon any funds in the hands of the Trustee, or which might impair the security of the Series 2017 Loan. Nothing in this Series 2017 Loan Agreement shall require Encinitas to make any such payment so long as Encinitas in good faith shall contest the validity of said claims.

Section 4.04 **Books and Accounts; Financial Statements.** Encinitas will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of Encinitas and the Authority, in which complete and correct entries shall be made of all transactions relating to the System Revenues. Such books of

record and accounts shall at all times during business hours be subject, upon prior written request, to the reasonable inspection of the Authority, the Trustee and the Owners of any Series 2017 Bonds then Outstanding, or their representatives authorized in writing. Encinitas will cause to be prepared and filed with the Trustee annually, within six months after the close of each Fiscal Year so long as any of the Series 2017 Bonds are Outstanding, complete audited financial statements with respect to such Fiscal Year showing the System Revenues, all disbursements from its System Revenues and the financial condition of Encinitas, including the balances in all funds and accounts relating to its City System as of the end of such Fiscal Year. Encinitas will furnish a copy of such statements, upon reasonable request, to any Series 2017 Bond Owner. Encinitas shall review in each fiscal year, and take appropriate action to provide for, the future availability of sufficient System Revenues for the timely payments of debt service on the Series 2017 Loan and any Parity Debt. The Trustee is receiving such documentation merely as a file keeper and has no responsibility or duty to review or be familiar with the content thereof.

Section 4.05 Protection of Security and Rights. Encinitas will preserve and protect the security of the Series 2017 Loan and the rights of the Trustee and the Series 2017 Bond Owners with respect to the Series 2017 Loan. From and after the Closing Date, the Series 2017 Loan shall be incontestable by Encinitas.

Section 4.06 Payments of Taxes and Other Charges. Encinitas will pay and discharge, or cause to be paid and discharged, all taxes, service charges, assessments and other governmental charges which may hereafter be lawfully imposed upon Encinitas or the properties then owned by Encinitas, when the same shall become due. Nothing herein contained shall require Encinitas to make any such payment so long as Encinitas in good faith shall contest the validity of said taxes, assessments or charges. Encinitas will duly observe and conform with all valid requirements of any governmental authority relative to its City System or any part thereof.

Section 4.07 Operation of Its City System. Encinitas covenants to operate, or cause to be operated, its City System in accordance with customary standards and practices applicable to similar facilities, and to cause the Authority to operate, or cause to be operated, the Wastewater Enterprise Facilities in accordance with customary standards and practices applicable to similar facilities.

Section 4.08 Payment of Expenses; Indemnification. Upon the occurrence of an Event of Default, the Trustee shall have a first lien on the System Revenues to secure the payment to the Trustee of all fees, costs and expenses, including reasonable compensation to its experts, attorneys and counsel incurred in declaring such Event of Default and in exercising the rights and remedies set forth in Article V of this Series 2017 Loan Agreement. Encinitas further covenants and agrees (but only to the extent permitted by law) to indemnify and save the Trustee and its officers, directors, agents and employees, harmless against any losses, expenses and liabilities which the Trustee may incur arising out of or in the exercise and performance of its powers and duties under the Series 2017 Indenture, including the costs and expenses of defending against any claim of liability, but excluding any and all losses, expenses and liabilities which are due to the negligence or willful misconduct of the Trustee, its officers, directors, agents or employees. The obligations of Encinitas under this Section 4.08 shall survive the resignation or removal of the Trustee under the Series 2017 Indenture and payment of the Series 2017 Loan and the discharge of this Series 2017 Loan Agreement.

Section 4.09 Private Activity Bond Limitation. Encinitas shall assure that the proceeds of the Series 2017 Loan are not used so as to cause the Series 2017 Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

Section 4.10 Federal Guarantee Prohibition. Encinitas shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Series 2017 Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

Section 4.11 Continuing Disclosure. Encinitas hereby covenants and agrees that it will comply with and carry out all of the provisions of and its respective obligations under the Disclosure Agreement. Notwithstanding any other provision of this Series 2017 Loan Agreement, failure of Encinitas to comply with the Disclosure Agreement shall not be considered an Event of Default; however, any Owner or Beneficial Owner of the Series 2017 Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Section 4.12 No Termination of Basic Agreement. Encinitas, as successor in interest to the Cardiff Sanitation District, will not terminate the Basic Agreement so long as the Series 2017 Bonds are Outstanding.

Section 4.13 **Further Assurances.** Encinitas will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Series 2017 Loan Agreement and for the better assuring and confirming unto the Trustee, the Authority and the Owners of the Series 2017 Bonds of the rights and benefits provided in this Series 2017 Loan Agreement.

ARTICLE V.

EVENTS OF DEFAULT AND REMEDIES

Section 5.01 **Events of Default.** The following events shall constitute Events of Default under this Series 2017 Loan Agreement:

(a) Failure by Encinitas to pay the principal of or interest or prepayment premium (if any) on the Series 2017 Loan or any Parity Debt when and as the same shall become due and payable.

(b) Failure by Encinitas to observe and perform any of the covenants, agreements or conditions on its part contained in this Series 2017 Loan Agreement (or, until no 2011 Bonds remain Outstanding under the 2011 Indenture, the 2011 Agreement), other than as referred to in the preceding subsection 0, for a period of 60 days after written notice specifying such failure and requesting that it be remedied has been given to Encinitas by the Trustee, or to Encinitas and the Trustee by the Owners of not less than 25% in aggregate principal amount of the Outstanding Series 2017 Bonds; provided, however, that if in the reasonable opinion of Encinitas the failure stated in such notice can be corrected, but not within such 60-day period, the Trustee shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by Encinitas within such 60-day period and diligently pursued until such failure is corrected; provided, that in no event shall the cure period specified above exceed 90 days.

(c) The filing by Encinitas of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of Encinitas, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of Encinitas or of the whole or any substantial part of its property.

If a Loan Default Event has occurred and is continuing of which the Trustee has actual knowledge or is deemed to have knowledge under the Series 2017 Indenture, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Outstanding Series 2017 Bonds the Trustee shall (1) declare the principal of the Series 2017 Loan, together with the accrued interest on all unpaid Loan Installments thereof, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything in this Series 2017 Loan Agreement to the contrary notwithstanding, and (2) exercise any other remedies available to the Trustee in law or at equity. Promptly upon obtaining actual knowledge or being deemed to have knowledge under the Series 2017 Indenture of the occurrence of an Event of Default, the Trustee shall give notice of such Event of Default to Encinitas by telephone or other Electronic Means, promptly confirmed in writing. The provisions of this paragraph, however, are subject to the condition that if, at any time after the principal of the Series 2017 Loan shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, Encinitas shall deposit with the Trustee a sum sufficient to pay all Loan Installments of principal of the Series 2017 Loan matured prior to such declaration and all accrued interest thereon, with interest on such overdue Loan Installments of principal and interest at the net effective rate then borne by the Outstanding Series 2017 Bonds, and the reasonable expenses of the Trustee (including but not limited to attorneys' fees), and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Series 2017 Loan due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of a majority in aggregate principal amount of the Outstanding Series 2017 Bonds may, by written notice to the Trustee and Encinitas, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Section 5.02 **Application of Funds Upon Default.** All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of this Series 2017 Loan Agreement, or otherwise held by the Trustee upon the occurrence of a Loan Default Event, shall be applied by the Trustee in the following order:

(a) *First*, to the payment of the costs and expenses of the Trustee in declaring such Event of Default and in carrying out the provisions of this Article V, including reasonable compensation to its agents, attorneys and counsel and other amounts owing to the Trustee and secured by the lien granted to the Trustee pursuant to Section 4.08 of this Series 2017 Loan Agreement; and

(b) *Second*, to the payment of the whole amount of interest on and principal of the Series 2017 Loan then due and unpaid, with interest on overdue Loan Installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Series 2017 Bonds; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

(i) *first*, to the payment of all Loan Installments of interest on the Series 2017 Loan then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full,

(ii) *second*, to the payment of principal of all Loan Installments of the Series 2017 Loan then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such principal in full,

(iii) *third*, to the payment of principal of the Series 2017 Loan then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such principal in full, and

(iv) *fourth*, to the payment of interest on overdue Loan Installments of principal and interest, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full.

Section 5.03 **No Waiver.** Nothing in this Article V or in any other provision of this Series 2017 Loan Agreement shall affect or impair the obligation of Encinitas, which is absolute and unconditional, to pay from the System Revenues and other amounts pledged hereunder, the principal of and interest and premium (if any) on the Series 2017 Loan to the Trustee on the respective Interest Payment Dates, as herein provided, or affect or impair the right of action, which is also absolute and unconditional, of the Trustee to institute suit to enforce such payment by virtue of the contract embodied in this Series 2017 Loan Agreement. No waiver by the Trustee with respect to any default under this Series 2017 Loan Agreement shall affect any subsequent default or impair any rights or remedies with respect to any subsequent default. No delay or omission of the Trustee to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Trustee by law or by this Article V may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee.

Section 5.04 **Effects of Outcome.** If a suit, action or proceeding to enforce any right or exercise any remedy shall be abandoned or determined adversely the Authority or the Trustee, as assignee of the Authority, then Encinitas, the Authority and the Trustee shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

Section 5.05 **Remedies Not Exclusive.** No remedy conferred upon or reserved to the Trustee under this Series 2017 Loan Agreement is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under this Series 2017 Loan Agreement or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by law or in equity.

ARTICLE VI.

MISCELLANEOUS

Section 6.01 **Benefits Limited to Parties and Trustee.** Nothing in this Series 2017 Loan Agreement, expressed or implied, is intended to give to any Person other than Encinitas, the Trustee and the Authority, any right, remedy or claim under or by reason of this Series 2017 Loan Agreement. All covenants, stipulations, promises or agreements in this Series 2017 Loan Agreement contained by and on behalf of Encinitas shall be for the sole and

exclusive benefit of the Authority and of the Trustee acting as trustee for the benefit of the Owners of the Series 2017 Bonds and in no other capacity.

Section 6.02 **Successor Is Deemed Included in All References to Predecessor.** Whenever in this Series 2017 Loan Agreement any of Encinitas, the Authority or the Trustee is named or referred to, such reference shall be deemed to include the respective successors or assigns thereof, and all the covenants and agreements in this Series 2017 Loan Agreement contained by or on behalf of Encinitas, the Authority or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 6.03 **Discharge.** If Encinitas shall pay and discharge the entire indebtedness on the Series 2017 Loan in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the entire principal of and all interest and prepayment premiums (if any) on the Series 2017 Loan, as and when the same become due and payable;

(b) by irrevocably depositing with the Trustee, in trust, at or before maturity, cash in an amount which, together with the available amounts then on deposit in any of the funds and accounts established pursuant to the Series 2017 Indenture or this Series 2017 Loan Agreement, is fully sufficient to pay all principal of and interest and prepayment premiums (if any) on the Series 2017 Loan; or

(c) by irrevocably depositing with the Trustee or any other fiduciary, in trust, Federal Securities in such amount as an independent certified public accountant shall determine in a written report filed with the Trustee (upon which report the Trustee may conclusively rely) will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established pursuant to the Series 2017 Indenture or pursuant to this Series 2017 Loan Agreement, be fully sufficient to pay and discharge the indebtedness on the Series 2017 Loan (including all principal, interest and prepayment premiums) at or before maturity;

then, at the election of Encinitas, but only if the Series 2017 Bonds relating to this Series 2017 Loan Agreement have been fully paid or defeased, and all other amounts then due and payable under this Series 2017 Loan Agreement shall have been paid or provision for their payment made, the pledge of and lien upon the System Revenues and other funds provided for in this Series 2017 Loan Agreement and all other obligations of Encinitas and the Authority under this Series 2017 Loan Agreement with respect to the Series 2017 Loan shall cease and terminate, except only the obligation of Encinitas to pay or cause to be paid to the Trustee, from the amounts so deposited with the Trustee or such other fiduciary, all sums due with respect to the Series 2017 Loan and all expenses and costs of the Trustee. Encinitas shall file notice of such election with the Authority and the Trustee. Any funds thereafter held by the Trustee with respect to this Series 2017 Loan Agreement, which are not required for the purposes of this Section 6.03, shall be paid to Encinitas.

Section 6.04 **Amendment.** This Series 2017 Loan Agreement may be amended by the parties hereto but only under the circumstances set forth in, and in accordance with, the provisions of Section 6.09 of the Series 2017 Indenture. The Authority covenants that the Series 2017 Indenture shall not be amended without the prior written consent of Encinitas.

Section 6.05 **No Personal Liability.** No member, officer, agent or employee of Encinitas shall be individually or personally liable for the payment of the principal of or interest on the Series 2017 Loan; but no provision of this Series 2017 Loan Agreement shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

Section 6.06 **Payment or Performance on Business Days.** Whenever in this Series 2017 Loan Agreement any amount is required to be paid or act is required to be performed on a day which is not a Business Day, such payment or act, as applicable, shall be required to be made on the first Business Day immediately following such day, with the same force and effect as if done on the nominal date provided in this Series 2017 Loan Agreement.

Section 6.07 **Notices.** All written notices to be given under this Series 2017 Loan Agreement shall be given by Electronic Means or first class mail or personal delivery to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other party in writing from time to time. Notice shall be effective 48 hours after deposit in the United States mail, postage prepaid or, in the case of personal delivery or delivery by any Electronic Means to any Person, upon actual receipt at the address set forth below:

If to the Authority: San Elijo Joint Powers Authority
2695 Manchester Avenue
Cardiff by the Sea, California 92007
Attention: General Manager
fax 760.753.5935
email kinkelp@SEJPA.org

If to Encinitas: City of Encinitas
505 South Vulcan Avenue
Encinitas, California 92024
Attention: Finance Director

If to the Trustee: MUFG Union Bank, N.A.
445 South Figueroa Street, Suite 401
Los Angeles, California 90071
(Attention: Corporate Trust Services)
fax: 213.972.5694
email: AccountAdministration-CorporateTrust@unionbank.com
and CashControlGroup-LosAngeles@unionbank.com

Section 6.08 **Partial Invalidity.** If any Section, subsection, paragraph, subparagraph, sentence, clause or phrase of this Series 2017 Loan Agreement shall for any reason be held illegal, invalid or unenforceable, such holding shall not affect the validity of the remaining portions of this Series 2017 Loan Agreement. Encinitas hereby declares that it would have adopted this Series 2017 Loan Agreement and each and every other Section, subsection, paragraph, subparagraph, sentence, clause or phrase of this Series 2017 Loan Agreement and authorized the Series 2017 Loan irrespective of the fact that any one or more Sections, subsections, paragraphs, subparagraphs, sentences, clauses or phrases of this Series 2017 Loan Agreement may be held illegal, invalid or unenforceable.

Section 6.09 **Governing Law.** This Agreement shall be construed and governed in accordance with the laws of the State.

IN WITNESS WHEREOF, the **CITY OF ENCINITAS** and the **SAN ELIJO JOINT POWERS AUTHORITY** have caused this Series 2017 Loan Agreement to be signed by their respective officers, all as of the day and year first above written.

SAN ELIJO JOINT POWERS AUTHORITY

By: _____
General Manager

CITY OF ENCINITAS

By: _____
City Manager

EXHIBIT A: LOAN INSTALLMENTS

SERIES 2017 LOAN AGREEMENT

by and between the

CITY OF SOLANA BEACH
("SOLANA BEACH")

(as successor to the SOLANA BEACH SANITATION DISTRICT)

and the

SAN ELIJO JOINT POWERS AUTHORITY
("AUTHORITY")

relating to

\$ _____
San Elijo Joint Powers Authority
2017 Revenue Bonds
(Clean Water Projects)

Dated as of June 1, 2017

TABLE OF CONTENTS

ARTICLE I. DEFINITIONS; RULES OF CONSTRUCTION; 2011 AGREEMENT 2

 Section 1.01 Definitions 2

 Section 1.02 Rules of Construction 4

 Section 1.03 2011 Agreement 4

ARTICLE II. THE SERIES 2017 LOAN; LOAN INSTALLMENTS, PAYMENTS AND PREPAYMENTS; APPLICATION OF SERIES 2017 LOAN PROCEEDS 4

 Section 2.01 Authorization 4

 Section 2.02 Loan Payments 4

 Section 2.03 Optional Prepayment 4

 Section 2.04 Validity of Series 2017 Loan 5

ARTICLE III. PLEDGE OF SYSTEM REVENUES; RATE COVENANT; PARITY DEBT 5

 Section 3.01 Pledge of System Revenues; Deposits to Pay Loan Installments 5

 Section 3.02 Rate Covenant 5

 Section 3.03 Limitations on Future Obligations Secured by System Revenues 5

 Section 3.04 Additional Payments 6

ARTICLE IV. OTHER COVENANTS OF SOLANA BEACH 6

 Section 4.01 Punctual Payment 6

 Section 4.02 Limitation on Superior Debt 6

 Section 4.03 Payment of Claims 6

 Section 4.04 Books and Accounts; Financial Statements 7

 Section 4.05 Protection of Security and Rights 7

 Section 4.06 Payments of Taxes and Other Charges 7

 Section 4.07 Operation of Its City System 7

 Section 4.08 Payment of Expenses; Indemnification 7

 Section 4.09 Private Activity Bond Limitation 7

 Section 4.10 Federal Guarantee Prohibition 7

 Section 4.11 Continuing Disclosure 7

 Section 4.12 No Termination of Basic Agreement 8

 Section 4.13 Further Assurances 8

ARTICLE V. EVENTS OF DEFAULT AND REMEDIES 8

 Section 5.01 Events of Default 8

 Section 5.02 Application of Funds Upon Default 9

 Section 5.03 No Waiver 9

 Section 5.04 Effects of Outcome 9

 Section 5.05 Remedies Not Exclusive 9

ARTICLE VI. MISCELLANEOUS 10

 Section 6.01 Benefits Limited to Parties and Trustee 10

 Section 6.02 Successor Is Deemed Included in All References to Predecessor 10

 Section 6.03 Discharge of Agreement 10

 Section 6.04 Amendment 10

 Section 6.05 Waiver of Personal Liability 10

 Section 6.06 Payment or Performance on Business Days 10

 Section 6.07 Notices 11

 Section 6.08 Partial Invalidity 11

 Section 6.09 Governing Law 11

EXHIBIT A: LOAN INSTALLMENTS A-1

SERIES 2017 LOAN AGREEMENT

This **SERIES 2017 LOAN AGREEMENT** (“Series 2017 Loan Agreement”) is made and entered into as of June 1, 2017, by and between the **CITY OF SOLANA BEACH** (“Solana Beach”), a general law city duly organized and existing under the laws of the State of California (the “State”), as successor to the SOLANA BEACH SANITATION DISTRICT (the “Solana Beach Sanitation District”), a county sanitation district duly organized and existing under the laws of the State, and the **SAN ELIJO JOINT POWERS AUTHORITY** (the “Authority”), a joint powers authority organized and existing under the laws of the State.

RECITALS:

WHEREAS, the Solana Beach Sanitation District existed as a county sanitation district duly established and authorized to transact business and exercise powers under and pursuant to the provisions of Chapter 3, Part 3 of Division 5 of the Health and Safety Code of the State of California (the “County Sanitation District Act”), and had the power under section 4764 of the County Sanitation District Act to borrow money and incur indebtedness; and

WHEREAS, the Solana Beach Sanitation District borrowed amounts under a loan agreement, dated as of March 1, 1990, by and among the Solana Beach Sanitation District, State Street Bank and Trust Company of California, N.A., as trustee, and the Authority (the “1990 Agreement”) for the purpose of raising funds to assist in the financing of the wastewater treatment facilities; and

WHEREAS, concurrent with the execution and delivery of the 1990 Agreement, the Authority issued its \$24,465,000 aggregate principal amount of San Elijo Joint Powers Authority 1990 Revenue Bonds (San Elijo Water Pollution Control Facility Upgrade and Expansion Project) for the purpose of providing funds to make a loan to the Solana Beach Sanitation District pursuant to the 1990 Agreement, as well as a loan to the Cardiff Sanitation District (“Cardiff Sanitation District”); and

WHEREAS, the Solana Beach Sanitation District was merged into Solana Beach on July 1, 1990, and under section 57531 of the Government Code of the State of California, as amended, Solana Beach is the successor in interest to all of the rights and obligations of the Solana Beach Sanitation District; and

WHEREAS, Solana Beach borrowed amounts under that certain Amended and Restated Loan Agreement, dated as of March 15, 1993, among Solana Beach, State Street Bank and Trust Company of California, N.A., as trustee, and the Authority (the “1993 Agreement”) for the purpose of raising funds to refund the 1990 Agreement in part; and

WHEREAS, concurrent with the execution and delivery of the 1993 Agreement, the Authority issued its \$22,565,000 aggregate principal amount of San Elijo Joint Powers Authority 1993 Refunding Revenue Bonds (San Elijo Water Pollution Control Facility) (the “1993 Bonds”) for the purpose of refunding in part the 1990 Bonds; and

WHEREAS, Solana Beach borrowed amounts under that certain Second Amended and Restated Loan Agreement, dated as of April 1, 2003, among the Authority, Union Bank of California, N.A. (now known as MUFG Union Bank, N.A.), as trustee, and Solana Beach (the “2003 Agreement”) for the purpose of raising funds to refund the 1993 Agreement; and

WHEREAS, concurrent with the execution and delivery of the 2003 Agreement, the Authority issued its \$18,640,000 aggregate principal amount of San Elijo Joint Powers Authority 2003 Refunding Revenue Bonds (San Elijo Wastewater Treatment Facilities) (the “2003 Bonds”) for the purpose of refunding the 1993 Bonds; and

WHEREAS, Solana Beach borrowed amounts under that certain Third Amended and Restated Loan Agreement, dated as of December 1, 2011, among the Authority, Union Bank, N.A. (now known as MUFG Union Bank, N.A.), as trustee (the “2011 Trustee”), and Solana Beach (the “2011 Agreement”) for the purpose of raising funds to refund the 2003 Agreement; and

WHEREAS, concurrent with the execution and delivery of the 2011 Agreement, the Authority issued its \$9,235,000 aggregate principal amount of San Elijo Joint Powers Authority 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facility) (the “2011 Bonds”) for the purpose, among others, of refunding the

2003 Bonds, all pursuant to that certain Indenture of Trust, dated as of December 1, 2011 (the “2011 Indenture”), by and between the Authority and the 2011 Trustee; and

WHEREAS, as of the date of this Series 2017 Loan Agreement, certain 2011 Bonds remain Outstanding (as such term is defined in the 2011 Indenture) and secured by and payable from revenues received by the 2011 Trustee under the 2011 Agreement; and

WHEREAS, the Authority, Solana Beach and the City of Encinitas (“Encinitas”) desire that the Authority execute the initial phases of a new capital facilities construction plan, to include (among other things) the planning, design, acquisition, construction, renovation, improvement, equipping, furnishing, upgrading and/or installation of (a) wastewater treatment facilities; (b) water reclamation and recycling facilities; and (c) related and ancillary storage, transport, operations, administrative, safety, security and other public facilities and systems (collectively, the “Project”) for the purpose of serving the public needs of Encinitas, Solana Beach and other municipal customers of the Authority; and

WHEREAS, for the purpose of providing financing for the Project, the Authority has authorized the issuance of its San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects) (the “Series 2017 Bonds”) in the aggregate principal amount of \$_____, pursuant to the provisions of that certain Series 2017 Indenture of Trust, dated as of June 1, 2017 (the “Series 2017 Indenture”), by and between the Authority and the Trustee; and

WHEREAS, the Authority and Solana Beach desire that the Authority fund a loan (“Series 2017 Loan”) to Solana Beach for the purpose of financing the Project and for the payment of the principal of, Redemption Price (as defined in the Series 2017 Indenture), and interest on the Series 2017 Bonds and certain related expenses pursuant to this Series 2017 Loan Agreement;

WHEREAS, in order to establish and declare the terms and conditions upon which the Series 2017 Loan is to be made and secured, Solana Beach and the Authority wish to enter into this Series 2017 Loan Agreement; and

WHEREAS, all acts and proceedings required by law necessary to make this Series 2017 Loan Agreement, when executed by Solana Beach and the Authority, the valid, binding and legal obligation of Solana Beach and to constitute this Series 2017 Loan Agreement a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Series 2017 Loan Agreement have been in all respects duly authorized;

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained and for other valuable consideration, the receipt and sufficiency whereof are hereby acknowledged, the parties to this Series 2017 Loan Agreement hereby agree as follows:

ARTICLE I.

DEFINITIONS; RULES OF CONSTRUCTION; 2011 AGREEMENT

Section 1.01 **Definitions**. Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms in this Series 2017 Loan Agreement shall have the respective meanings which such terms have in the Series 2017 Indenture. In addition, the following terms defined in this Section 1.01 shall, for all purposes of this Series 2017 Loan Agreement, have the respective meanings herein specified. All terms defined in the recitals hereof shall have the meanings ascribed to those terms in the recitals.

“*2011 Agreement*” means the Third Amended and Restated Loan Agreement, dated as of December 1, 2011, among the Authority, the 2011 Trustee and Solana Beach.

“*2011 Bonds*” means the San Elijo Joint Powers Authority 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facility).

“*2011 Trustee*” means MUFJ Union Bank, N.A. (formerly known as Union Bank, N.A.), as trustee under the 2011 Indenture.

“*Basic Agreement*” means the Basic Agreement, dated June 17, 1987, between the Solana Beach Sanitation District and the Cardiff Sanitation District, as amended from time to time, under which the Authority was created.

“*City System*” means the system of Solana Beach owned and operated for the purpose of wastewater collection, treatment, reclamation, recycling and disposal.

“*Due Date*” means the date occurring four Business Days before each March 1 and September 1, commencing four Business Days prior to September 1, 2017.

“*Event of Default*” means any of the events described in Section 5.01 of this Series 2017 Loan Agreement.

“*Fiscal Year*” means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority as its official fiscal year period.

“*Gross Revenues*” means all gross income and revenue received by Solana Beach for the collection, treatment, reclamation, recycling and disposal of wastewater, including, without limiting the generality of the foregoing, (a) all income, rents, rates, fees, charges or other moneys derived from the services, facilities and commodities sold, furnished or supplied through the facilities of its City System and the Wastewater Enterprise Facilities, and (b) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys, and (c) transfers to Solana Beach’s Sanitation Fund from (but exclusive of any transfers to) any rate stabilization reserve accounts; provided, that the term “Gross Revenues” shall not include customers’ deposits or any other deposits subject to refund until such deposits have become the property of Solana Beach.

“*Loan Installments*” means installments of principal and interest components of the Series 2017 Loan, payable in the amounts and at the times specified in Section 2.02 of this Series 2017 Loan Agreement.

“*Operation and Maintenance Expenses*” means: (a) all expenses and costs of management, operation, maintenance and repair incurred by Solana Beach for the collection of wastewater, as well as the cost of maintaining its City System, and all incidental costs, fees and expenses properly chargeable to its City System (but excluding debt service or other similar payments on Parity Debt or other obligations and depreciation and obsolescence charges or reserves therefor and amortization of intangibles and inter-fund transfers or other bookkeeping entries of a similar nature); and (b) all expenses and costs of management, operation, maintenance and repair billed by the Authority to Solana Beach for the treatment of wastewater at the Wastewater Enterprise Facilities, as well as the cost of maintaining the Wastewater Enterprise Facilities and all incidental costs, fees and expenses properly chargeable to the Wastewater Enterprise Facilities, which expenses and costs are billed to Solana Beach. “Operation and Maintenance Expenses” does not include the Loan Installments or the expenses and costs of management, operation, maintenance and repair of the Water Reclamation Facilities.

“*Parity Debt*” means indebtedness or other obligations (including leases and loan agreements) hereafter issued or incurred and secured by a pledge of and lien on System Revenues equally and ratably with the Loan Installments and, until no 2011 Bonds remain Outstanding under the 2011 Indenture, the 2011 Agreement.

“*Proportionate Share*” means fifty percent (50 %).

“*Series 2017 Bonds*” means the \$ _____ aggregate principal amount of the Series 2017 Bonds issued and at any time Outstanding under the Series 2017 Indenture.

“*Series 2017 Indenture*” means the Series 2017 Indenture of Trust, dated as of June 1, 2017, by and between the Authority and the Trustee, as originally entered into or as amended or supplemented pursuant to the provisions thereof.

“*Series 2017 Loan*” means the loan made by the Authority to Solana Beach pursuant to this Series 2017 Loan Agreement.

“*System Revenues*” means Gross Revenues less Operation and Maintenance Expenses.

“*Trustee*” means MUFG Union Bank, N.A., as trustee under the Series 2017 Indenture, and in no other capacity.

“*Wastewater Enterprise Facilities*” means any and all facilities of any kind or purpose of or used by the Authority (excluding the Authority’s Water Reclamation Facilities) used for the treatment and disposal of wastewater, including without limitation sewage treatment plants, intercepting and collecting sewers, outfall sewers,

force mains, pumping stations, ejector stations, pipes, valves, machinery, safety and systems for the protection, monitoring, command, control and operation thereof, and all other appurtenances necessary, useful or convenient for the foregoing, and any necessary lands, rights of way and other real or personal property useful in connection therewith.

“*Water Reclamation Facilities*” means the Authority’s recycled water production and distribution facilities to the extent such facilities are used or useful in the Authority’s tertiary treatment, sale and delivery of recycled water.

“*Written Request of Solana Beach*” or “*Written Certificate of Solana Beach*” means a request or certificate, in writing, signed by the Solana Beach City Manager, the Finance Director or City Clerk of Solana Beach or by any other officer of Solana Beach duly authorized by Solana Beach for that purpose.

Section 1.02 **Rules of Construction.** All references in this Series 2017 Loan Agreement to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Series 2017 Loan Agreement, and the words “herein,” “hereof,” “hereunder” and other words of similar import refer to this Series 2017 Loan Agreement as a whole and not to any particular Article, Section or subdivision of this Series 2017 Loan Agreement.

Section 1.03 **2011 Agreement.** This Series 2017 Loan Agreement does not amend the 2011 Agreement, and for all purposes of or in connection with the 2011 Bonds, the provisions of the 2011 Agreement shall remain in full force and effect. To the extent any provision of this Series 2017 Loan Agreement may conflict with any provision of the 2011 Agreement, the provisions of the 2011 Agreement as in effect immediately prior to the execution and delivery of this Series 2017 Loan Agreement shall control and govern as to all matters related to the 2011 Bonds until no 2011 Bonds remain Outstanding under the 2011 Indenture. All references to the 2011 Trustee in this Series 2017 Loan Agreement are to the 2011 Trustee acting solely in such capacity and not with respect to the Series 2017 Bonds. Accordingly, the 2011 Trustee is neither a party to, nor shall have any obligation under, this Series 2017 Loan Agreement.

ARTICLE II.

THE SERIES 2017 LOAN; LOAN INSTALLMENTS, PAYMENTS AND PREPAYMENTS; APPLICATION OF SERIES 2017 LOAN PROCEEDS

Section 2.01 **Authorization.** Solana Beach hereby agrees to pay the Series 2017 Loan, in the aggregate principal amount of _____ Dollars (\$ _____) pursuant to the terms of this Series 2017 Loan Agreement. This Series 2017 Loan Agreement constitutes a continuing agreement with the Authority to secure the full and final payment of the Series 2017 Loan, subject to the covenants, agreements, provisions and conditions contained in this Series 2017 Loan Agreement.

Section 2.02 **Loan Payments.** The principal of and interest on the Series 2017 Loan shall be payable in Loan Installments on each Due Date in each of the years and in the amounts as set forth in Exhibit A to this Series 2017 Loan Agreement. The interest component of each Loan Installment of the Series 2017 Loan shall be calculated on the basis of a 360-day year of twelve 30-day months, and shall accrue on the principal components of each Loan Installment from and including the Closing Date to but not including the September 1 or March 1 with respect to which such Loan Installment is payable. Interest on the Series 2017 Loan shall be payable on each Interest Payment Date. Any Loan Installment of principal or interest which is not paid when due shall continue to accrue interest from and including the Interest Payment Date with respect to which such principal or interest is payable to but not including the date of actual payment. Principal of and interest on the Series 2017 Loan shall be payable by Solana Beach to the Trustee, as assignee of the Authority under the Series 2017 Indenture, in immediately available funds which constitute lawful money of the United States of America. Payment of such principal and interest shall be secured, and amounts for the payment thereof shall be deposited with the Trustee at the times, as set forth in Article III of this Series 2017 Loan Agreement.

Section 2.03 **Optional Prepayment.** If and when the Authority is permitted under the Series 2017 Indenture to exercise its option to redeem Series 2017 Bonds prior to their stated maturity, then Solana Beach may prepay the Series 2017 Loan under the terms of this Section 2.03. Solana Beach shall be required to give the Authority and the Trustee written notice (which may be revocable) of its intention to prepay the Series 2017 Loan under this Section

2.03 at least 60 days prior to the date fixed for such prepayment, and shall transfer to the Trustee all amounts required for such prepayment at least four Business Days prior to the date fixed for such prepayment.

Section 2.04 **Validity of Series 2017 Loan.** The validity of the Series 2017 Loan shall not be dependent upon the operation or functioning of the City System or the Wastewater Enterprise Facilities or upon the performance by any Person of any obligation with respect to the City System or the Wastewater Enterprise Facilities.

ARTICLE III.

PLEDGE OF SYSTEM REVENUES; RATE COVENANT; PARITY DEBT

Section 3.01 **Pledge of System Revenues; Deposits to Pay Loan Installments.**

(a) *Pledge of System Revenues.* Solana Beach hereby agrees that the payment of the Loan Installments shall be secured by a first and prior pledge, charge and lien upon System Revenues, and System Revenues sufficient to pay the Loan Installments as they become due and payable are hereby pledged, charged, assigned, transferred and set over by Solana Beach to the Authority and its assigns for the purpose of securing payment of the Loan Installments. The System Revenues shall constitute a trust fund for the security and payment of the Loan Installments. If System Revenues are ever insufficient to pay Loan Installments as the same becomes due and payable, Solana Beach shall pay Loan Installments from funds of Solana Beach lawfully available therefor. Solana Beach further agrees that none of the System Revenues shall be transferred or paid into its general fund unless and until the then required payments of the Loan Installments and all other payments required hereby have been made. The obligation to pay Loan Installments constitutes an absolute and unconditional special obligation of Solana Beach, payable from a first and prior lien on its System Revenues, together with other funds of Solana Beach lawfully available therefor, and certain interest and other income derived from the investment of the funds and accounts held by the Trustee pursuant to the Series 2017 Indenture (other than the Series 2017 Rebate Fund). Solana Beach's liability for the payment of its Loan Installments is limited to System Revenues and other funds of Solana Beach lawfully available therefor.

(b) *Transfer To Pay Loan Installments.* In order to provide for the payment of Loan Installments when due, Solana Beach shall, on or before each Due Date, transfer to the Trustee for deposit into the Revenue Fund the amount required under Section 2.02 of this Series 2017 Loan Agreement as required for the next occurring Interest Payment Date; provided, however, that, to the extent interest or income earned on the Revenue Fund are remaining in the Revenue Fund, Solana Beach's payment obligations for interest on such Due Date shall be paid from such interest or income.

Section 3.02 **Rate Covenant.** Solana Beach hereby covenants that it shall prescribe, revise and collect such charges for the services and facilities provided by its City System and the Wastewater Enterprise Facilities which, after allowances for contingencies and error in the estimates, shall produce Gross Revenues sufficient in each Fiscal Year to provide System Revenues equal to at least 1.3 times the sum of (a) the Loan Installments coming due and payable during such Fiscal Year and (b) all payments required with respect to Parity Debt coming due and payable during such Fiscal Year.

Section 3.03 **Limitations on Future Obligations Secured by System Revenues.**

(a) *No Obligations Superior to Loan Installments.* In order to protect further the availability of the System Revenues and the security for the Loan Installments and any Parity Debt, Solana Beach hereby agrees that Solana Beach shall not, so long as any Series 2017 Bonds are outstanding, issue or incur any obligations payable from the System Revenues superior to the Loan Installments or such Parity Debt.

(b) *Parity Debt.* Solana Beach further covenants that Solana Beach shall not issue or incur any Parity Debt unless each of the following conditions is satisfied:

(i) Solana Beach is not in default under the terms of this Series 2017 Loan Agreement;

(ii) System Revenues, calculated on sound accounting principles, as shown by the books of Solana Beach for the latest Fiscal Year or any more recent 12-month period selected by Solana Beach ending not more than 60 days prior to the adoption of the resolution pursuant to which instrument such Parity Debt is issued

or incurred, as shown by the books of Solana Beach, plus, at the option of Solana Beach, either or both of the items hereinafter in this subsection designated (A) and (B), shall have amounted to at least 1.3 times the sum of the maximum Loan Installments coming due and payable in any future Fiscal Year and the maximum annual debt service on all Parity Debt outstanding immediately subsequent to the incurring of such additional obligations.

Either or both of the following items may be added to such System Revenues for the purpose of applying the restriction contained in this subsection 00:

(A) An allowance for revenues from any additions to or improvements or extensions of its City System and the Wastewater Enterprise Facilities to be made with the proceeds of such additional obligations, and also for net revenues from any such additions, improvements or extensions which have been made from moneys from any source but which, during all or any part of such Fiscal Year, were not in service, all in an amount equal to 75% of the estimated additional average annual revenues to be derived from such additions, improvements and extensions for the first 36-month period following closing of the proposed Parity Debt, all as shown by the certificate or opinion of a qualified independent engineer employed by Solana Beach or the Authority; and

(B) An allowance for earnings arising from any increase in the charges made for service from its City System and the Wastewater Enterprise Facilities which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year, was not in effect, in an amount equal to 100% of the amount by which revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year and any period prior to the incurring of such additional obligations, as shown by the certificate or opinion of a qualified independent engineer or rate consultant employed by Solana Beach or the Authority.

Section 3.04 **Additional Payments.** In addition to the Loan Installments, Solana Beach shall pay, from System Revenues, when due, its Proportionate Share of all costs and expenses incurred by the Authority to comply with the provisions of the Series 2017 Indenture and this Series 2017 Loan Agreement, including, without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund), compensation due to the Trustee for its fees, costs and expenses incurred under the Series 2017 Indenture and all costs and expenses of the Trustee.

ARTICLE IV.

OTHER COVENANTS OF SOLANA BEACH

Section 4.01 **Punctual Payment.** Solana Beach will punctually pay or cause to be paid the principal of and interest on the Series 2017 Loan together with any prepayment premiums thereon, in strict conformity with the terms of this Series 2017 Loan Agreement, and it will faithfully observe and perform all of the conditions, covenants and requirements of this Series 2017 Loan Agreement.

Section 4.02 **Limitation on Superior Debt.** Solana Beach hereby covenants that, so long as the Series 2017 Loan remains unpaid, Solana Beach shall not issue any bonds, notes or other obligations, enter into any agreement or otherwise incur any loan, advances or indebtedness, which are in any case secured by a lien on all or any part of the System Revenues which is superior to or on a parity with the lien established under this Series 2017 Loan Agreement for the security of the Series 2017 Loan, excepting only Parity Debt issued pursuant to Section 3.03 of this Series 2017 Loan Agreement. Nothing herein is intended or shall be construed in any way to prohibit or impose any limitations upon the issuance by Solana Beach of loans, bonds, notes, advances or other indebtedness which are unsecured or which are secured by any lien on the System Revenues that is subordinate to the lien established under this Series 2017 Loan Agreement.

Section 4.03 **Payment of Claims.** Solana Beach will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the properties owned by Solana Beach or upon the System Revenues or any part thereof, or upon any funds in the hands of the Trustee, or which might impair the security of the Series 2017 Loan. Nothing in this Series 2017 Loan Agreement shall require Solana Beach to make any such payment so long as Solana Beach in good faith shall contest the validity of said claims.

Section 4.04 **Books and Accounts; Financial Statements.** Solana Beach will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of Solana Beach and the Authority, in which complete and correct entries shall be made of all transactions relating to the System Revenues. Such books of record and accounts shall at all times during business hours be subject, upon prior written request, to the reasonable inspection of the Authority, the Trustee and the Owners of any Series 2017 Bonds then Outstanding, or their representatives authorized in writing. Solana Beach will cause to be prepared and filed with the Trustee annually, within six months after the close of each Fiscal Year so long as any of the Series 2017 Bonds are Outstanding, complete audited financial statements with respect to such Fiscal Year showing the System Revenues, all disbursements from its System Revenues and the financial condition of Solana Beach, including the balances in all funds and accounts relating to its City System as of the end of such Fiscal Year. Solana Beach will furnish a copy of such statements, upon reasonable request, to any Series 2017 Bond Owner. Solana Beach shall review in each fiscal year, and take appropriate action to provide for, the future availability of sufficient System Revenues for the timely payments of debt service on the Series 2017 Loan and any Parity Debt. The Trustee is receiving such documentation merely as a file keeper and has no responsibility or duty to review or be familiar with the content thereof.

Section 4.05 **Protection of Security and Rights.** Solana Beach will preserve and protect the security of the Series 2017 Loan and the rights of the Trustee and the Series 2017 Bond Owners with respect to the Series 2017 Loan. From and after the Closing Date, the Series 2017 Loan shall be incontestable by Solana Beach.

Section 4.06 **Payments of Taxes and Other Charges.** Solana Beach will pay and discharge, or cause to be paid and discharged, all taxes, service charges, assessments and other governmental charges which may hereafter be lawfully imposed upon Solana Beach or the properties then owned by Solana Beach, when the same shall become due. Nothing herein contained shall require Solana Beach to make any such payment so long as Solana Beach in good faith shall contest the validity of said taxes, assessments or charges. Solana Beach will duly observe and conform with all valid requirements of any governmental authority relative to its City System or any part thereof.

Section 4.07 **Operation of Its City System.** Solana Beach covenants to operate, or cause to be operated, its City System in accordance with customary standards and practices applicable to similar facilities, and to cause the Authority to operate, or cause to be operated, the Wastewater Enterprise Facilities in accordance with customary standards and practices applicable to similar facilities.

Section 4.08 **Payment of Expenses; Indemnification.** Upon the occurrence of an Event of Default, the Trustee shall have a first lien on the System Revenues to secure the payment to the Trustee of all fees, costs and expenses, including reasonable compensation to its experts, attorneys and counsel incurred in declaring such Event of Default and in exercising the rights and remedies set forth in Article V of this Series 2017 Loan Agreement. Solana Beach further covenants and agrees (but only to the extent permitted by law) to indemnify and save the Trustee and its officers, directors, agents and employees, harmless against any losses, expenses and liabilities which the Trustee may incur arising out of or in the exercise and performance of its powers and duties under the Series 2017 Indenture, including the costs and expenses of defending against any claim of liability, but excluding any and all losses, expenses and liabilities which are due to the negligence or willful misconduct of the Trustee, its officers, directors, agents or employees. The obligations of Solana Beach under this Section 4.08 shall survive the resignation or removal of the Trustee under the Series 2017 Indenture and payment of the Series 2017 Loan and the discharge of this Series 2017 Loan Agreement.

Section 4.09 **Private Activity Bond Limitation.** Solana Beach shall assure that the proceeds of the Series 2017 Loan are not used so as to cause the Series 2017 Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

Section 4.10 **Federal Guarantee Prohibition.** Solana Beach shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Series 2017 Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

Section 4.11 **Continuing Disclosure.** Solana Beach hereby covenants and agrees that it will comply with and carry out all of the provisions of and its respective obligations under the Disclosure Agreement. Notwithstanding any other provision of this Series 2017 Loan Agreement, failure of Solana Beach to comply with the Disclosure Agreement shall not be considered an Event of Default; however, any Owner or Beneficial Owner of the Series 2017 Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Section 4.12 **No Termination of Basic Agreement.** Solana Beach, as successor in interest to the Solana Beach Sanitation District, will not terminate the Basic Agreement so long as the Series 2017 Bonds are Outstanding.

Section 4.13 **Further Assurances.** Solana Beach will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Series 2017 Loan Agreement and for the better assuring and confirming unto the Trustee, the Authority and the Owners of the Series 2017 Bonds of the rights and benefits provided in this Series 2017 Loan Agreement.

ARTICLE V.

EVENTS OF DEFAULT AND REMEDIES

Section 5.01 **Events of Default.** The following events shall constitute Events of Default under this Series 2017 Loan Agreement:

(a) Failure by Solana Beach to pay the principal of or interest or prepayment premium (if any) on the Series 2017 Loan or any Parity Debt when and as the same shall become due and payable.

(b) Failure by Solana Beach to observe and perform any of the covenants, agreements or conditions on its part contained in this Series 2017 Loan Agreement (or, until no 2011 Bonds remain Outstanding under the 2011 Indenture, the 2011 Agreement), other than as referred to in the preceding subsection (a), for a period of 60 days after written notice specifying such failure and requesting that it be remedied has been given to Solana Beach by the Trustee, or to Solana Beach and the Trustee by the Owners of not less than 25% in aggregate principal amount of the Outstanding Series 2017 Bonds; provided, however, that if in the reasonable opinion of Solana Beach the failure stated in such notice can be corrected, but not within such 60-day period, the Trustee shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by Solana Beach within such 60-day period and diligently pursued until such failure is corrected; provided, that in no event shall the cure period specified above exceed 90 days.

(c) The filing by Solana Beach of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of Solana Beach, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of Solana Beach or of the whole or any substantial part of its property.

If a Loan Default Event has occurred and is continuing of which the Trustee has actual knowledge or is deemed to have knowledge under the Series 2017 Indenture, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Outstanding Series 2017 Bonds the Trustee shall (1) declare the principal of the Series 2017 Loan, together with the accrued interest on all unpaid Loan Installments thereof, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything in this Series 2017 Loan Agreement to the contrary notwithstanding, and (2) exercise any other remedies available to the Trustee in law or at equity. Promptly upon obtaining actual knowledge or being deemed to have knowledge under the Series 2017 Indenture of the occurrence of an Event of Default, the Trustee shall give notice of such Event of Default to Solana Beach by telephone or other Electronic Means, promptly confirmed in writing. The provisions of this paragraph, however, are subject to the condition that if, at any time after the principal of the Series 2017 Loan shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, Solana Beach shall deposit with the Trustee a sum sufficient to pay all Loan Installments of principal of the Series 2017 Loan matured prior to such declaration and all accrued interest thereon, with interest on such overdue Loan Installments of principal and interest at the net effective rate then borne by the Outstanding Series 2017 Bonds, and the reasonable expenses of the Trustee (including but not limited to attorneys' fees), and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Series 2017 Loan due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of a majority in aggregate principal amount of the Outstanding Series 2017 Bonds may, by written notice to the Trustee and Solana

Beach, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Section 5.02 **Application of Funds Upon Default.** All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of this Series 2017 Loan Agreement, or otherwise held by the Trustee upon the occurrence of an Event of Default, shall be applied by the Trustee in the following order:

(a) *First*, to the payment of the costs and expenses of the Trustee in declaring such Event of Default and in carrying out the provisions of this Article V, including reasonable compensation to its agents, attorneys and counsel and other amounts owing to the Trustee and secured by the lien granted to the Trustee pursuant to Section 4.08 of this Series 2017 Loan Agreement; and

(b) *Second*, to the payment of the whole amount of interest on and principal of the Series 2017 Loan then due and unpaid, with interest on overdue Loan Installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Series 2017 Bonds; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

(i) *first*, to the payment of all Loan Installments of interest on the Series 2017 Loan then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full,

(ii) *second*, to the payment of principal of all Loan Installments of the Series 2017 Loan then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such principal in full,

(iii) *third*, to the payment of principal of the Series 2017 Loan then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such principal in full, and

(iv) *fourth*, to the payment of interest on overdue Loan Installments of principal and interest, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full.

Section 5.03 **No Waiver.** Nothing in this Article V or in any other provision of this Series 2017 Loan Agreement shall affect or impair the obligation of Solana Beach, which is absolute and unconditional, to pay from the System Revenues and other amounts pledged hereunder, the principal of and interest and premium (if any) on the Series 2017 Loan to the Trustee on the respective Interest Payment Dates, as herein provided, or affect or impair the right of action, which is also absolute and unconditional, of the Trustee to institute suit to enforce such payment by virtue of the contract embodied in this Series 2017 Loan Agreement. No waiver by the Trustee with respect to any default under this Series 2017 Loan Agreement shall affect any subsequent default or impair any rights or remedies with respect to any subsequent default. No delay or omission of the Trustee to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Trustee by law or by this Article V may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee.

Section 5.04 **Effects of Outcome.** If a suit, action or proceeding to enforce any right or exercise any remedy shall be abandoned or determined adversely the Authority or the Trustee, as assignee of the Authority, then Solana Beach, the Authority and the Trustee shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

Section 5.05 **Remedies Not Exclusive.** No remedy conferred upon or reserved to the Trustee under this Series 2017 Loan Agreement is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under this Series 2017 Loan Agreement or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by law or in equity.

ARTICLE VI.

MISCELLANEOUS

Section 6.01 **Benefits Limited to Parties and Trustee.** Nothing in this Series 2017 Loan Agreement, expressed or implied, is intended to give to any Person other than Solana Beach, the Trustee and the Authority, any right, remedy or claim under or by reason of this Series 2017 Loan Agreement. All covenants, stipulations, promises or agreements in this Series 2017 Loan Agreement contained by and on behalf of Solana Beach shall be for the sole and exclusive benefit of the Authority and of the Trustee acting as trustee for the benefit of the Owners of the Series 2017 Bonds and in no other capacity.

Section 6.02 **Successor Is Deemed Included in All References to Predecessor.** Whenever in this Series 2017 Loan Agreement any of Solana Beach, the Authority or the Trustee is named or referred to, such reference shall be deemed to include the respective successors or assigns thereof, and all the covenants and agreements in this Series 2017 Loan Agreement contained by or on behalf of Solana Beach, the Authority or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 6.03 **Discharge.** If Solana Beach shall pay and discharge the entire indebtedness on the Series 2017 Loan in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the entire principal of and all interest and prepayment premiums (if any) on the Series 2017 Loan, as and when the same become due and payable;

(b) by irrevocably depositing with the Trustee, in trust, at or before maturity, cash in an amount which, together with the available amounts then on deposit in any of the funds and accounts established pursuant to the Series 2017 Indenture or this Series 2017 Loan Agreement, is fully sufficient to pay all principal of and interest and prepayment premiums (if any) on the Series 2017 Loan; or

(c) by irrevocably depositing with the Trustee or any other fiduciary, in trust, Federal Securities in such amount as an independent certified public accountant shall determine in a written report filed with the Trustee (upon which report the Trustee may conclusively rely) will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established pursuant to the Series 2017 Indenture or pursuant to this Series 2017 Loan Agreement, be fully sufficient to pay and discharge the indebtedness on the Series 2017 Loan (including all principal, interest and prepayment premiums) at or before maturity;

then, at the election of Solana Beach, but only if the Series 2017 Bonds relating to this Series 2017 Loan Agreement have been fully paid or defeased, and all other amounts then due and payable under this Series 2017 Loan Agreement shall have been paid or provision for their payment made, the pledge of and lien upon the System Revenues and other funds provided for in this Series 2017 Loan Agreement and all other obligations of Solana Beach and the Authority under this Series 2017 Loan Agreement with respect to the Series 2017 Loan shall cease and terminate, except only the obligation of Solana Beach to pay or cause to be paid to the Trustee, from the amounts so deposited with the Trustee or such other fiduciary, all sums due with respect to the Series 2017 Loan and all expenses and costs of the Trustee. Solana Beach shall file notice of such election with the Authority and the Trustee. Any funds thereafter held by the Trustee with respect to this Series 2017 Loan Agreement, which are not required for the purposes of this Section 6.03, shall be paid to Solana Beach.

Section 6.04 **Amendment.** This Series 2017 Loan Agreement may be amended by the parties hereto but only under the circumstances set forth in, and in accordance with, the provisions of Section 6.09 of the Series 2017 Indenture. The Authority covenants that the Series 2017 Indenture shall not be amended without the prior written consent of Solana Beach.

Section 6.05 **No Personal Liability.** No member, officer, agent or employee of Solana Beach shall be individually or personally liable for the payment of the principal of or interest on the Series 2017 Loan; but no provision of this Series 2017 Loan Agreement shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

Section 6.06 **Payment or Performance on Business Days.** Whenever in this Series 2017 Loan Agreement any amount is required to be paid or act is required to be performed on a day which is not a Business Day, such payment

or act, as applicable, shall be required to be made on the first Business Day immediately following such day, with the same force and effect as if done on the nominal date provided in this Series 2017 Loan Agreement.

Section 6.07 **Notices.** All written notices to be given under this Series 2017 Loan Agreement shall be given by Electronic Means or first class mail or personal delivery to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other party in writing from time to time. Notice shall be effective 48 hours after deposit in the United States mail, postage prepaid or, in the case of personal delivery or delivery by any Electronic Means to any Person, upon actual receipt at the address set forth below:

If to the Authority:	San Elijo Joint Powers Authority 2695 Manchester Avenue Cardiff by the Sea, California 92007 Attention: General Manager fax 760.753.5935 email kinkelp@SEJPA.org
If to Solana Beach:	City of Solana Beach 635 South Highway 101 Solana Beach, California 92075 Attention: City Manager
If to the Trustee:	MUFG Union Bank, N.A. 445 South Figueroa Street, Suite 401 Los Angeles, California 90071 (Attention: Corporate Trust Services) fax: 213.972.5694 email: AccountAdministration-CorporateTrust@unionbank.com and CashControlGroup-LosAngeles@unionbank.com

Section 6.08 **Partial Invalidity.** If any Section, subsection, paragraph, subparagraph, sentence, clause or phrase of this Series 2017 Loan Agreement shall for any reason be held illegal, invalid or unenforceable, such holding shall not affect the validity of the remaining portions of this Series 2017 Loan Agreement. Solana Beach hereby declares that it would have adopted this Series 2017 Loan Agreement and each and every other Section, subsection, paragraph, subparagraph, sentence, clause or phrase of this Series 2017 Loan Agreement and authorized the Series 2017 Loan irrespective of the fact that any one or more Sections, subsections, paragraphs, subparagraphs, sentences, clauses or phrases of this Series 2017 Loan Agreement may be held illegal, invalid or unenforceable.

Section 6.09 **Governing Law.** This Series 2017 Loan Agreement shall be construed and governed in accordance with the laws of the State.

IN WITNESS WHEREOF, the **CITY OF SOLANA BEACH** and the **SAN ELIJO JOINT POWERS AUTHORITY** have caused this Series 2017 Loan Agreement to be signed by their respective officers, all as of the day and year first above written.

SAN ELIJO JOINT POWERS AUTHORITY

By: _____
General Manager

CITY OF SOLANA BEACH

By: _____
City Manager

EXHIBIT A: LOAN INSTALLMENTS

PRELIMINARY OFFICIAL STATEMENT DATED JUNE __, 2017

NEW ISSUE – BOOK-ENTRY ONLY
(See “APPENDIX F – THE BOOK-ENTRY SYSTEM”)

RATING: Standard & Poor’s: “AA+”
(See “MISCELLANEOUS – Rating”)

In the opinion of Procopio, Cory, Hargreaves & Savitch, LLP, San Diego, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2017 Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. It is also the opinion of Bond Counsel that under existing law such interest is exempt from personal income taxes of the State of California. See, however, “TAX MATTERS” in this Official Statement.



\$22,645,000*
SAN ELIJO JOINT POWERS AUTHORITY
(SAN DIEGO COUNTY, CALIFORNIA)
2017 REVENUE BONDS
(CLEAN WATER PROJECTS)

Dated: Date of Delivery

Due: as shown on inside front cover page

The \$22,645,000* San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects) (the “Series 2017 Bonds”) are being issued by the San Elijo Joint Powers Authority (the “Authority”) for the purpose of funding facilities and improvements as part of the Authority’s capital improvement plan and certain costs of issuance of the Series 2017 Bonds, pursuant to laws of the State of California (the “State”) and the Series 2017 Indenture of Trust, dated as of June 1, 2017 (the “Series 2017 Indenture”) between the Authority and MUFJ Union Bank N.A., as Trustee (the “Trustee”). The Series 2017 Bonds will be dated their date of delivery, in authorized denominations of \$5,000 and any integral multiple of \$5,000 and will mature March 1 of the years as shown on the inside front cover page. The Series 2017 Bonds will bear interest payable semi-annually March 1 and September 1, commencing September 1, 2017, until maturity or earlier redemption. The Series 2017 Bonds are subject to optional and mandatory sinking fund redemption. The Series 2017 Bonds initially will be delivered only in book-entry form and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Series 2017 Bonds. Individual purchases of the Series 2017 Bonds will be made in book-entry form only. Purchasers of Series 2017 Bonds will not receive physical certificates representing their ownership interests in Series 2017 Bonds purchased. Principal and interest will be payable directly to DTC by the Trustee. Upon receipt of such payments, DTC will in turn distribute them to the Beneficial Owners (defined herein) of the Series 2017 Bonds.

The Authority is a joint exercise of powers authority between the City of Encinitas, as successor to the Cardiff Sanitation District (“Encinitas”) and the City of Solana Beach, as successor to the Solana Beach Sanitation District (“Solana Beach”). Encinitas and Solana Beach are each a “City” and together, the “Cities”. Each City will enter into a Series 2017 Loan Agreement, each dated as of June 1, 2017 (each, a “Series 2017 Loan Agreement” and collectively, the “Series 2017 Loan Agreements”), to assist in the financing of the Cities’ respective shares of the Series 2017 Bonds. Each Series 2017 Loan Agreement is an absolute and unconditional obligation of Encinitas and Solana Beach, respectively, to make payments (“Loan Installments”) from and secured by a pledge of System Revenues (defined below) and other funds of each respective City lawfully available therefor and does not constitute an obligation of the other City. The pledge of System Revenues is on a parity with each City’s pledge of System Revenues for its obligations under its respective Third Amended and Restated Loan Agreement, each dated as of December 1, 2011, which will remain in full force and effect until final payment of the Authority’s 2011 Refunding Revenue Bonds as described below. Each of the Cities has agreed to pay its respective Loan Installments from its “System Revenues” comprised of gross revenues derived from its respective wastewater collection and disposal system (including the Authority’s treatment of wastewater collected by its system) after the deduction of maintenance and operation expenses, in an amount sufficient to pay the annual principal and interest due under its respective Series 2017 Loan Agreement. In addition, each City has made covenants under its respective Series 2017 Loan Agreement regarding the collection of its System Revenues, and the Authority has made certain covenants with respect to the operation and maintenance of its facilities. The Loan Installments paid by Encinitas would pay approximately 50% of total debt service on the Series 2017 Bonds, and the Loan Installments paid by Solana Beach would pay approximately 50% of total debt service on the Series 2017 Bonds. **NEITHER CITY IS RESPONSIBLE FOR ANY LOAN INSTALLMENT OWED BY THE OTHER CITY, AND A DEFAULT UNDER ONE SERIES 2017 LOAN AGREEMENT WILL NOT RESULT IN A DEFAULT UNDER THE OTHER SERIES 2017 LOAN AGREEMENT. NO OTHER LOCAL AGENCY OR OTHER CUSTOMER OF THE AUTHORITY HAS ANY OBLIGATION REGARDING THE SERIES 2017 LOAN AGREEMENTS OR THE SERIES 2017 BONDS.** See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS.”

Under the Series 2017 Indenture, the Authority will assign its rights, title and interest under and pursuant to the Series 2017 Loan Agreements to the Trustee, as assignee of the Authority. The Series 2017 Bonds and the interest thereon are payable solely from certain funds and accounts established and maintained under the Series 2017 Indenture (but excluding amounts held in the Series 2017 Rebate Fund), which in turn are funded principally through the foregoing assignments by the Authority, subject only to the provisions of the Series 2017 Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Series 2017 Indenture.

THE AUTHORITY HAS PREVIOUSLY ISSUED ITS 2011 REFUNDING REVENUE BONDS (SAN ELIJO WATER RECLAMATION FACILITY) (“SERIES 2011 BONDS”), WHICH ARE OUTSTANDING IN THE PRINCIPAL AMOUNT OF \$3,015,000 AND WHICH ARE SECURED ON A PARITY WITH THE SERIES 2017 BONDS. ADDITIONAL PARITY OBLIGATIONS MAY BE ISSUED IN THE FUTURE AS PROVIDED IN THE SERIES 2017 INDENTURE. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Outstanding and Additional Parity Debt.”

THE SERIES 2017 BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE REVENUES AND OTHER FUNDS PLEDGED THEREFOR IN THE SERIES 2017 INDENTURE, AND ARE NOT SECURED BY ANY LEGAL, EQUITABLE OR OTHER PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE AUTHORITY OR THE LOCAL AGENCIES, OR ANY OF THE AUTHORITY’S INCOME OR RECEIPTS, EXCEPT AS PROVIDED IN THE SERIES 2017 INDENTURE. THE SERIES 2017 BONDS DO NOT CONSTITUTE A DEBT OF THE AUTHORITY OR THE STATE OF CALIFORNIA, OR OF ANY POLITICAL SUBDIVISION THEREOF, IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF OR THE CITIES, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE SERIES 2017 BONDS OR OTHER PAYMENTS REQUIRED TO BE MADE UNDER THE SERIES 2017 INDENTURE OR THE LOAN AGREEMENTS. THE AUTHORITY HAS NO TAXING POWER.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Series 2017 Bonds are offered when, as and if executed, delivered, received and accepted by Hilltop Securities Inc. (the “Underwriter”), subject to the approval of Procopio, Cory, Hargreaves & Savitch, LLP, San Diego, California, Bond Counsel. Certain legal matters will be passed upon for the Authority by Procopio, Cory, Hargreaves & Savitch, LLP, as Disclosure Counsel and general counsel to the Authority, for the Underwriter by its counsel, Nixon Peabody LLP and for each City by its respective counsel. Fieldman, Rolapp & Associates, Irvine, California, has served as municipal advisor to the Authority in connection with the execution and delivery of the Series 2017 Bonds. It is anticipated that the Series 2017 Bonds in definitive form will be available for delivery through the book-entry facilities of DTC on or about July __, 2017.

Hilltop Securities Inc.

This Official Statement is dated June __, 2017.

*Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

MATURITY SCHEDULE

\$22,645,000*

**SAN ELIJO JOINT POWERS AUTHORITY
2017 REVENUE BONDS
(CLEAN WATER PROJECTS)**

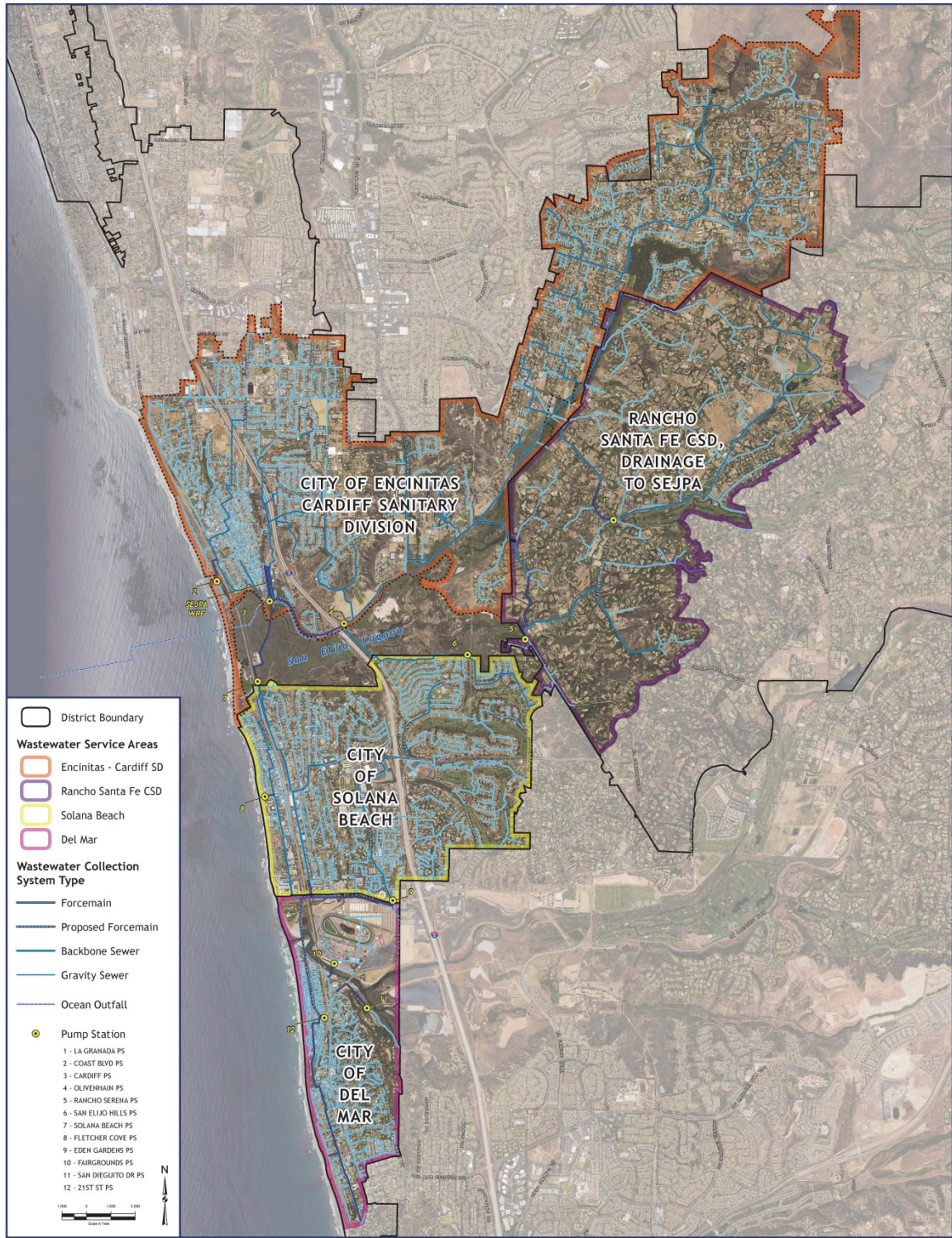
[MATURITY DATES, AMOUNTS, INTEREST RATES, YIELDS, PRICES, CUSIP[†] TO COME]

(C) Priced to the first optional call March 1, 20__ at par.

* Preliminary, subject to change.

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SAN ELIJO JOINT POWERS AUTHORITY



DUDEK

WASTEWATER SERVICE AREAS



SAN ELIJO JOINT POWERS AUTHORITY

BOARD OF DIRECTORS

GINGER MARSHALL, *Chair (City of Solana Beach, member since 2015)*
TASHA BOERNER HORVATH, *Vice Chair (City of Encinitas, member since 2017)*
JOSEPH MOSCA, *Member (City of Encinitas, since 2017)*
DAVID A. ZITO, *Member (City of Solana Beach, since 2013)*

AUTHORITY OFFICERS

MICHAEL T. THORNTON, P.E., *General Manager*
PAUL F. KINKEL, *Director of Finance and Administration*
CHRISTOPHER A. TREES, *Director of Operations*
JENNIFER BASCO, *Clerk of the Board*

GOVERNING BODIES OF LOCAL AGENCIES

CITY OF ENCINITAS

CATHERINE S. BLAKESPEAR, *Mayor and Councilmember*
TONY KRANZ, *Deputy Mayor and Councilmember*
TASHA BOERNER HORVATH, *Councilmember*
JOSEPH MOSCA, *Councilmember*
MARK MUIR, *Councilmember*

CITY OF SOLANA BEACH

MIKE NICHOLS, *Mayor and Councilmember*
GINGER MARSHALL, *Deputy Mayor and Councilmember*
DAVID A. ZITO, *Councilmember*
JEWEL EDSON, *Councilmember*
JUDY HEGENAUER, *Councilmember*

SPECIAL SERVICES

MUNICIPAL ADVISOR

FIELDMAN, ROLAPP & ASSOCIATES
Irvine, California

TRUSTEE

MUFG UNION BANK N.A.
Los Angeles, California

UNDERWRITER

HILLTOP SECURITIES INC.
Cardiff, California

UNDERWRITER'S COUNSEL

NIXON PEABODY LLP

BOND COUNSEL, DISCLOSURE COUNSEL, AUTHORITY GENERAL COUNSEL
PROCOPIO, CORY, HARGREAVES & SAVITCH LLP
San Diego, California

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Series 2017 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. The information in this Official Statement has been provided by the San Elijo Joint Powers Authority (the “Authority”), the City of Encinitas (“Encinitas”), the City of Solana Beach (“Solana Beach”) and other sources that are believed by the Authority to be reliable. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such information or representations must not be relied upon as having been authorized by the Authority, Encinitas, Solana Beach, Hilltop Securities Inc. (the “Underwriter”) or any other party in connection with any offering or reoffering of the Series 2017 Bonds.

This Official Statement is not a contract with the purchasers or Owners of the Series 2017 Bonds. Statements in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described, are intended solely as such and are not to be construed as representations of facts.

This Official Statement and the information and expressions of opinion in it are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, Encinitas or Solana Beach or any other parties described in this Official Statement since its date (shown at the bottom of the front cover), and this Official Statement speaks only as of its date. The Series 2017 Bonds may not be sold, nor may an offer to buy the Series 2017 Bonds be accepted, before the Official Statement is delivered in final form. This Official Statement is submitted with respect to the sale of the Series 2017 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the Authority. 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 provisions of such documents and laws. The preparation of this Official Statement and its distribution have been duly authorized and approved by the Authority, Encinitas and Solana Beach.

In connection with the offering or any reoffering of the Series 2017 Bonds, the Underwriter may over-allot or effect transactions that stabilize or maintain the market price of the Series 2017 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer or reoffer and sell the Series 2017 Bonds to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the inside front cover page of this Official Statement, and said public offering prices may be changed from time to time by the Underwriter.

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project [as a verb],” “budget,” “intend” or similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

The Series 2017 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such Act, and the Series 2017 Bonds have not been registered or qualified under the securities laws of any state.

The Authority and the Cities maintain internet websites; however, no information on or linked to or from such websites is part of this Official Statement and should not be relied upon in making any investment decision about the Series 2017 Bonds.

TABLE OF CONTENTS

Introduction	1
The Authority	1
The San Elijo Clean Water Facilities.....	2
Security and Sources of Payment for the Series 2017 Bonds	2
Bond Payments, Interest and Maturities	4
Redemption of the Series 2017 Bonds.....	4
Special Obligations.....	4
Book-Entry Only Registration	5
Delivery of Series 2017 Bonds	5
Tax Matters.....	5
Audited Financial Statements	5
Professionals, Service Providers and Advisors.....	5
Bond Owner Risks.....	6
Additional Information	6
Continuing Disclosure.....	6
Estimated Sources and Uses of Funds.....	7
The Series 2017 Bonds	7
General	7
Redemption	8
Debt Service	10
Security and Sources of Payment for the Series 2017 Bonds.....	11
Special Obligations.....	11
Shares of Capacity of Wastewater Enterprise Facilities	13
Rate Covenants of the Cities	13
Outstanding and Additional Parity Debt.....	13
Insurance	14
The Clean Water Projects.....	14
Phase I Clean Water Projects.....	14
Phase II Clean Water Projects	15
Phase III Clean Water Projects.....	15
San Elijo Joint Powers Authority.....	16
History and Legal Status	16
Establishment	16
Governance.....	16
The Restatement of Agreement	16
Wastewater Enterprise Facilities	17
Water Reclamation Facilities.....	17
Key Management	18
Retirement Plan	18
The San Elijo Clean Water Facilities	19
Wastewater Service Area	19
Sewer Service Rates and Revenues	19
Water Discharge Requirements	22
Laboratory	23
Operating Expenses	23
Capital Improvement Program	23
Bond Owner Risks	24
Sewer Revenues and Demand for Sewer Service.....	24
Sewer System Expenses	24
Insurance and Risk Management.....	24
Initiative Constitutional Provisions and Statutes Limiting Revenues, Appropriations, Fees and Charges.....	25

Other Changes in Law	25
Limited Recourse on Default.....	25
Limitations on Available Remedies.....	25
No Obligation To Tax	26
Sludge Disposal.....	26
Loss of Tax Exemption	26
Natural Disasters	26
Cybersecurity and Other Malicious Acts.....	26
Secondary Market, Rating Changes and Continuing Disclosure.....	27
Parity Bonds	27
Bond Owner Risks at Maturity or Redemption	27
Limitations on Taxes and Revenues.....	27
Tax Rate Limit, Article XIII A of the California Constitution (Proposition 13)	27
Legislation Implementing Article XIII A	28
Appropriations Limit, Article XIII B of the California Constitution	28
Propositions 1A and 22	29
Proposition 218, Right To Vote on Taxes, Articles XIII C and XIII D of the California Constitution	29
Other Initiative Measures	30
The Cities of Encinitas and Solana Beach	30
Encinitas	30
Solana Beach	34
Tax Matters	39
Tax Exemption of Interest on the Series 2017 Bonds	39
Tax Accounting Treatment of Bond Premium and Original Issue Discount	40
Certain Other Tax Consequences	41
Certain Legal Matters.....	41
General	41
Absence of Litigation	41
Miscellaneous	42
Rating	42
Underwriting	42
Continuing Disclosure	42
Municipal Advisor.....	43
Financial Statements.....	43
Additional Information.....	44
Official Statement Certification.....	44
APPENDIX A Demographic and Economic Information About Encinitas and Solana Beach	A-1
APPENDIX B Certain Definitions and Summary of Principal Legal Documents	B-1
APPENDIX C Audited Financial Statements of the Authority, Encinitas and Solana Beach	C-1
APPENDIX D Form of Bond Counsel Opinion	D-1
APPENDIX E Form of Disclosure Agreement	E-1
APPENDIX F The Book Entry Only System.....	F-1

OFFICIAL STATEMENT

\$22,645,000[†]

SAN ELIJO JOINT POWERS AUTHORITY 2017 REVENUE BONDS (CLEAN WATER PROJECTS)

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Series 2017 Bonds being offered and a brief description of this Official Statement. All statements in this introduction are qualified in their entirety by reference to this entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California (the “State”) and any documents referred to in this Official Statement do not purport to be complete, and such references are qualified in their entirety by reference to the complete provisions. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Series 2017 Indenture and the Series 2017 Loan Agreements (each, as hereinafter defined). See “APPENDIX B – CERTAIN DEFINITIONS AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Certain Definitions.”

This Official Statement, including the cover page and all appendices, provides certain information concerning the sale and delivery of \$22,645,000* aggregate principal amount of the San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects) (the “Series 2017 Bonds”) to be issued by the San Elijo Joint Powers Authority (the “Authority”) for the purposes of funding improvements and additions to facilities used in its wastewater treatment and water reclamation and recycling services (the “San Elijo Clean Water Facilities”, as more fully defined below) and to pay certain expenses of the Authority in connection with the issuance of the Series 2017 Bonds.

The Series 2017 Bonds are being issued pursuant to: (a) the Constitution and laws of the State of California, including Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with section 6500) of the Government Code of the State (the “Act”); (b) a resolution (the “Resolution”) adopted by the Board of Directors of the Authority at its meeting held June 12, 2017; and (c) a Series 2017 Indenture of Trust, dated as of June 1, 2017 (the “Series 2017 Indenture”) by and between the Authority and MUFG Union Bank N.A., as trustee (the “Trustee”) thereunder.

Each of the City of Encinitas (“Encinitas”) and the City of Solana Beach (“Solana Beach”) will enter into separate Series 2017 Loan Agreements, each dated as of June 1, 2017 (each a “Series 2017 Loan Agreement,” and together, the “Series 2017 Loan Agreements”), to assist in the financing of their respective shares of the Series 2017 Bond obligations. The Series 2017 Loan Agreements are secured by pledges of revenues on a parity with the pledges of such revenues under the Third Amended and Restated Loan Agreement, dated as of December 1, 2011. See “**SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Outstanding and Additional Parity Debt.**” Encinitas and Solana Beach are each a “City” and together, the “Cities”. At the May 2017 regular meetings of the City Council of each City, respectively, acting by City Council resolutions, each City authorized and approved its respective Series 2017 Loan Agreement, the Disclosure Agreement (defined below) and other agreements, documents and instruments required in connection with the Authority’s issuance of the Series 2017 Bonds and their respective disclosure obligations related to the Series 2017 Bonds.

The Authority

The Authority was formed by the Cardiff Sanitation District and the Solana Beach Sanitation District pursuant to the Act. Initial facilities were developed as the wastewater treatment facility for the Cities pursuant to a joint powers agreement between Cardiff Sanitation District and the Solana Beach Sanitation District in 1963. In 1987, a Joint Exercise of Powers Agreement, as amended (the “Basic Agreement”), replaced the earlier agreement and provided for the joint ownership of certain wastewater conveyance, treatment and disposal facilities as well as management of the facilities. In 1990, the City of Solana Beach succeeded to the powers and responsibilities of the Solana Beach Sanitation District and assumed obligations of the Solana Beach Sanitation District with respect to the Authority. In 2001, the City of Encinitas succeeded to the powers and responsibilities of the Cardiff Sanitation District and assumed its obligations with respect to the Authority. In 2008, the Cities entered into a Restatement of Agreement between Cardiff Sanitation District and Solana Beach Sanitation District establishing the San Elijo Joint

[†] Preliminary, subject to change

Powers Authority (the “Restatement of Agreement”). The Authority serves the wastewater collection and disposal systems (“City Systems”) of each City (specifically, the Cardiff Sanitary Division of Encinitas’ City System and all of Solana Beach’s City System). For all purposes related to the Series 2017 Bonds, the City System of Encinitas does not include divisions other than the Cardiff Sanitary Division. The facilities of the Authority used to treat effluent from each City System were first constructed in 1964 and then expanded in subsequent years. The Authority expects to use proceeds of the Series 2017 Bonds to fund portions of the cost of improvements and expansions of the San Elijo Clean Water Facilities in three phases, continuing through 2020. See “**THE CLEAN WATER PROJECTS.**”

The San Elijo Clean Water Facilities

The Authority operates the San Elijo Clean Water Facilities (“Authority Facilities”), consisting primarily of wastewater treatment and disposal facilities serving the Cities (the “Wastewater Enterprise Facilities”) and water reclamation, recycling and delivery facilities (the “Water Reclamation Facilities”). Encinitas and Solana Beach as the Cities are the Authority’s principal Wastewater Enterprise Facilities customers, and other communities served by the Wastewater Enterprise Facilities include areas of the City of Del Mar (“Del Mar”), the Cardiff community in Encinitas (“Cardiff”) and portions of Rancho Santa Fe Community Services District (“Rancho Santa Fe”). The San Elijo Clean Water Facilities handle mostly domestic wastewater and are permitted to discharge up to 2.48 million gallons per day (“MGD”) of tertiary-treated wastewater to recycled water users and up to 5.25 MGD of secondary-treated wastewater to the Pacific Ocean through the San Elijo Ocean Outfall (capacity 25.5 MGD), approximately 1.5 miles offshore (the “Ocean Outfall”). The Ocean Outfall is owned jointly by the Authority (21%) and by the City of Escondido (79%).

The Wastewater Enterprise Facilities. The Wastewater Enterprise Facilities, which serve as the sole wastewater treatment and disposal facilities for the City Systems, are located at the Authority’s headquarters site, approximately 23 miles north of the City of San Diego in a small valley on the northern side of San Elijo Lagoon immediately west of Interstate Highway 5 (the “I-5”). The Wastewater Enterprise Facilities, which also include the eight wastewater pumping stations (operated by the Authority but owned by each respective City as part of its City System), serve northern San Diego County areas including: (a) Encinitas’ Cardiff Sanitation Division service area, comprising 5,250 gross acres (approximately 38% of the city limits of Encinitas) along the Pacific coast and extending inland; and (b) Solana Beach’s service area, comprising 2,211 gross acres (the entire city limits of Solana Beach), also along the Pacific coast; and (c) Del Mar’s service area, comprising approximately 1,240 gross acres (the entire city limits of Del Mar), also along the Pacific coast. Del Mar has no obligation with respect to the Series 2017 Bonds; accordingly, its wastewater collection and disposal system is not a “City System” with respect to the Series 2017 Bonds.

The Water Reclamation Facilities. The Water Reclamation Facilities are also located at the Authority’s headquarters site. The Authority operates a recycled water delivery system, including 20 miles of recycled water distribution pipelines, two pumping stations and three recycled water reservoirs (one underground and two aboveground, with storage capacities ranging from 750,000 to 1,000,000 gallons), to communities extending northward and southward along the I-5 corridor (including the CalTrans I-5 right-of-way). Various cities and local agencies in the area are wholesale customers of recycled water delivered by the Authority, serving areas of Encinitas, Solana Beach, Del Mar, Rancho Santa Fe and the La Costa area of the City of Carlsbad (“La Costa”). Tertiary treatment components of the Water Reclamation Facilities produce approximately 1,400 to 1,600 acre-feet of recycled water annually for local use by parks, schools, churches, golf courses, freeway and street landscaping, landscape irrigation for businesses and homeowners’ associations and industrial cooling towers. Tertiary treatment capacities by technology include 2.5 MGD of sand filtration, 1.4 MGD of micro filtration and 0.5 MGD of reverse osmosis. No revenues of the Water Reclamation Facilities are pledged to the payment of the Series 2017 Bonds.

No city or local agency other than Encinitas and Solana Beach (the Cities) has any obligation with respect to the Series 2017 Bonds, whether or not such city or local agency is a customer of the Authority’s wastewater treatment or recycled water services.

Security and Sources of Payment for the Series 2017 Bonds

THE AUTHORITY HAS PREVIOUSLY ISSUED ITS 2011 REFUNDING REVENUE BONDS (SAN ELIJO WATER RECLAMATION FACILITY) (“SERIES 2011 BONDS”), WHICH ARE OUTSTANDING IN THE PRINCIPAL AMOUNT OF \$3,015,000 AND WHICH ARE SECURED ON A PARITY WITH THE SERIES 2017

BONDS. ADDITIONAL PARITY OBLIGATIONS MAY BE ISSUED IN THE FUTURE AS PROVIDED IN THE SERIES 2017 INDENTURE. See “**SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Outstanding and Additional Parity Debt.**”

Loan Installments. Under the Series 2017 Loan Agreements, each City is required to make its Loan Installment payments from certain revenues (“System Revenues”) derived from its respective City System, including services the Authority provides each City System through operation of the Wastewater Enterprise Facilities. System Revenues are comprised of Gross Revenues (defined below) less Operating and Maintenance Expenses (defined below). The Series 2017 Loan Agreements provide that, as long as the Series 2017 Bonds remain outstanding and unpaid, each City is absolutely and unconditionally required to pay its Loan Installments from its System Revenues (whether or not the Wastewater Enterprise Facilities are operating or operable).

Under the Series 2017 Loan Agreements, each City has covenanted and agreed to prescribe, revise and collect such charges from the services and facilities of its City System which will produce Gross Revenues (defined below) sufficient in each Fiscal Year to provide System Revenues equal to at least 1.30 times the sum of (a) its Loan Installments coming due and payable during such Fiscal Year and (b) all payments required with respect to Parity Debt (as defined below) coming due and payable during such Fiscal Year. Aggregate Loan Installment payments by the Cities are intended to be sufficient, in both time and amount, to pay, when due, the annual principal of and interest on the Series 2017 Bonds.

Each Series 2017 Loan Agreement defines “*Gross Revenues*” all gross income and revenue received by the respective City and allocated to its City System, including, without limiting the generality of the foregoing, (a) all income, rents, rates, fees, charges or other moneys derived from the services, facilities and commodities sold, furnished or supplied through the facilities of its City System and the Wastewater Enterprise Facilities; (b) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or pursuant to law to its City System; and (c) transfers to the respective City’s sanitary enterprise fund from (but exclusive of any transfers to) any rate stabilization reserve accounts; provided, that the term “Gross Revenues” shall not include customers’ deposits or any other deposits subject to refund until such deposits have become the property of the respective City.

For purposes of each Series 2017 Loan Agreement, “*Wastewater Enterprise Facilities*” means any and all facilities of any kind or purpose of or used by the Authority (excluding the Authority’s Water Reclamation Facilities) used for the treatment and disposal of wastewater, including without limitation sewage treatment plants, intercepting and collecting sewers (owned by the Cities), outfall sewers, force mains, pumping stations, ejector stations, pipes, valves, machinery, safety and systems for the protection, monitoring, command, control and operation thereof, and all other appurtenances necessary, useful or convenient for the foregoing, and any necessary lands, rights of way and other real or personal property useful in connection therewith. **As stated above, the term “Wastewater Enterprise Facilities” expressly excludes the Water Reclamation Facilities of the Authority and the City Systems.**

“*Operation and Maintenance Expenses*” of each City System is defined in the Series 2017 Loan Agreements to be (a) all expenses and costs of management, operation, maintenance and repair incurred by the respective City for the collection of wastewater in its City System, as well as the cost of maintaining its City System, and all incidental costs, fees and expenses properly chargeable to its City System (but excluding debt service or other similar payments on Parity Debt or other obligations and depreciation and obsolescence charges or reserves therefor and amortization of intangibles and inter-fund transfers or other bookkeeping entries of a similar nature); and (b) all expenses and costs of management, operation, maintenance and repair billed by the Authority to the respective City for the treatment of wastewater at the Wastewater Enterprise Facilities, as well as the cost of maintaining the Wastewater Enterprise Facilities and all incidental costs, fees and expenses properly chargeable to the Wastewater Enterprise Facilities, which expenses and costs are billed to the respective City. “Operation and Maintenance Expenses” does not include the Loan Installments or the expenses and costs of management, operation, maintenance and repair of the Water Reclamation Facilities. See “**THE SAN ELIJO CLEAN WATER FACILITIES –Water Reclamation Facilities**”.

While Encinitas is also served by its Encinitas Sanitary Division and the Leucadia County Water District, no revenues from either of those enterprises will be aggregated with the revenues of Encinitas’s City System or pledged or assigned to the payment of debt service on the Series 2017 Bonds. **NO CITY OR LOCAL GOVERNMENT ENTITY OTHER THAN ENCINITAS AND SOLANA BEACH (THE CITIES) HAS ANY OBLIGATION**

WITH RESPECT TO LOAN INSTALLMENTS PAYABLE FOR THE SERIES 2017 BONDS, WHETHER OR NOT SUCH CITY OR OTHER ENTITY IS A CUSTOMER OF THE AUTHORITY'S WASTEWATER OR RECYCLED WATER SERVICES.

No Reserve Fund or Account. No reserve fund or account for the payment of debt service on the Series 2017 Bonds has been or will be established or funded.

Outstanding Parity Debt. The Loan Installments are also pledged and secured, on a parity basis with each City's pledge of System Revenues, for the payment of debt service on \$3,015,000 outstanding aggregate principal amount of the Authority's 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facilities) (the "2011 Bonds", and together with any permitted additional indebtedness or similar obligations subsequently issued or incurred, secured on a parity basis with the Series 2017 Bonds, "Parity Debt"). The 2011 Bonds are not subject to redemption prior to their maturities, which are March 1 annually as follows: 2018 redemption of \$1,365,000 principal; 2019 redemption of \$1,415,000 principal; 2020 redemption of \$115,000 principal; and 2021 redemption of \$120,000 principal.

Bond Payments, Interest and Maturities

The Series 2017 Bonds mature and bear interest (computed on the basis of a 360-day year of twelve 30-day months) at the rates set forth on the inside front cover page of this Official Statement. Interest on the Series 2017 Bonds will be payable September 1, 2017, and each March 1 and September thereafter to and including the maturity or redemption of such Series 2017 Bonds. See "**THE SERIES 2017 BONDS.**"

Redemption of the Series 2017 Bonds

Optional Redemption. At the option of the Authority (which the Authority may rescind at its discretion), from and after March 1, 20__, may elect to redeem the Series 2017 Bonds prior to their stated maturity on any date specified by the Authority in a notice of redemption given by the Trustee to the Owners of the Series 2017 Bonds to be redeemed at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. Subject to the Series 2017 Indenture, the term Series 2017 Bonds maturing March 1, 20__, and thereafter are subject to mandatory sinking fund redemption by the Authority, shall be redeemed (or paid at maturity, as the case may be) by application of mandatory sinking account payments in the amounts and on the dates set forth in "**THE SERIES 2017 BONDS – Redemption.**"

Special Obligations

EACH SERIES 2017 LOAN AGREEMENT IS A SPECIAL, ABSOLUTE AND UNCONDITIONAL OBLIGATION OF THE RESPECTIVE CITY, AND LOAN INSTALLMENTS PAYABLE THEREUNDER ARE SECURED BY A PLEDGE OF SYSTEM REVENUES AND OTHER FUNDS OF THE CITY LAWFULLY AVAILABLE THEREFOR, AND DOES NOT CONSTITUTE A GENERAL OBLIGATION OF SUCH CITY OR AN OBLIGATION OF THE OTHER CITY. EACH OBLIGATION OF THE CITIES TO MAKE LOAN INSTALLMENT PAYMENTS UNDER THE SERIES 2017 LOAN AGREEMENTS IS AN OBLIGATION OF THE RESPECTIVE CITY, PAYABLE FROM SYSTEM REVENUES OF THE RESPECTIVE CITY AND OTHER SOURCES IDENTIFIED IN THE SERIES 2017 LOAN AGREEMENTS AND THE SERIES 2017 INDENTURE. THE CITIES ARE NOT OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION IN ORDER TO PAY THE LOAN INSTALLMENTS UNDER THE SERIES 2017 LOAN AGREEMENTS. THE AUTHORITY HAS NO TAXING POWER. NEITHER THE SERIES 2017 BONDS NOR THE OBLIGATION OF THE LOCAL AGENCIES TO MAKE LOAN INSTALLMENT PAYMENTS UNDER THE SERIES 2017 LOAN AGREEMENTS CONSTITUTES A DEBT OF EITHER CITY, THE AUTHORITY, THE STATE OF CALIFORNIA OR ANY OF THEIR RESPECTIVE POLITICAL SUBDIVISIONS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NEITHER THE AUTHORITY'S OR THE CITIES' RESPECTIVE OFFICERS, EMPLOYEES AND AGENTS, NOR ANY PERSONS EXECUTING THE SERIES 2017 LOAN AGREEMENTS OR THE SERIES 2017 BONDS, SHALL BE PERSONALLY LIABLE ON THE SERIES 2017 LOAN AGREEMENTS OR THE SERIES 2017 BONDS OR SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THE DELIVERY THEREOF.

Book-Entry Only Registration

The Series 2017 Bonds will be issued in fully registered form and will be registered initially in the name of “Cede & Co.” as nominee for The Depository Trust Company, New York, New York (“DTC”), a securities depository. Beneficial ownership interests in the Series 2017 Bonds may be acquired in denominations of \$5,000 or any multiple of \$5,000 through participants in the DTC system (the “Participants”). Such beneficial ownership interests will be recorded in the records of the Participants. Persons for which Participants acquire interests in the Series 2017 Bonds (the “Beneficial Owners”) will not receive certificates evidencing their interests in the Series 2017 Bonds so long as DTC or a successor securities depository acts as the securities depository with respect to the Series 2017 Bonds. So long as DTC or its nominee is the registered owner of the Series 2017 Bonds, payments of principal, premium, if any, and interest on the Series 2017 Bonds, as well as notices and other communications made by or on behalf of the Authority pursuant to the Series 2017 Indenture, will be made to DTC or its nominee only. Disbursement of such payments, notices and other communications by DTC to Participants, and by Participants to the Beneficial Owners, is the responsibility of DTC and the Participants pursuant to rules and procedures established by such entities. See “**APPENDIX F – THE BOOK-ENTRY ONLY SYSTEM**” for a discussion of the operating procedures of the DTC system with respect to payments, registration, transfers, notices, and other matters.

Delivery of Series 2017 Bonds

The Series 2017 Bonds are offered when, as, and if issued by the Authority and accepted by Hilltop Securities Inc., as underwriter for the Series 2017 Bonds (the “Underwriter”), subject to prior sale and the approving legal opinion Bond Counsel and certain other conditions. See “**MISCELLANEOUS – Underwriting**.” It is anticipated that the Series 2017 Bonds in definitive form will be available for delivery through the book-entry facilities of DTC on or about July __, 2017.

Tax Matters

In the opinion of Procopio, Cory, Hargreaves & Savitch, LLP, San Diego, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2017 Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. It is also the opinion of Bond Counsel that under existing law such interest is exempt from personal income taxes of the State of California. See, however, “**TAX MATTERS**” and “**APPENDIX D – FORM OF BOND COUNSEL OPINION**.”

Audited Financial Statements

For the fiscal year 2015-16 of the Authority and each City, their respective audited financial statements and their accompanying reports are attached to this Official Statement in “**APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, ENCINITAS AND SOLANA BEACH**.” Except as otherwise expressly stated in this Official Statement, all other financial information about the Authority or either City is unaudited financial information.

The audit reports accompanying the financial statements were prepared: (a) for the Authority by The Pun Group, LLP, San Diego, California (“TPG”); (b) for Encinitas by TPG; and (c) for Solana Beach by Lance, Soll & Lunghard, LLP, Brea, California (“LSL”) (TPG and LSL, each an “Auditor”), to the extent and for the periods indicated in their respective reports. Such financial statements have been included in reliance upon the respective reports of each Auditor. Each Auditor has consented to the reproduction of its report in this Official Statement. Neither the Authority, Encinitas nor Solana Beach is aware of any facts that would make its respective financial statements misleading in any material respect.

Professionals, Service Providers and Advisors

Procopio, Cory, Hargreaves & Savitch, LLP, San Diego, California, has acted as Bond Counsel and Disclosure Counsel to the Authority. Certain legal matters will be passed on for the Authority by its general counsel, Procopio, Cory, Hargreaves & Savitch, LLP, and for each City by its respective City Attorney. Hilltop Securities Inc. will serve as the Underwriter (the “Underwriter”). Certain legal matters will be passed on for the Underwriter by its counsel, Nixon Peabody LLP. MUFG Union Bank N.A., will serve as the Trustee for the Series 2017 Bonds.

Fieldman, Rolapp & Associates, an independent registered municipal advisor, is serving as municipal advisor to the Authority (the “Municipal Advisor”). Certain fees that are payable by the Authority with respect to the Series 2017 Bonds to counsel, the Underwriter, the Trustee and the Financial Advisor are contingent upon the issuance and delivery of the Series 2017 Bonds. For more information concerning circumstances in which certain of these professionals may have a financial or other interest in the offering of the bonds, see “**CERTAIN LEGAL MATTERS – General.**”

Bond Owner Risks

See “**BOND OWNER RISKS**” for a discussion of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in considering the investment quality of the Series 2017 Bonds. The purchase of the Series 2017 Bonds involves risks, and the Series 2017 Bonds may be appropriate investments for some types of investors but not others.

Additional Information

The summaries of or references to constitutional provisions, statutes, resolutions, agreements, contracts, financial statements, reports, publications and other documents or compilations of data or information set forth in this Official Statement do not purport to be complete statements of the provisions of the items summarized or referred to and are qualified in their entirety by the full provisions of such items, copies of which are either publicly available or available upon request and the payment of a reasonable copying, mailing and handling charge from the Authority’s administrative offices, 2695 Manchester Avenue, P.O. Box 1077, Cardiff, California 92007-7077, telephone: 760.753.3203 ext 73, or Hilltop Securities Inc., 2533 South Coast Highway 101, Suite 250, Cardiff, California 92007, telephone: 760.632.8614.

CONTINUING DISCLOSURE

The Authority and each City, with Applied Best Practices, LLC, as Dissemination Agent, will enter into and deliver a Disclosure Agreement (the “Disclosure Agreement”), with respect to the Series 2017 Bonds, under which the Authority and the Cities will provide to the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board (“EMMA”), which can be found at www.emma.msrb.org, certain financial information and operating data relating to the Authority and the Cities by not later than eight months after the end of each Fiscal Year (the “Annual Reports”), and to provide notices of the occurrence of certain listed events. The Disclosure Agreement is made for the benefit of the registered and Beneficial Owners (as defined in the Disclosure Agreement) of the Series 2017 Bonds and in order to assist the Underwriter in complying with its obligations pursuant to United States Securities and Exchange Commission Rule 15c2-12 (17 CFR Part 240, § 240.15c2-12), as amended (“SEC Rule 15c2-12”), as amended and promulgated by the United States Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934, as amended. See “**APPENDIX E – FORM OF DISCLOSURE AGREEMENT.**” The Authority and the Cities have timely filed all required continuing disclosure reports.

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ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Series 2017 Bonds are expected to be determined and applied as follows:

Sources of Funds

Par Amount of Series 2017 Bonds[‡]
Net Original Issue Premium on Series 2017 Bonds

TOTAL

Uses of Funds

Deposit to Series 2017 Project Fund
Underwriter's Discount
Deposit to Costs of Issuance Fund^(a)

TOTAL

- (a) Includes, without limitation, all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the Authority, the Cities and the Trustee, compensation to the financial advisor or any consultants or underwriters, rating agency fees and costs of printing.

THE SERIES 2017 BONDS

General

The Series 2017 Bonds will be dated as of their date of delivery, will be issued in the aggregate principal amounts and will bear interest at the rates and mature on the dates, subject to redemption as described under “**THE SERIES 2017 BONDS – Redemption**,” set forth on the inside front cover page of this Official Statement. The Series 2017 Bonds will be issuable as fully registered bonds without coupons in authorized denominations of \$5,000 and any multiple of \$5,000 in excess thereof.

Interest on the Series 2017 Bonds is payable semiannually each March 1 and September 1, commencing September 1, 2017 (each an “Interest Payment Date”). Interest on the Series 2017 Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months, until payment of principal has been made or provided for, payable on each Interest Payment Date. The principal of, interest on and Redemption Price, if any, with respect to the Series 2017 Bonds shall be payable in legal currency of the United States of America, to the person in whose name the Bond is registered in the registration books maintained by the Trustee (the “Owner”) as of the fifteenth day of the month preceding such Interest Payment Date, whether or not such day is a Business Day (the “Record Date”). Any interest not punctually paid or duly provided for shall cease to be payable to the Owner of the Bond on the respective Record Date and shall be paid to the Owner in whose name the Bond is registered at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee. Under the Series 2017 Indenture, the Trustee will provide notice to the Owner of such special record date and by first-class mail at least 15 days before the special record date.

Interest on the Series 2017 Bonds shall be payable on each Interest Payment Date by the Trustee by check mailed on the date on which due to the Owners of the Series 2017 Bonds at the close of business on the Record Date with respect to such Interest Payment Date, at the registered addresses of Owners as shall appear on the registration books of the Trustee. Any Owner of Series 2017 Bonds in an aggregate principal amount in excess of \$1,000,000 may be paid interest by wire transfer to a bank account located in the United States of America by providing written wire transfer instructions to the Trustee prior to the Record Date next preceding the applicable Interest Payment Date.

[‡] Preliminary, subject to change.

Redemption

Optional Redemption. The Series 2017 Bonds are subject to redemption prior to their stated maturity on or after March 1, 20__[§] at the option of the Authority, from any source of available funds, as a whole or in part on any date specified by the Authority in a notice of redemption given by the Trustee to the Owners of the Series 2017 Bonds to be redeemed at least 30 days before such redemption date (in such amounts and of such mandatory sinking fund payments as may be specified by the Authority, or if the Authority fails to specify such amounts and such principal or Redemption Price, if any, of mandatory sinking fund payments, in inverse order of mandatory sinking fund payments), at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. Subject to the terms and conditions set forth in the Series 2017 Indenture, the Series 2017 Bonds maturing March 1, 20__ shall be redeemed (or paid at maturity, as the case may be) by application of mandatory sinking fund payments in the following amounts and on the following dates:

SERIES 2017 BONDS MATURING MARCH 1, 20__

REDEMPTION DATE (MARCH 1) [*]	PRINCIPAL AMOUNT [*]
20__	\$000,000
20__	\$000,000
20__	\$000,000
20__	\$000,000
20__	\$000,000
20__	\$000,000
20__	\$000,000
20__ ^(a)	\$000,000

^(a)Final Maturity

In addition to the foregoing, and subject to the terms and conditions set forth in the Series 2017 Indenture, the Series 2017 Bonds maturing March 1, 20__ shall be redeemed (or paid at maturity, as the case may be) by application of mandatory sinking fund payments in the following amounts and on the following dates:

SERIES 2017 BONDS MATURING MARCH 1, 20__

REDEMPTION DATE (MARCH 1) [*]	PRINCIPAL AMOUNT [*]
20__	\$000,000
20__	\$000,000
20__	\$000,000
20__	\$000,000
20__	\$000,000
20__	\$000,000
20__	\$000,000
20__	\$000,000
20__ ^(a)	\$000,000

^(a)Final Maturity

* Preliminary; subject to change.

In addition to the foregoing, and subject to the terms and conditions set forth in the Series 2017 Indenture, the Series 2017 Bonds maturing March 1, 20__ shall be redeemed (or paid at maturity, as the case may be) by application of mandatory sinking fund payments in the following amounts and on the following dates:

SERIES 2017 BONDS MATURING MARCH 1, 20__

REDEMPTION DATE (MARCH 1)*	PRINCIPAL AMOUNT***
20__	\$000,000
20__	\$000,000
20__	\$000,000
20__	\$000,000
20__	\$000,000
20__	\$000,000
20__	\$000,000
20__ ^(a)	\$000,000
20__ ^(a)	\$000,000

^(a)Final Maturity

Notice of Redemption. The Trustee is required to cause notice of the call for redemption to be given in accordance with the Series 2017 Indenture and not more than 60 nor less than 30 days prior to the applicable redemption date by mailing by Electronic Means (as defined in the Series 2017 Indenture) and by first-class mail a copy of the notice to the Owners of the Series 2017 Bonds designated for redemption in whole or in part, at their last addresses appearing upon the bond register, together with a copy of the notice to EMMA; provided, however, receipt of such notice shall not be a condition precedent to such redemption and failure of any Owner of the Series 2017 Bonds to receive any such notice or any defect in such notice shall not affect the validity of any proceedings for the redemption of such Series 2017 Bonds.

Each notice of redemption is required to specify the series and maturities of the Series 2017 Bonds to be redeemed, the date fixed for redemption and the place or places where amounts due upon such redemption shall be payable and, if less than all of the Series 2017 Bonds of any like series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Series 2017 Bonds to be so redeemed, and, in the case of Series 2017 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Such notice shall further state any conditions that must be satisfied prior to the redemption of the Series 2017 Bonds to be redeemed and that on such date there shall become due and payable upon each Series 2017 Bond to be redeemed the principal or Redemption Price of the specified portions of the principal amount thereof in the case of the Series 2017 Bonds to be redeemed in part only, together with interest accrued but unpaid on the principal amount of the Series 2017 Bonds to be redeemed to the date fixed for redemption, and that from and after such date interest thereon shall cease to accrue and be payable.

Under the Series 2017 Indenture, neither the Authority nor the Trustee shall have any responsibility for any defect in the CUSIP[®] number that appears on any of the Series 2017 Bonds or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP[®] numbers have been assigned by an independent service for convenience of reference and that neither the Authority nor the Trustee shall be liable for any inaccuracy in such numbers.

* Preliminary; subject to change.

Debt Service

When the final Official Statement is prepared (after pricing of the Series 2017 Bonds), **TABLE 1** will show the debt service requirements for the Series 2017 Bonds.

TABLE 1: DEBT SERVICE SCHEDULE

\$22,645,000

San Elijo Joint Powers Authority

2017 Revenue Bonds

(Clean Water Projects)

[DEBT SERVICE]

¹ Figures have been rounded to the nearest dollar.

* Preliminary; subject to change.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS

Capitalized terms used but not defined in this section have the meanings attributed to them in “APPENDIX B – CERTAIN DEFINITIONS AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

THE AUTHORITY HAS PREVIOUSLY ISSUED ITS 2011 REFUNDING REVENUE BONDS (SAN ELIJO WATER RECLAMATION FACILITY) (“SERIES 2011 BONDS”), WHICH ARE OUTSTANDING IN THE PRINCIPAL AMOUNT OF \$3,015,000 AND WHICH ARE SECURED ON A PARITY WITH THE SERIES 2017 BONDS. ADDITIONAL PARITY OBLIGATIONS MAY BE ISSUED IN THE FUTURE AS PROVIDED IN THE SERIES 2017 INDENTURE. See “**Outstanding and Additional Parity Debt**” in this section.

Special Obligations

EACH SERIES 2017 LOAN AGREEMENT IS AN ABSOLUTE AND UNCONDITIONAL OBLIGATION OF THE RESPECTIVE CITY, AND LOAN INSTALLMENTS PAYABLE THEREUNDER ARE SECURED BY A PLEDGE OF SYSTEM REVENUES AND OTHER FUNDS OF THE CITY LAWFULLY AVAILABLE THEREFOR, AND DOES NOT CONSTITUTE A GENERAL OBLIGATION OF THE CITY OR AN OBLIGATION OF THE OTHER CITY. THE OBLIGATION OF THE CITIES TO MAKE LOAN INSTALLMENT PAYMENTS UNDER THE SERIES 2017 LOAN AGREEMENTS IS PAYABLE FROM SYSTEM REVENUES AND OTHER SOURCES IDENTIFIED IN THE SERIES 2017 LOAN AGREEMENTS AND THE SERIES 2017 INDENTURE. THE CITIES ARE NOT OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION IN ORDER TO PAY THE LOAN INSTALLMENTS UNDER THE SERIES 2017 LOAN AGREEMENTS. THE AUTHORITY HAS NO TAXING POWER. NEITHER THE SERIES 2017 BONDS NOR THE OBLIGATION OF THE CITIES TO MAKE LOAN INSTALLMENT PAYMENTS UNDER THE SERIES 2017 LOAN AGREEMENTS CONSTITUTES A DEBT OF EITHER CITY, THE AUTHORITY, THE STATE OF CALIFORNIA OR ANY OF THEIR RESPECTIVE POLITICAL SUBDIVISIONS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NEITHER THE AUTHORITY’S OR EITHER CITY’S RESPECTIVE OFFICERS, EMPLOYEES AND AGENTS, NOR ANY PERSONS EXECUTING THE SERIES 2017 LOAN AGREEMENTS OR THE SERIES 2017 BONDS, SHALL BE PERSONALLY LIABLE ON THE SERIES 2017 LOAN AGREEMENTS OR THE SERIES 2017 BONDS OR SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THE DELIVERY THEREOF.

The Series 2017 Bonds are special obligations of the Authority and, pursuant to the Series 2017 Indenture, the Series 2017 Bonds are secured by a first lien on and pledge of all of the Revenues (defined below) and a pledge of all of the moneys in the Interest Account and the Principal Account, including all amounts derived from the investment of such moneys.

Revenues of the Authority. “Revenues” means: (a) all amounts payable by the Cities pursuant to the Series 2017 Loan Agreements (taking into account any limitations contained therein with respect to such payment), other than (i) administrative fees and expenses and indemnity against claims payable to the Authority and the Trustee and (ii) taxes and other charges payable to the United States of America pursuant to each Series 2017 Loan Agreement; (b) any proceeds of Series 2017 Bonds originally deposited with the Trustee and all moneys deposited and held from time to time by the Trustee in the funds and accounts established under the Series 2017 Indenture; and (c) income and gains with respect to the investment of amounts on deposit in such funds and accounts. The Authority has assigned to the Trustee for the benefit of the Owners its right to receive all of the Revenues, and all of the right, title and interest of the Authority in the Series 2017 Loan Agreements.

System Revenues of Cities. Under the Series 2017 Loan Agreements, each City is required to make its Loan Installment payments from certain revenues (“System Revenues”) derived from its respective City System, including services the Authority provides each City System through operation of the Wastewater Enterprise Facilities. System Revenues are comprised of Gross Revenues (defined below) less Operating and Maintenance Expenses (defined below). The Series 2017 Loan Agreements provide that, as long as the Series 2017 Bonds remain outstanding and unpaid, each City is absolutely and unconditionally required to pay its Loan Installments from its System Revenues whether or not any Authority facilities are operating or operable.

Gross Revenues of City Systems. Each Series 2017 Loan Agreement defines “Gross Revenues” as all gross income and revenue received by the City party thereto for the collection and treatment of wastewater generated in its respective City System, including, without limiting the generality of the foregoing: (a) all income, rents, rates, fees, charges or other moneys derived from the services, facilities and commodities sold, furnished or supplied through the facilities of its City System and the Wastewater Enterprise Facilities (defined below); (b) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or pursuant to law to its City System; and (c) transfers to that City’s Enterprise Fund; provided, that the term “Gross Revenues” shall not include customers’ deposits or any other deposits subject to refund until such deposits have become the property of the applicable City.

Wastewater Enterprise Facilities. For purposes of each Series 2017 Loan Agreement, “Wastewater Enterprise Facilities” means any and all facilities of any kind or purpose of the Authority (excluding the Authority’s Water Reclamation Facilities) used for the treatment and disposal of wastewater, including without limitation sewage treatment plants, certain intercepting and collecting sewers, outfall sewers, certain pumping stations, ejector stations, pipes, valves, machinery, safety and systems for the protection, monitoring, command, control and operation thereof, and all other appurtenances necessary, useful or convenient for the foregoing, and any necessary lands, rights of way and other real or personal property useful in connection therewith.

Operations and Maintenance Expenses. “Operation and Maintenance Expenses” of each City System is defined in the Series 2017 Loan Agreements to be (a) all expenses and costs of management, operation, maintenance and repair of the respective City System and all incidental costs, fees and expenses properly chargeable to the respective City System (but excluding debt service or other similar payments on Parity Debt (as defined below), or other obligations and depreciation and obsolescence charges or reserves therefor and amortization of intangibles and inter-fund transfers or other bookkeeping entries of a similar nature); and (b) all expenses and costs of management, operation, maintenance and repair billed by the Authority to each City for the treatment of wastewater at the Wastewater Enterprise Facilities as well as the cost of maintaining the Wastewater Enterprise Facilities, and all incidental costs, fees and expenses properly chargeable to the Wastewater Enterprise Facilities, which expenses and costs are billed to the respective City. “Operation and Maintenance Expenses” do not include Loan Installments or the expenses and costs of management, operation, maintenance and repair of the Water Reclamation Facilities. See **“THE SAN ELIJO CLEAN WATER FACILITIES – The Water Reclamation Facilities.”**

Loan Installment Obligations. The obligation of the Cities to pay Loan Installments constitutes an absolute and unconditional special obligation of each respective City, payable from a first and prior lien on its System Revenues, together with other funds of the respective City lawfully available therefor, and certain interest and other income derived from the investment of the funds and accounts held by the Trustee pursuant to the Series 2017 Indenture (other than the Series 2017 Rebate Fund). Neither the Authority, the Cities, the State, nor any of the State’s political subdivisions shall be directly, indirectly, contingently or morally obligated to use any other moneys or assets to pay all or any portion of the principal of, Redemption Price, if any, or interest on the Series 2017 Bonds, to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Series 2017 Bonds are not a pledge of the faith and credit of the Authority, the Cities, the State, nor any of the State’s political subdivisions and do not constitute indebtedness within the meaning of any constitutional or statutory debt limitation. The Authority has no taxing power.

Delinquencies and Remedies. If either City fails to pay any Loan Installment when due, the delinquent Loan Installment shall continue as an obligation of that City, and that City shall pay the same with interest thereon, to the extent permitted by law, from the date thereof at the net effective interest rate then borne by the Outstanding Series 2017 Bonds; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the order of priority prescribed in the respective Series 2017 Loan Agreement. Should either City default under its respective Series 2017 Loan Agreement, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Outstanding Series 2017 Bonds the Trustee shall: (a) declare the principal of the Series 2017 Loan, together with the accrued interest on all unpaid installments thereof, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything in the Series 2017 Loan Agreement to the contrary notwithstanding, and (b) exercise any other remedies available to the Trustee in law or at equity. Each City’s liability to pay its Loan Installments is limited to System Revenues and other funds of such City lawfully available therefor.

Separate City Obligations; No Cross-Default. Each Series 2017 Loan Agreement is an obligation only of the respective City, and does not constitute an obligation of the other City. As a result, a default in the payment of a Loan Installment under either Series 2017 Loan Agreement would constitute an event of default under such Series 2017 Loan Agreement and may result in acceleration of the related Loan Installments. Such a default under one Series 2017 Loan Agreement would not constitute an event of default under the other Series 2017 Loan Agreement, but may result in a payment default on the Series 2017 Bonds.

No Third-Party Revenues or Obligations. While Encinitas is also served by its Encinitas Sanitary Division and the Leucadia County Water District, no revenues from either of those enterprises will be aggregated with the revenues of Encinitas's City System or pledged or assigned to the payment of debt service on the Series 2017 Bonds. **THE REVENUES OF THESE TWO ENTERPRISES ARE SEPARATE FROM THE REVENUES OF THE CARDIFF SANITARY DIVISION AND ARE NOT PLEDGED TO THE PAYMENT OF DEBT SERVICE ON THE SERIES 2017 BONDS. NO CITY OR LOCAL GOVERNMENT ENTITY OTHER THAN ENCINITAS AND SOLANA BEACH (THE CITIES) HAS ANY OBLIGATION WITH RESPECT TO THE LOAN INSTALLMENTS REQUIRED FOR THE SERIES 2017 BONDS, WHETHER OR NOT SUCH CITY OR OTHER ENTITY IS A CUSTOMER OF THE AUTHORITY'S WASTEWATER OR RECYCLED WATER SERVICES.**

Shares of Capacity of Wastewater Enterprise Facilities

The Wastewater Enterprise Facilities have a rated capacity of 5.25 MGD. Each of the Cities owns 50% of the Wastewater Enterprise Facilities. The total amount of each payment of principal and interest with respect to the Series 2017 Bonds is comprised of Loan Installments to be made by each respective City, approximately 50% (with respect to Encinitas) and 50% (with respect to Solana Beach) of debt service on the Series 2017 Bonds.

The foregoing percentages may differ slightly from the 50% ownership share of the Cities due to the refunding of prior indebtedness as well as different equity contributions by each of the Cities. Under the Basic Agreement, the Cities are entitled to purchase and use the capacity of the Wastewater Enterprise Facilities from each other based on pro-rata responsibility for ongoing capital costs as well as operation and maintenance expenses with the result that the responsibility of either City for debt service on the Series 2017 Bonds can change under certain circumstances from that shown above. See "APPENDIX B – CERTAIN DEFINITIONS AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE SERIES 2017 INDENTURE – Funds and Accounts – Flow of Funds."

Rate Covenants of the Cities

Each City has covenanted and agreed to prescribe, revise and collect such charges from the services and facilities of its City System and Wastewater Enterprise Facilities which, after allowances for contingencies and error in the estimates, shall produce Gross Revenues sufficient in each Fiscal Year to provide System Revenues equal to at least 1.30 times the sum of (a) its Loan Installments coming due and payable during such Fiscal Year and (b) all payments required with respect to Parity Debt (as defined herein) coming due and payable during such Fiscal Year. Aggregate Loan Installment payments by the Cities are intended to be sufficient, in both time and amount, to pay, when due, the annual principal of and interest on the Series 2017 Bonds.

Outstanding and Additional Parity Debt

Series 2011 Refunding Revenue Bonds. The Loan Installments are also pledged and secured, on a parity basis with the Series 2017 Bonds, to the payment of debt service on \$3,015,000 outstanding aggregate principal amount of the Authority's 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facility) (the "2011 Bonds"). The 2011 Bonds are not subject to redemption prior to their maturities, which are March 1 annually as follows: 2018 redemption of \$1,365,000 principal; 2019 redemption of \$1,415,000 principal; 2020 redemption of \$115,000 principal; and 2021 redemption of \$120,000 principal.

Additional Parity Debt. Each City has the right to issue or incur Parity Debt ("Parity Debt"), on a parity with its respective Series 2017 Loan Agreement, provided:

(a) The City is not in default under the terms of its respective Series 2017 Loan Agreement; and

(b) System Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest fiscal year, currently July 1 through June 30 in the succeeding year (the "Fiscal Year"), or any more

recent 12-month period selected by the City ending not more than 60 days prior to the adoption of the resolution pursuant to which instrument such Parity Debt is issued or incurred, as shown by the books of the City, plus at the option of the City, either or both of the items below designated (1) and (2), shall have amounted to at least 1.30 times the sum of the maximum Loan Installments of the City coming due and payable in any future Fiscal Year and the maximum annual debt service on all Parity Debt outstanding immediately subsequent to the incurring of such additional obligations.

Either or both of the following items may be added to such System Revenues of the City for the purpose of determining whether the condition described in paragraph (b) above is met:

- (1) An allowance for revenues from any additions to or improvements or extensions of the City System and the Wastewater Enterprise Facilities to be made with the proceeds of such additional obligations, and also for net revenues from any such additions, improvements or extensions which have been made from moneys from any source but which, during all or any part of such Fiscal Year, were not in service, all in an amount equal to 75% of the estimated additional average annual revenues to be derived from such additions, improvements and extensions for the first 36-month period following closing of the proposed Parity Debt, all as shown by the certificate or opinion of a qualified independent engineer employed by either of the Cities or the Authority, and
- (2) An allowance for earnings arising from any increase in the charges made for service from the City System and the Wastewater Enterprise Facilities which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year, was not in effect, in an amount equal to 100% of the amount by which revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year and any period prior to the incurring of such additional obligations, as shown by the certificate or opinion of a qualified independent engineer employed by the City or the Authority.

Insurance

The Authority covenants to procure and maintain or cause to be procured and maintained casualty insurance on the Wastewater Enterprise Facilities with responsible insurers, or to provide self-insurance (which may be provided in the form of risk-sharing pools), in such amounts and against such risks (including accident to or destruction of the Wastewater Enterprise Facilities) as are usually covered in connection with similar facilities. See “**BOND OWNER RISKS – Insurance and Risk Management.**”

THE CLEAN WATER PROJECTS

The Authority expects to use proceeds of the sale of the Series 2017 Bonds deposited in the Series 2017 Project Fund toward the completion of wastewater and recycled water infrastructure projects (the “Clean Water Projects”), including additions to and enhancement of the Wastewater Enterprise Facilities and the Water Reclamation Facilities. The estimated cost distribution to be funded from the Series 2017 Project Fund is 75% for wastewater system infrastructure (including portions of the Wastewater Enterprise Facilities) and 25% recycled water system infrastructure (the Water Reclamation Facilities). The projects are anticipated to be completed in three phases over a four-year period.

Phase I Clean Water Projects

Phase I projects are ready for construction. The design of these projects has been completed, and all permits have been obtained. The current Clean Water Projects schedule anticipates construction to commence in mid-2017 with completion in late 2018. The current cost estimate for Phase I Clean Water Projects is \$13.7 million, of which approximately \$6.2 million is expected to be funded from the Series 2017 Project Fund. The Authority expects to fund the balance of the cost of Phase I Clean Water Projects from the proceeds of grants and capital contributions and other available Authority funds. Phase I includes the following Clean Water Projects:

- *Land Outfall Replacement.* Replacement of the San Elijo Land Outfall pipeline due to age (“Land Outfall Replacement”). This project will replace approximately 2,500 linear feet of 30-inch diameter asbestos-concrete pipeline originally installed in 1965. The Authority regards the Land Outfall Replacement as critical wastewater infrastructure because (a) there are no redundant facilities or systems, (b) the Land

Outfall Replacement is in use 24 hours per day, every day of the year, and (c) the Land Outfall Replacement is essential for meeting disposal permit compliance. See “**THE SAN ELIJO CLEAN WATER FACILITIES –Water Discharge Requirements.**”

- *Preliminary Wastewater Treatment Upgrades.* Preliminary Wastewater Treatment Upgrades will increase peak flow wastewater treatment by more than 50% to approximately 13.6 MGD from the current flow of 9 MGD. This Clean Water Project includes construction of new concrete treatment structures, installation of new screening and dewatering equipment, rehabilitation of existing concrete channels and structures and replacement of aging chemical storage tanks.
- *Odor and Gas Control Systems.* The replacement of aging mechanical, electrical and other components of the Wastewater Enterprise Facilities associated with treatment odor control systems is necessary to sustain the capture and removal of odors and corrosive gases.

Phase II Clean Water Projects

Phase II projects are currently in design. California Environmental Quality Act (“CEQA”) documentation has been completed and filed on all Phase II projects. The current schedule anticipates design completion by mid-2018, commencement of construction immediately thereafter and completion in December 2019. The current cost estimate for Phase II Clean Water Projects is \$13.5 million, expected to be funded in whole or in part from the Series 2017 Project Fund. Phase II currently includes the following Clean Water Projects (however, the Authority reserves the right in its discretion to reorder or substitute Clean Water Projects among the three phases):

- *Operations, Administration and Clean Water Visitors Center.* This project will replace the obsolete operations and administration buildings due to age, safety concerns, code compliance issues, and accessibility and workspace requirements with new, modern facilities located at the Authority Facilities campus entrance. The project includes a new laboratory, operations control room and work area, secure SCADA room, class room/training room, offices, and a public meeting and educational area.
- *Site Security, Cybersecurity and Systems Resilience.* This Clean Water Project will improve site security with the installation of taller and more secure perimeter fencing, expansion and modernization of video surveillance, enhancements for building access security and upgrading the SCADA system to improve data collection, storage and cybersecurity.
- *Site Utilities.* The Authority Facilities require the replacement of aging and obsolete electrical and mechanical piping infrastructure and process control components as well as expansion of fiber optic interconnectivity throughout the campus, with the construction of a more secure and advanced operations control center.
- *Carbon Emissions Reduction.* This element will add solar energy systems to new and existing buildings and carport structures in order to reduce and offset the carbon-emissions use of the electricity grid.
- *Recycled Water Distribution.* The Authority expects to continue the expansion of its recycled water distribution system with additional pipelines and conveyance infrastructure. Identified projects in Encinitas and Solana Beach are anticipated to convert 16 million gallons per year of potable water irrigation to recycled water.

Phase III Clean Water Projects

Phase III projects are in early design. CEQA documentation has been completed and filed on all Phase III projects. The current schedule anticipates design completion by mid-2019, with completion of construction by late 2020. The current cost estimate for Phase III Clean Water Projects is \$7.8 million, expected to be funded from the Series 2017 Project Fund. Phase III currently includes the following Clean Water Projects (however, the Authority reserves the right in its discretion to reorder or substitute Clean Water Projects among the three phases):

- *Pre-Digestion Treatment.* The Authority expects to maintain and improve pre-digestion treatment in a group of Clean Water Projects that include upgrades to mechanical elements of the dissolved air thickening units and primary sludge thickening improvements.

- *Digester Performance.* The Authority expects to sustain the performance and asset lives of its digester systems with replacement of aging pumps, upgrades to heat exchange systems, repairs of surface and structural damage to concrete digesters and refurbishment of Digesters Nos. 1 and 2 at the Wastewater Enterprise Facilities.
- *Solids Handling, Dewatering, Corrosion Repair and Odor Control.* This group of Clean Water Projects involves replacement of aging solids handling and dewatering equipment, repair of corrosion damage at the solids handling building and further improvements in odor control.
- *Secondary Treatment and Safety.* The Authority expects to upgrade secondary treatment systems and processes with replacement of corroded troughs and baffles, repairs of concrete channels and effluent boxes, the implementation of trough automation and installation of a fall-arrest system to enhance workplace safety.

SAN ELIJO JOINT POWERS AUTHORITY

History and Legal Status

The Authority is a joint exercise of powers authority organized and existing under and by virtue of California Government Code section 6500 et seq. (Title 1, Division 7, Chapter 5, Article 1). In 1963, the Cardiff Sanitation District and the Solana Beach Sanitation District originally approved a joint powers agreement, as amended, under which a wastewater conveyance, treatment and disposal facility was constructed. The joint powers agreement set forth the criteria for joint ownership of conveyance, treatment and disposal facilities, and originally authorized the County of San Diego to maintain and operate the facilities. The joint powers agreement contemplates the possible inclusion of adjacent communities as users of the facilities. Under the original joint powers agreement, 56% of the capacity of the facilities and related ocean outfall was acquired by the Cardiff Sanitation District and 44% was acquired by the Solana Beach Sanitation District. Subsequently, it was determined that it would be in the mutual best interests of Cardiff Sanitation District and the Solana Beach Sanitation District to rescind the joint powers agreement and to create a new joint powers authority.

Establishment

In 1987, the Authority was established by the terms of the Basic Agreement as a separate entity with the power to own, operate, maintain and upgrade the facilities. In 1990, Solana Beach succeeded to the powers and responsibilities of the Solana Beach Sanitation District and assumed the obligations and benefits of the Solana Beach Sanitation District with respect to the Authority. In 2001, Encinitas succeeded to the powers and responsibilities of the Cardiff Sanitation District and assumed the obligations and benefits of the Cardiff Sanitation District with respect to the Authority on behalf of Encinitas's Cardiff Sanitary Division. In 2008, Encinitas and Solana Beach amended and restated the Basic Agreement by entering into the Restatement of Agreement.

Governance

The Authority is governed by a four-member Board of Directors ("Board"), with two members representing each of the two Cities. The Authority has hired its own staff to operate and maintain the San Elijo Clean Water Facilities (the "Authority Facilities", comprised of the Wastewater Enterprise Facilities and the Water Reclamation Facilities) as well as manage the business of the Authority. By means of the Restatement of Agreement, the Cities have conveyed their ownership interests in the Authority Facilities to the Authority. In general, the Restatement of Agreement establishes the Authority's right to finance expansion of the Authority Facilities as well as to determine, by agreement of the Cities, capacity rights resulting from any upgrade of the Authority Facilities. Each City maintains its respective City System collection facilities located within its respective service territory. However, the Authority maintains the pump stations and force mains for each City System service area.

The Restatement of Agreement

Under the Restatement of Agreement, each City owns a specified percentage, or capacity rights, of the sewage treatment capacity provided by the Wastewater Enterprise Facilities. Each City may lease, sell or purchase capacity without the consent of any other party. Any such transaction, however, will not relieve the City of any of its obligations under the Restatement of Agreement. The Restatement of Agreement may be rescinded and the Authority terminated upon the written consent of the Cities, however, under the Restatement of Agreement prior to

termination, all expenses of any City terminating its participation in the Authority would become due and payable in full. Each City has covenanted in its respective Series 2017 Loan Agreement not to terminate the Restatement of Agreement until its obligations under its Series 2017 Loan Agreement have been satisfied.

Under the Restatement of Agreement, two Authority directors are to be members of the City Council of the City of Encinitas and two Authority directors are to be members of the City Council of the City of Solana Beach. The Board of Directors meets regularly, and an affirmative vote of at least three members of the Authority's Board of Directors is required for any actions of the Authority. Whenever, after consideration of a matter for two meetings, the Authority Board of Directors is unable to decide a matter because of a tie vote, the issue shall be referred to the City Council of the City of Encinitas and the City Council of the City of Solana Beach for resolution.

The Restatement of Agreement also provides for the appointment of a manager responsible for the administrative operation of the Authority under the direction and control of the Authority's Board of Directors. Pursuant to the Restatement of Agreement, the manager has been given the following powers, among others in addition to the powers necessary and proper to the effective administration of the Authority: (a) participating in the design of and supervision of the construction of any improvement, or expansion of the Authority Facilities; (b) making and entering into contracts in connection with capital costs, costs of special services, equipment, materials, supplies, maintenance or repair that involves an expenditure of less than \$35,000; (c) employing agents and employees to maintain and operate the Authority Facilities; (d) in an emergency, making and entering into contracts where required to keep the Authority Facilities in operation or to restore the Authority Facilities to operating conditions that involves an expenditure of less than \$75,000; (e) preparing and submitting annual budgets; (f) applying for all permits, licenses or approvals necessary for operation of the Authority Facilities from any local, state or federal government or agency with jurisdiction over the Authority Facilities and to file all reports required by any local, state or federal government or agency with jurisdiction over the Authority Facilities; and (g) to supervise the acquisition, construction, management, maintenance and operation of the Authority Facilities.

Wastewater Enterprise Facilities

The Authority acts as the wholesale provider of wastewater treatment services for each of the Cities. The Cities have agreed to contribute from their respective wastewater enterprise funds the actual cost of the administration, operation and maintenance of the Wastewater Enterprise Facilities as divided between the Cities pursuant to the Restatement of Agreement. Such costs shall include the actual costs of (a) all materials and supplies used or purchased for the operation and maintenance of the Wastewater Enterprise Facilities, (b) all contracts let by Authority for the performance of any work incidental to providing such service and (c) the salaries and wages of all Authority employees providing such services. Each City independently sets its own rates for the provision of the wastewater collection, treatment and disposal services for its City System. See "**THE SAN ELIJO CLEAN WATER FACILITIES – Wastewater Service Area.**"

Water Reclamation Facilities

The Authority has additional sources of operating income, primarily from its water recycling and reuse operations. The Authority Facilities were upgraded in 1998 for water reuse through \$4 million in capital contributions from the Cities, a \$12.6 million loan from the State of California Water Resources Department and a \$4 million loan from the United States Bureau of Reclamation. Currently, the Authority serves approximately 19 square miles with a population of approximately 40,000. The Authority operates a recycled water delivery system, including 20 miles of recycled water distribution pipelines, two pumping stations and three recycled water reservoirs (one underground and two aboveground, with storage capacities ranging from 750,000 to 1,000,000 gallons), to communities extending northward and southward along the I-5 corridor (including the CalTrans I-5 right-of-way). Various cities and local agencies in the area are wholesale customers of recycled water delivered by the Authority, serving areas of Encinitas, Solana Beach, Del Mar, Rancho Santa Fe and La Costa. Tertiary treatment facilities produce approximately 1,400 to 1,600 acre-feet of recycled water annually for local use by parks, schools, churches, golf courses, freeway and street landscaping, landscape irrigation for businesses and homeowners' associations, and industrial cooling towers. Tertiary treatment capacities by technology include 2.5 MGD of sand filtration, 1.4 MGD of micro filtration and 0.5 MGD of reverse osmosis.

Key Management

Michael T. Thornton, P.E., who serves at the pleasure of the Authority's Board of Directors, acts as the General Manager for the Authority, and in that capacity he is responsible for the day-to-day operation and management of the Authority Facilities. In addition to the manager, the Authority's Board of Directors also selects the Treasurer/Auditor. The General Manager selects and hires all other administrative staff of the Authority. The backgrounds of the current General Manager, Director of Finance/Administration, and Director of Operations of the Facility are as follows:

- **MICHAEL T. THORNTON, P.E., *General Manager.*** Michael Thornton is the General Manager of the San Elijo Joint Powers Authority and has been with the Authority since 2000. His duties include responsibility for the planning, engineering, financing, and management of the Wastewater Enterprise Facilities and the Water Reclamation Facilities that comprise the San Elijo Clean Water Facilities. Mr. Thornton is a graduate of San Diego State University, earning a B.S. in Civil Engineering, and is a licensed civil engineer in the State of California. Mr. Thornton currently serves on the Board of Trustees for WaterReuse California, the Board of Directors for the Southern California Alliance of Publicly Owned Treatment Works, and the Industry Advisory Board for the Environmental Engineering Program at San Diego State University. Mr. Thornton's professional affiliations include the Water Environment Foundation, California Association of Sanitation Agencies, and American Society of Civil Engineers.
- **PAUL F. KINKEL, *Director of Finance and Administration.*** Paul Kinkel is the Director of Finance and Administration of the San Elijo Joint Powers Authority and has been with the Authority since 2013. His duties include supporting the General Manager in carrying out the directives of the Board, developing and administering programs related to the Authority's provision of services, general accounting activities including payroll, accounts payable, purchasing, expenditure control, budget and year-end audit, contract administration, human resources including recruitment, classification and compensation, benefits and supporting labor relations, management information systems, document control including record keeping and Board policies and administrative procedures. Mr. Kinkel has 25 years of accounting, financial and management experience. He is a graduate of San Diego State University.
- **CHRISTOPHER A. TREES, P.E., *Director of Operations.*** Christopher Trees is the Director of Operations of the San Elijo Joint Powers Authority and has been with the Authority since 2009. His duties include supporting the General Manager in carrying out directives of the Board, overseeing operations of the Authority's Wastewater Enterprise Facilities and Water Reclamation Facilities. Mr. Trees is responsible for planning and implementation of capital projects associated with Authority Facilities. With 29 years of engineering and management experience, Mr. Trees is a licensed mechanical engineer in the State of California. He is a graduate of Purdue University, earning a B.S. in Mechanical Engineering.

Retirement Plan

Generally, the Authority recovers its operating expenses, including but not limited to its employment and related retirement benefit costs, through its service charges to the Cities for the Wastewater Enterprise Facilities. For more detailed information about the Authority's pension and other retirement benefit payments and liabilities, see the audited financial statements of the Authority included in "**APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, ENCINITAS AND SOLANA BEACH.**" The following description is only a brief summary:

- ***OPEB.*** The Authority provides medical insurance benefits to eligible retirees in accordance with various labor agreements, subject to the Authority's vesting schedule. Typically, these benefits are available at age 55, and only to retirees participating in the California Public Employees Retirement System ("CalPERS"). CalPERS currently sets the Authority's maximum monthly contributions at \$125 per retiree. For all retiree benefits other than pension benefits (Other Post-Employment Benefits, or "OPEB"), as of June 30, 2016, the Authority's net share of OPEB liability was approximately \$155,000, together with an unfunded actuarial accrued liability of approximately \$292,000.
- ***Pension.*** The Authority contracts with CalPERS for service retirement and disability benefits with annual cost-of-living adjustments and death benefits to public employees and their beneficiaries. For employees hired before July 1, 2012, the CalPERS pool is 2.5% at 55; for employees hired thereafter, the pool is

2% at 62. For the year ended June 30, 2016, the Authority's aggregate contributions were approximately \$161,000 for 46 covered employees. CalPERS has announced that it anticipates substantial increases in required employer and employee contribution rates; however, the Authority cannot yet estimate the impact of such increases. As of June 30, 2016, the Authority reported its proportionate share of net pension liability as \$2,463,484.

THE SAN ELIJO CLEAN WATER FACILITIES

The San Elijo Clean Water Facilities to be augmented and improved with the Clean Water Projects consist of its Wastewater Enterprise Facilities and its Water Reclamation Facilities, located approximately 23 miles north of the City of San Diego in a small valley on the northern side of the San Elijo Lagoon and west of the I-5. With the exception of certain pump stations operated and maintained by the Authority but owned by the Cities, the Ocean Outfall and the recycled water delivery system, the Wastewater Enterprise Facilities and the Water Reclamation Facilities are located at the Authority's 27-acre headquarters site. The Wastewater Enterprise Facilities serve as a regional sewage treatment and disposal facility for a service area encompassing approximately 19 square miles, with a population of approximately 40,000. Wastewater effluent is discharged directly to the Pacific Ocean from the Ocean Outfall, which the Authority owns jointly with the City of Escondido ("Escondido"). Escondido owns a 79% share of the Ocean Outfall, and the Authority owns the other 21% share. See "**THE CLEAN WATER PROJECTS.**"

Wastewater Service Area

The joint service area served by the Wastewater Enterprise Facilities is located 23 miles north of the City of San Diego and encompasses approximately 8,640 gross acres in the northern portion of San Diego County. The sewage agencies served by the Wastewater Enterprise Facilities include Cardiff Sanitary Division (of Encinitas), Solana Beach, Del Mar, Rancho Santa Fe and the 22nd District Agricultural Association (the local government agency that manages and operates the Del Mar Fairgrounds and equestrian park), and a portion of the City of San Diego. The water agencies within the joint service area are the Olivenhain Water District, the Santa Fe Irrigation District and the San Dieguito Water District. No city, district or local agency other than the Authority and the Cities has any financial obligation with respect to the Series 2017 Bonds or the Series 2017 Loan Agreements.

The joint service area is situated on a coastal plain, bordered by the Cardiff community in Encinitas to the north and Solana Beach and Del Mar to the south. Major hydrological features in the area consist of surface water (creeks, lagoons) and groundwater basins. The principal water features are the Escondido Creek, the San Dieguito River and the San Elijo Lagoon.

City Collection Systems. Each City owns its City System to collect and transport wastewater to the Wastewater Enterprise Facilities. Each City is responsible for the maintenance, operation, expansion and installation of its City System except for certain pump stations and force mains that are operated and maintained by the Authority but owned by the respective City. While either City may delegate responsibilities to the Authority for certain aspects of City System operations, the delegating City remains liable for any costs associated with any delegation. In general, the City Systems have similar but distinct service areas and operations, all as described in "**THE CITIES OF ENCINITAS AND SOLANA BEACH.**" The combined City Systems serve approximately 8,640 gross acres.

As of June 30, 2016: (a) the Cardiff Sanitary Division (of Encinitas) served 8,344 Equivalent Dwelling Units ("EDUs") including 7,157 residential EDUs and 1,187 commercial or industrial EDUs, all across approximately 5,250 gross acres (approximately 38% of the city limits of Encinitas) along the Pacific coast and extending inland; and (b) Solana Beach's service area served 5,142 EDUs, including 2,736 residential EDUs and 2,406 commercial/industrial EDUs, all across approximately 2,176 gross acres (the entire city limits of Solana Beach), also along the Pacific coast.

Sewer Service Rates and Revenues

Both Cities recover the cost of wastewater treatment system operation, maintenance, renewal and replacement and capital expansion through a user fee system consisting of four major components and federal and State Clean Water Grants. Each City establishes user fees adequate to provide for its prorata responsibility for the Authority's costs as well as the City's costs. Among other fee components, the Cities impose two primary components of user

<u>Users/Class</u>	<u>Sub Category</u>	<u>Unit Cost (perHCF)</u>	<u>HCF (New Connections)</u>	<u>Charge (New Connections)</u>
Group II Commercial				
Softwater Service	SW	\$5.40	-----	
Car Wash	CW	\$5.40	1,520	\$8,208.00
Office Building	OF	\$5.40	200	\$1,080.00
Fire Station	FS	\$5.40	110	\$594.00
Professional Building (Doctor)	PB	\$5.40	160	\$864.00
Veterinary Clinic	VC	\$5.40	-----	
Athletic Gymnasium	G	\$5.40	1,340	\$7,236.00
Laundromat	L	\$5.40	990	\$5,346.00
Department and Retail Store	DRS	\$5.40	120	\$648.00
Warehouse	W	\$5.40	1,050	\$5,670.00
Hospital, Convalescent Home	HCH	\$5.40	3,240	\$17,496.00
Parks	PB	\$5.40	510	\$2,754.00
Church-Membership Organization	C	\$5.40	440	\$2,376.00
Membership Organization (Non-Church)	MO	\$5.40	240	\$1,296.00
Social Services	SS	\$5.40	160	\$864.00
Group III Commercial				
Hotels-Motels (without restaurant)	HM	\$7.03	890	\$6,256.70
Repair and Service Station	RSS	\$7.03	70	\$492.10
Shopping Center	SC	\$7.03	1,030	\$7,240.90
Kennel	K	\$7.03	900	\$6,327.00
Coffee Shop	CS	\$7.03	-----	
Amusement Park	AP	\$7.03	-----	
Nightclub/Bar	NC	\$7.03	320	\$2,249.60
Commercial Laundry	CL	\$7.03	-----	
Manufacturing	M	\$7.03	180	\$1,265.40
Lumber Yard	LY	\$7.03	-----	
Group IV Commercial				
Hotels-Motel (with restaurant)	HM	\$10.56	3,130	\$33,052.80
Bakery (wholesale)/Food Processor	BW	\$10.56	-----	
Supermarket	SM	\$10.56	1,030	\$10,876.80
Mortuary	MT	\$10.56	300	\$3,168.00
Restaurant	R	\$10.56	600	\$6,336.00
(1) Sewer rates are based on water consumption (fixed charged based on meter size and consumption component). The consumption is based on HCF (hundred cubic feet - 748 gallons).				
<i>Source: City of Encinitas</i>				

TABLE 3: CITY OF SOLANA BEACH, SANITATION ENTERPRISE FUND
SEWER RATES AND CHARGES (fiscal years ended June 30)

	<u>SEWER SERVICE CHARGE / EDU</u>	<u>CONNECTION FEE</u>
2012	\$560.00	\$4,500.00
2013	574.00	\$4,500.00
2014	588.35	\$4,500.00
2015	603.06	\$4,500.00
2016	618.14	\$4,500.00

Source: City of Solana Beach, Ordinances 402, 438, 441, 452, 458, 462, SD-7

Setting Rates and Charges. Each City is required by its respective Series 2017 Loan Agreement to establish rates and charges for the use of its wastewater collection system to produce Gross Revenues sufficient to provide System Revenues equal to at least 1.30 times (a) its Loan Installments coming due and payable during each Fiscal Year and (b) all payments required with respect to its Parity Debt. Sewer service charges, sewer connection fees and

other miscellaneous fees and charges are established by ordinance adopted by a super-majority (4/5) vote of the City Council of Encinitas and the City Council of Solana Beach, respectively, and become effective after a 30-day posting period.

City sewer service charges are designed to comply with the Revenue Program guidelines of the State Water Resources Control Board (the "State Board"). California recipients of State and federal grants for sewage facilities are required to adopt rates in conformity with grant guidelines, which require all customers to pay for sewer service in proportion to their demand on the wastewater treatment system from which they receive sewer service. Utility rates and charges may be reviewed as part of each City's budget process. After results of operations for each City's wastewater collection systems are known, the need for any rate adjustments is determined. Based on fees a City collects, sewer rates and connection fees are reviewed and adjusted as needed.

Authority Budgets. The Authority develops annual budgets for operations as well as maintenance and capital improvement programs. The operations and maintenance budget, which includes treatment plant and pump station operations and maintenance, is based in part on salary and expenditure trends, anticipated inflationary and cost change impacts and a planned maintenance program. The capital improvement program budget identifies current year planned expenses and revenues. The recommended budget is provided to the Authority's Board for review in April and revised as necessary for final adoption at the May Board meeting. Recommended budget information is also provided to the Cities in order to allow opportunity for comment and inclusion in the Cities' annual budget process.

Billing and Collection. Sewer service charges and connection charges are billed as follows:

Sewer Service Charges. With few exceptions for a limited number of customers, billing and collection services for sewer service charges of each City are provided by the County of San Diego (the "County"). Sewer service charges are included with the County's property tax billing. The County remits collected sewer service charges to each City, less delinquencies, in 13 installments throughout the fiscal year with a majority of the money remitted in January and May, after property tax payments are processed. Delinquencies are budgeted by each City based upon County delinquency estimates. The Cities are ultimately at risk for any reduction in revenues due to delinquencies; however, shortfalls in collections are typically offset by collections of prior period delinquencies. In addition, each City maintains reserves against various contingencies, including revenue variations. Public schools, churches and other public entities are billed by the respective public agencies within each City's boundaries.

Connection Fees. Each City collects connection charges from new customers as a precondition to issuance of a wastewater discharge permit for connection to the wastewater collection system of the respective City, generally when a certificate of occupancy is issued.

Tax Levies and Delinquencies. Property taxes are due in two installments (November 1 and February 1) of each fiscal year, and unpaid installments become delinquent as of December 10 and April 10, respectively. A 10% penalty attaches immediately to all delinquent payments. Property with respect to which taxes are delinquent becomes tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1.5% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for five years or more, the property is subject to sale by the County Treasurer/Tax Collector. ***The County does not remit wastewater fees and charges in lieu of payment delinquencies by property owners.***

Population and Allowable Growth. The population of the Encinitas and Solana Beach areas served by the Wastewater Enterprise Facilities is approximately 26,800 for Encinitas and 13,200 for Solana Beach. These areas are near full build-out, with only slight growth in recent years. Estimates of build-out populations in these areas are based on a "population" equivalent which includes allowances for commercial and industrial discharge. At full build-out, the Encinitas service areas are expected to have about 9,000 dwelling units, 10 acres of commercial use and no industrial use; and the Solana Beach service areas are expected to have about 6,660 dwelling units, 115 acres of commercial use and 10 acres of industrial use.

Water Discharge Requirements

The wastewater treatment, collection and disposal systems of the Authority and the Cities are subject to waste discharge requirements established by the San Diego Regional Water Quality Control Board (the "Regional Board") as well as the State Water Resources Control Board of California (the "State Board"). The requirements are established in Regional Board orders permitting the discharge of secondary-treated wastewater from the San Elijo

Water Pollution Control Facility to the Pacific Ocean through the Ocean Outfall (collectively, “Wastewater Discharge”). The Authority’s permits are issued jointly by the California Environmental Protection Agency and the Regional Board, and the Authority holds current permits for all operations of the Wastewater Enterprise Facilities, including without limitation permits from the San Diego Air Pollution Control District and Hazardous Materials storage permits.

Secondary Wastewater Treatment Systems and Processes.

Influent. First, sewage flows to the influent structure through force mains and gravity sewers. The influent structure contains bar screens that remove large solids to protect downstream equipment. Auxiliary facilities add chemicals, polymer and ferric chloride to the aerated grit chamber to aid in the settling of solids of the primary sedimentation tank.

Primary Treatment. Next, wastewater flows from the grit chamber to covered primary sedimentation tanks. Sludge from the primary sedimentation tanks is pumped through a grinder to the anaerobic digesters. Effluent flow from the primary sedimentation tanks is flow-equalized in one of two 700,000-gallon flow equalization basins prior to secondary treatment.

Secondary Treatment. Secondary treatment involves flow of primary-treated wastewater to one of four aeration basins where organic materials are oxidized through a bacterial process. Flow from the aeration basins goes to secondary sedimentation basins where additional solids settle, and then treated water from the secondary sedimentation tanks is discharged to the ocean or pumped through the tertiary treatment system for reclamation and recycling. Waste solids from the bottom of the secondary clarifiers are pumped through dissolved air flotation (“DAF”) units to further concentrate solids and then to anaerobic digesters for further biological treatment prior to dewatering by belt filter press and disposal.

Removal of Sludge. Dewatered sludge is hauled away and disposed of pursuant to an agreement with a private-sector hauler. See “**BOND OWNER RISKS – Sludge Disposal.**”

Transport and Discharge. The final secondary-treated effluent flows by gravity or is pumped through the Ocean Outfall, which was commissioned in 1965 to discharge treated effluent from the Wastewater Enterprise Facilities. The Ocean Outfall was upgraded and expanded in 1974 to include discharge capacity for Escondido’s Hale Avenue Resource Recovery Facility. The Ocean Outfall is about 8,000 feet long and has an end depth approximately 150 feet below mean sea level. The diffuser section of pipe comprises 1,176 feet of 48-inch pipe with 200 individual 2-inch-diameter diffuser ports. Discharge from the Wastewater Enterprise Facilities to the Pacific Ocean is subject to environmental regulations that stipulate dilution requirements, offshore distance and water depth. The Authority conducts annual inspections to ensure that the Ocean Outfall is in sound operating condition and that environmental regulations are being met.

Laboratory

The Authority owns and operates a highly specialized chemistry laboratory to monitor the effectiveness of wastewater treatment for compliance with its permits. Analytical services include chemical, biological and microbiological testing, assessing organic and inorganic chemicals, bacteria and toxicity of incoming wastewater, discharge from the Wastewater Enterprise Facilities and reclaimed/recycled water from the Water Reclamation Facilities.

Operating Expenses

The Authority’s current budget anticipates Wastewater Enterprise Facilities fund operations and maintenance at approximately \$4.5 million, and Water Reclamation Facilities fund operations and maintenance at approximately \$1.5 million, with sales of reclaimed water projected at approximately 1,500 acre-feet (with an anticipated 9% increase attributed to State grant revenue).

Capital Improvement Program

The Authority’s current Capital Improvement Program (“CIP”) is an outgrowth of its 2015 Facility Plan, which prioritized recommended projects to reflect financial, environmental and social impacts. Estimates of project costs of the 2015 Facility Plan performed in 2014 indicated aggregated project costs of approximately \$36.9 million, which in 2018 are anticipated to aggregate approximately \$44.5 million.

In order to streamline project completion, minimize community impacts and reduce costs through economies of scale, the CIP bundles projects that are functionally or spatially related and share similar construction processes. As described in more detail under “**THE CLEAN WATER PROJECTS,**” and as updated in April 2017, the projects are bundled in three phases, generally as follows:

Phase I. Phase I projects involve the Wastewater Enterprise Facilities and include land outfall replacement, preliminary treatment upgrades and odor control improvements.

Phase II. Phase II projects involve both the Wastewater Enterprise Facilities and the Water Reclamation Facilities, as well as Authority operations in general. These projects include building and seismic improvements, site and security improvements, electrical upgrades, SCADA system improvements, solar power additions and recycled water pipelines.

Phase III. Phase III projects involve primarily the Wastewater Enterprise Facilities and include dewatering upgrades, digester improvements, biosolids process improvements, DAF and co-thickening upgrades and secondary treatment upgrades.

The CIP is an evolving plan and is subject to modifications of any type and at any time. The Authority can provide no assurance that specific projects will be completed as currently planned.

BOND OWNER RISKS

This Official Statement contains summaries of pertinent portions of the Series 2017 Bonds, the Series 2017 Indenture, the Series 2017 Loan Agreements, the Disclosure Agreement and other relevant documents. Such summaries and references are qualified in their entirety by reference to the full text of such documents. The following discussion of certain special considerations and risk factors affecting the payment of and security for the Series 2017 Bonds is not, and is not intended to be, complete or exhaustive, and such risks are not necessarily presented in order of relative importance or degree. Potential investors in the Series 2017 Bonds should consider the following special factors along with all other information in this Official Statement in evaluating the Series 2017 Bonds. There can be no assurance that other considerations will not arise in the future.

For more specific information on State limitations on taxes and revenues, see “LIMITATIONS ON TAXES AND REVENUES.”

Sewer Revenues and Demand for Sewer Service

No assurance can be given that the demand for wastewater collection and treatment services will occur as described in this Official Statement. Reduction in levels of demand could require an increase in rates or charges in order to comply with the Cities’ rate covenants in the Series 2017 Loan Agreements. See “**SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Rate Covenants.**”

Sewer System Expenses

No assurance can be given that the Cities’ expenses for their respective wastewater collection systems will be consistent with the levels described in this Official Statement. Changes in technology, new regulatory requirements, increases in the cost of energy or other expenses would reduce System Revenues of a City and could require substantial increases in rates or charges in order to comply with the rate covenants in the Series 2017 Loan Agreements. Any rate increases could increase the likelihood of nonpayment and decrease demand for sewer services.

Insurance and Risk Management

The Authority is a member of the California Sanitation Risk Management Authority (“CSRMA”), a risk-pooling self-insurance authority created under provisions of the Act. CSRMA arranges and administers programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. Each insured agency pays for its proportionate share of its individually contracted insurance coverage and consulting services. As of June 30, 2016, the Authority participated in these CSRMA programs:

- **General Liability Including Bodily Injury, Property Damage, Public Entity Errors and Omissions, Employment Practices Liability and Automobile Liability.** The CSRMA Pooled Liability (shared

risk) program provides \$25.5 million per occurrence and in the aggregate. It is self-insured up to \$15.5 million and has purchased \$10 million of excess insurance. The Authority has a \$100,000 deductible under this program.

- **Property Damage.** As of June 30, 2016, the Authority had \$56,191,022 in scheduled values covered through the Alliant Property Insurance Program, with a \$1 billion shared loss limit per occurrence, subject to a \$5,000 deductible. Coverage includes all-risk property coverage, mobile equipment, auto physical damage and boiler and machinery (with deductibles of \$5,000 to \$350,000 for boiler and machinery, depending on size of the machinery).
- **Faithful Performance/Employee Dishonesty Bond.** The Authority is insured up to \$2 million with a \$2,500 deductible. Coverage includes employee dishonesty, faithful performance, forgery or alteration, computer fraud, money and securities theft, disappearance and destruction.
- **Workers' Compensation.** The Authority participates in CSRMA's Workers' Compensation Program, which self-insures the first \$750,000 of each claim. Participants have no deductible or self-insured retention. Excess insurance provides statutory limits for Workers' Compensation and \$750,000 for each accident or each employee for disease in limits for Employer's Liability.

Annual premiums are subject to retroactive adjustment based on claims experience. There can be no estimate of the nature and amount of any adjustments; however, there have been no incidents in the past three years involving any settlement exceeding the Authority's insurance coverage.

Initiative Constitutional Provisions and Statutes Limiting Revenues, Appropriations, Fees and Charges

See "LIMITATIONS ON TAXES AND REVENUES" for a description of the history and current provisions of constitutional provisions and statutes that could limit fees, rates and charges established by the Authority or the Cities. While the outcome of any litigation challenging or seeking to reduce or repeal fees, rates and charges established by the Authority or the Cities cannot be predicted with certainty, each of them adheres to the view that its fees, rates and charges are not limited by such provisions.

Other Changes in Law

In addition to the other limitations described in this Official Statement, the California electorate or State Legislature could adopt a constitutional or legislative property tax decrease or an initiative with the effect of reducing revenues payable to or collected by the Cities. There can be no assurance that the California electorate or State Legislature will not enact or approve additional limitations that could reduce the revenues and adversely affect the security and sources of payment for the Series 2017 Bonds. See also "LIMITATIONS ON TAXES AND REVENUES."

Limited Recourse on Default

If either City defaults on its obligations to make Loan Installments, the Trustee has the right to accelerate the total unpaid principal amount of the Loan Installments payable under the terms of the defaulting City's Series 2017 Loan Agreement. However, in the event of a default and such acceleration there can be no assurance that the defaulting party will have sufficient funds to pay the accelerated Loan Installments. Such acceleration will not affect the Loan Installments owed by the non-defaulting City, and in such event, a Bond Owner may not receive the entire amount of scheduled principal of or interest on the Series 2017 Bonds.

NEITHER CITY IS RESPONSIBLE FOR THE LOAN INSTALLMENTS OWED BY THE OTHER CITY, AND A DEFAULT UNDER ONE SERIES 2017 LOAN AGREEMENT WILL NOT RESULT IN A DEFAULT UNDER THE OTHER SERIES 2017 LOAN AGREEMENT. CORRESPONDINGLY, ONE CITY IS NOT RESPONSIBLE TO CURE THE DEFICIENCY IN PAYMENTS OF THE OTHER CITY'S SERIES 2017 LOAN AGREEMENT.

Limitations on Available Remedies

The enforceability of the rights and remedies of the Owners and the obligations of the Authority and the Cities may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally,

now or hereafter in effect, equitable principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the United States Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of servicing a significant and legitimate public purpose. In any bankruptcy proceedings, or the exercise of powers by the federal or State government could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation or modification of their rights.

No Obligation To Tax

The obligation of the Authority to pay the principal of and interest on the Series 2017 Bonds does not constitute an obligation of the Authority for which the Authority is obligated to levy or pledge any form of taxation or for which the Authority has levied or pledged any form of tax. The Authority has no taxing power, and neither City has any obligation to levy or pledge any tax. The obligation of the Authority to pay principal of and interest on the Series 2017 Bonds does not constitute a debt or indebtedness of the Authority, Encinitas, Solana Beach, the State or any of the State's political subdivisions, within the meaning of any constitutional or statutory debt limitation or restriction.

Sludge Disposal

The Authority disposes of all of the sludge produced at the Wastewater Enterprise Facilities pursuant to an agreement with a private-sector contractor. If the Authority were unable to dispose of the sludge it produces, it might be forced to curtail or cease operations. For more information, see "**THE SAN ELLJO CLEAN WATER FACILITIES – Water Discharge Requirements – Secondary Wastewater Treatment Systems and Processes – Removal of Sludge.**"

Loss of Tax Exemption

As discussed under "**TAX MATTERS,**" interest on the Series 2017 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Series 2017 Bonds were issued, as a result of future acts or omissions of the Authority in violation of its covenants in the Series 2017 Indenture. From time to time, tax reform and similar legislative proposals may be pursued that could affect the treatment of tax-exempt interest for certain taxpayers. Potential Bond Owners should consult with their tax advisors when considering the purchase of the Series 2017 Bonds.

Natural Disasters

The Cities, like all California communities, may be subject to unpredictable seismic activity, fires, flood or other natural disasters. Like most of Southern California, the areas served by the Wastewater Enterprise Facilities are seismically active. Earthquakes, related tsunamis, rising sea levels, unusually heavy rainfall and wildfires could damage the Wastewater Enterprise Facilities and other buildings, roads, bridges and property within the territories of the Cities and impair operations. The Authority and the Cities consider the design and operations of their systems to be configured so as to mitigate some effects of such events; however, no assurance or estimate can be given as to their resilience or the time and cost of recovery, repair and resumption of normal operations. Recent heavy rains in Southern California have led the Authority and similar agencies in the region to implement mutual support measures to restore microbial and other treatment processes that may be impaired by unusual inflows of storm water. Any economic consequences of such disasters might compromise the ability or willingness of property owners and other customers to pay for wastewater services.

Cybersecurity and Other Malicious Acts

The Authority and the Cities depend on reliable sources of electricity in their operations, along with computer systems, sensors and security systems necessary for command-and-control of the Wastewater Enterprise Facilities and their wastewater collection enterprises. Throughout the State and nation, portions of the electric power distribution and generation networks have been subject to cyberattacks, sometimes resulting in significant and extended power outages. Any such event affecting the Authority or the Cities could damage their Facilities and systems significantly, as could any malicious acts directed at them. The Authority and the Cities consider their security facilities and measures generally to conform to industry practices; however, no such facilities or measures

can provide any absolute assurance that such events will not occur without significant adverse effects on the Wastewater Enterprise Facilities and their operations.

Secondary Market, Rating Changes and Continuing Disclosure

Secondary Market. Subject to applicable securities laws and prevailing market conditions, the Underwriter intends but is not obligated to make a market for the Series 2017 Bonds. There is no guarantee that a secondary trading market in the Series 2017 Bonds will be sustained indefinitely.

Rating Changes and Outlook. Any Rating Agency assigning its rating to the Series 2017 Bonds will periodically review information provided by the Authority, each City and other available sources, along with its relevant rating criteria, to determine whether such rating should be changed or assigned a positive, negative or stable outlook. Any adverse rating change or negative outlook could materially and adversely affect the price of the Series 2017 Bonds in any secondary trading market or impair such trading.

Failure To Provide Continuing Disclosure. The Authority and each City, with Applied Best Practices, LLC, as dissemination agent, will enter into a Disclosure Agreement pursuant to SEC Rule 15c2-12 in connection with the issuance of the Series 2017 Bonds. Failure to comply with a Disclosure Agreement or SEC Rule 15c2-12 may adversely affect the liquidity of the Series 2017 Bonds and their market price in the secondary market, if any. See “**APPENDIX E – FORM OF DISCLOSURE AGREEMENT.**”

Parity Bonds

Until the 2011 Bonds are fully paid or defeased, they will remain secured by and payable from a parity pledge and assignment of Loan Installments and other System Revenues. The 2011 Bonds are not subject to redemption prior to their maturities, which are March 1 annually as follows: 2018 redemption of \$1,365,000 principal; 2019 redemption of \$1,415,000 principal; 2020 redemption of \$115,000 principal; and 2021 redemption of \$120,000 principal. In addition, the Series 2017 Indenture allows the Authority to issue Additional Bonds on a parity with the Series 2017 Bonds if certain conditions are met. See “**SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS – Outstanding and Additional Parity Debt**” and “**APPENDIX B – CERTAIN DEFINITIONS AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.**”

Bond Owner Risks at Maturity or Redemption

The rights of the Bond Owners to receive interest on the Series 2017 Bonds will terminate at maturity or on any date of Bond redemption, notice of which has been given under the Series 2017 Indenture. Such termination will occur whether or not any Bond Owner receives such notice. See “**THE SERIES 2017 BONDS – Redemption**”.

LIMITATIONS ON TAXES AND REVENUES

This section provides a brief background on constitutional and statutory provisions that limit taxes on real property and that limit State and local government expenditures. This overview and the summary of relevant law are provided for the convenience of prospective investors but are not and do not purport to be comprehensive.

Tax Rate Limit, Article XIII A of the California Constitution (Proposition 13)

In 1978, California voters approved Proposition 13, adding Article XIII A to the California Constitution (“Article XIII A”). Article XIII A, as amended, limits the amount of any ad valorem tax on real property to 1% of its full cash value, except that additional ad valorem taxes may be levied to pay debt service on (a) indebtedness approved by California voters before July 1, 1978; (b) as a result of a voter-approved amendment enacted in 1986, bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978, by two-thirds of the voters on such indebtedness; and (c) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are provided. Article XIII A defines “full cash value” to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value,’ or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at rate not to exceed 2% per year or to reflect a reduction in the consumer price index or comparable data for the area under the taxing jurisdiction, or

reduced in the event of declining property values caused by substantial damage, destruction, economic conditions or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

Legislation Implementing Article XIII A

Legislation has been enacted and amended from time to time since 1978 to implement Article XIII A. Under current law, local agencies are not permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the County and distributed according to a formula among taxing agencies. (Encinitas and Solana Beach are among the taxing entities in the Authority's service area, but the Authority is *not* a taxing entity.) The formula apportions the tax roughly in proportion to the relative shares of taxes levied before 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based on their respective "situs" (generally meaning "location"). Any allocation to a local agency continues as part of its allocations in future years.

Beginning in the 1981-82 fiscal year, assessors in the State ceased to record property values on tax rolls at the assessed value of 25% of market value (which had been expressed as \$4 per \$100 assessed value). All taxable property is now shown at full market value on the tax rolls. As a result, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless otherwise noted), and all tax rates reflect the \$1 per \$100 taxable value.

Appropriations Limit, Article XIII B of the California Constitution of the California Constitution

An initiative to amend the State Constitution, entitled "Limitation of Government Appropriations" and approved in 1979, added Article XIII B to the State Constitution ("Article XIII B"). Under Article XIII B, State and each local governmental entity has an annual "appropriations limit" and is not permitted to spend certain moneys called "appropriations subject to limitation" (consisting generally of tax revenues, State subventions and certain other funds) in an amount higher than the appropriations limit. Article XIII B does not affect appropriations of money that are excluded from the definition of "appropriations subject to limitation" including debt service on indebtedness authorized or existing as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. Generally, the appropriations limit is to be based on certain 1978-79 expenditures, subject to annual adjustment to reflect changes in consumer prices, populations and services provided by the relevant government entity. Among other provisions of Article XIII B, if a government entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the next two years.

"Appropriations subject to limitation" are authorizations to spend "proceeds of taxes", which consist of tax revenues, State subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product or service", but "proceeds of taxes" excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of funds which are not "proceeds of taxes", such as reasonable user charges or fees and certain other non-tax funds.

Excluded from the Article XIII B limit are appropriations for the debt service costs of bond authorized or existing not later than January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government and appropriations for qualified capital outlay projects. The appropriations limit may also be exceeded in certain cases of emergency.

Each appropriations limit for the Authority and each City, respectively, is based on the prior-year limit, adjusted annually for changes in the cost of living, for population changes and, as applicable, for transfer of financial responsibility of providing services to or from another government unit. At its option, each entity's measurement of changes in the cost of living is either (a) the percentage change in *per capita* income in the State or (b) the percentage change in the local assessment roll on nonresidential property. Either test is likely to exceed any change in the cost of living index, which had been used before the adoption of Proposition 111 in 1990. Population changes are measured either within each entity's boundaries or across the entire County.

Proposition 111 added a new measurement period to Article XIII B: the appropriations limit is tested over consecutive two-year periods (each, a “Biennial”). Any excess “proceeds of taxes” a government entity receives in any Biennial is to be returned to taxpayers by reductions in tax rates or fee schedules over the next Biennial. Proposition 111 also changed the basis for calculating appropriations limits by using the Fiscal Year 1986-87 limit as a base point.

Propositions 1A and 22

Proposition 1A restricts State authority to reduce major local tax revenues such as the tax shifts permitted in Fiscal Years 2004-05 and 2005-06 by preventing the State from reducing any local sales tax rate or limiting government authority to levy a sales tax rate or alter allocations of local sales tax revenues, subject to certain exceptions. Generally, the State may not shift shares of property tax revenues allocated to local governments in any Fiscal Year to schools or community colleges. But starting in Fiscal Year 2008-09, the State was allowed to shift up to 8% of local government property tax revenues to schools and community colleges, subject to repayment of shifted funds, with interest, within three years, but only two such shifts were permitted in any 10-year period. The State was allowed to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 22 largely superseded Proposition 1A in 2010, barring the State, even during severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment or local government projects and services. The State could not redirect redevelopment agency property tax increment to any other local government or, even temporarily, shift property taxes from cities, counties and special districts to schools. These restrictions on State control over local property taxes were intended to stabilize local government revenues.

Proposition 22 ensued after the State invoked Proposition 1A to divert nearly \$2 billion in local property tax revenues in fiscal year 2010 from cities, counties and special districts to the State in order to offset State general fund spending for education and other programs. Proposition 1A continues to require the State to replenish local government revenues sufficient to offset any reductions caused by the State’s reduction of vehicle license fees. Proposition 1A also requires the State to suspend State mandates affecting cities, counties and special districts, except mandates relating to employee rights, schools or community colleges, in any year when the State does not fully reimburse local governments for their costs of compliance with such mandates.

Proposition 218, Right To Vote on Taxes, Articles XIII C and XIII D of the California Constitution

In 1996, California voters approved Proposition 218, adding Articles XIII C and XIII D to the California Constitution, with additional requirements for the imposition by most local governments of “general taxes,” “special taxes,” “assessments,” “fees” and “charges.”

Article XIII D imposes substantive and procedural requirements on the imposition, extension or increase of any “fee” or “charge” that is subject to such requirements. “Fees” and “charges” subject to Article XIII D include any levy, other than an *ad valorem* tax, special tax or assessment imposed by an agency upon a parcel or upon a person as an incident of property ownership. Article XIII D prohibits, among other things, the imposition of any proposed fee or charge and, possibly, the increase of any existing fee or charge, if written protests against the proposed fee or charge are presented at a required public hearing on the fee or charge by a majority of owners of affected parcels. Excluding fees or and charges for water, sewer and refuse collection services, the approval of a majority of property owners subject to the fee or charge, or at the option of the agency, by a two-thirds vote of the electorate residing in the affected area, is required within 45 days after the public hearing on any proposed new or increased fee or charge. The California Supreme Court decisions in *Richmond v. Shasta Community Services District*, 32 Cal.4th 409 (2004) (“Richmond”) and *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205 (2006) (“Bighorn”) have clarified some of the uncertainty about the applicability of section 6 of Article XIII D to service fees and charges. In *Richmond*, the Shasta Community Services District charged a water connection fee, which included a capacity charge for capital improvements to its water system and a fire suppression charge. The Court held that both the capacity charge and the fire suppression charge were not subject to Article XIII D because a water connection fee is not a property-related fee or charge. The Court’s reasoning was based on the property owner’s *voluntary decision* to apply for the connection. In both *Richmond* and *Bighorn*, however, the Court stated that a fee for ongoing water service through an existing connection is imposed “as an incident of property ownership” within the meaning of Article XIII D, rejecting, in *Bighorn*, the water agency’s argument that consumption-based water charges are not imposed “as an incident of property ownership” but as a result of voluntary customer decisions about water use.

Article XIID also provides that “standby charges” are “assessments” subject to Article XIID assessment procedures, which may include (a) notice requirements (including mailing a ballot to each owner of affected property); (b) substituting the property owner ballot in place of the traditional written protest procedure (so that “majority protest” exists when ballots, weighed by proportional financial obligation, submitted in opposition exceed ballots in favor of the assessments); and (c) requiring the levying entity to “separate the general benefits from the special benefits conferred upon a parcel” of land. Article XIID also precludes standby charges for services not immediately available to affected parcels. (Note: *existing* assessments imposed *before* the voters approved Proposition 218 in 1996 “imposed exclusively to finance the capital costs or maintenance and operations expenses for [among other things] water” are exempted from certain Article XIID assessment provisions.)

Article XIIC extended the voter initiative power to *reduce or repeal* existing local taxes, assessments, fees and charges but is not limited to taxes, assessments, fees and charges imposed after the voters approved Proposition 218 in 1996. Absent authority to the contrary, Article XIIC could result in *retroactive reduction of existing taxes, assessments, fees or charges*. In *Bighorn*, the Court concluded that under Article XIIC local voters by initiative may reduce a public agency’s water rates and delivery charges; however, the Court said it did not hold that the voter initiative power is free of all limitations, stating that it was *not* determining whether the voter initiative power is subject to a public agency’s statutory obligation to set water service charges at levels that will “pay the operating expenses of the agency, . . . provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.”

Other Initiative Measures

Articles XIII A, XIII B, XIII C and XIID were adopted pursuant to the State’s constitutional initiative process. From time to time, other initiative measures could be adopted by California voters, placing additional limitations on the ability of the Authority or the Cities to increase revenues. See “**BOND OWNER RISKS – Changes in Law.**”

THE CITIES OF ENCINITAS AND SOLANA BEACH

Encinitas

The voters approved the formation of the Cardiff Sanitation District (the “District”) in 1953. Until the voters approved the San Dieguito Reorganization in 1986, the Board of Supervisors of the County acted as the District’s Board of Directors. Under the San Dieguito Reorganization, the City Council of Encinitas became the new Board of Directors of the District. The San Dieguito Reorganization also made certain boundary changes, causing transfers of certain fixed assets of the District to Solana Beach Sanitation District and Rancho Santa Fe Community Services District Improvement Areas 2 and 3. In 2001, Encinitas merged with the District, becoming a separate enterprise of Encinitas known as the “Cardiff Sanitary Division”.

The service area of Cardiff Sanitary Division encompasses an area of approximately 4,202 acres, or approximately 38% of Encinitas territory, and provides sewer service to approximately 7,636 connections. The service area of the Cardiff Sanitary Division is located along the I-5 corridor and the Pacific Ocean immediately north of the San Elijo Lagoon.

City Government. In the course of the incorporation of Encinitas 1986, Cardiff Sanitation District became a subsidiary district to the newly incorporated City. Following the completion of the merger of the Cardiff Sanitation District with Encinitas, the City Council became the governing body for activities of the Cardiff Sanitary Division as a separate enterprise of Encinitas. Encinitas staff is responsible for collection system engineering, budget and accounting and new connections. (Note: Encinitas is also served by the Encinitas Sanitary Division of Encinitas and the Leucadia County Water District; however, the revenues of these two enterprises are *separate* from the revenues of the Cardiff Sanitary Division and are *not* pledged to the payment of debt service on the Series 2017 Bonds.)

The Encinitas System. The service area of the Cardiff Sanitary Division’s wastewater collection system is located approximately 23 miles north of San Diego and extends about 2 miles northwest along the Pacific Coast and about 6 miles inland. The potential service area of approximately 4,202 net acres in the north coastal County includes land in both the San Dieguito River and Escondido Creek watersheds. The service area generally slopes westerly to the Pacific Ocean, allowing most wastewater to be collected and transported by gravity along the coastal

plain where the topography is relatively flat; however, pumping stations are required. The sewer system comprises approximately 75 miles of collection and trunk sewer lines. Wastewater is conveyed to a pumping station near the Authority's Facilities on the north shore of the San Elijo Lagoon. Wastewater is then pumped to the Wastewater Enterprise Facilities through a 1,500-foot long, 10-inch diameter force main.

Connections. Gradual suburban residential-type growth in the service area has occurred in recent years. **TABLE 4** shows the last 5 years' growth in connections. Encinitas estimates that 83% of sewer service users are residential, with the other users commercial or industrial.

TABLE 4: CITY OF ENCINITAS, CARDIFF SANITARY DIVISION
SERVICE CONNECTIONS AND EDU CLASSES (fiscal years ended June 30)

	CONNECTIONS	EQUIVALENT DWELLING UNITS		
	(PARCELS BILLED)	RESIDENTIAL	COMMERCIAL / INDUSTRIAL	ALL
2012	6,334	7,067	1,154	8,221
2013	6,365	7,083	1,174	8,257
2014	6,375	7,126	1,176	8,302
2015	6,394	7,132	1,187	8,319
2016	6,416	7,157	1,187	8,344

Source: City of Encinitas.

Secured Sewer Service Charges and Delinquencies. The assessed valuation of the Cardiff Sanitary Division is established by the County Assessor, except for utility property assessed by the State Board of Equalization. However, no annual breakdown of assessed values within the Cardiff Sanitation Division is prepared by the County or provided to Encinitas. Taxes on non-exempt property within the Cardiff Sanitary Division are levied against the assessed valuation of land and improvements. **TABLE 5** shows secured service charges and rates of delinquencies for the past 5 years within the Cardiff Sanitation Division.

TABLE 5: CITY OF ENCINITAS, CARDIFF SANITARY DIVISION
ASSESSED VALUES, SECURED SERVICE CHARGES AND DELINQUENCIES
(fiscal years ended June 30)

	ASSESSED VALUES	SECURED TAX CHARGES / DELINQUENCIES		
	(LAND / IMPROVEMENTS)	CHARGES ^(a)	DELINQUENT (JUNE 30)	% (JUNE 30)
2012	\$3,840,880,188	\$4,702,160.14	\$52,740.86	1.12%
2013	\$3,962,265,063	\$4,578,623.96	\$45,288.98	0.99%
2014	\$4,172,476,834	\$4,379,046.32	\$31,893.48	0.73%
2015	\$4,522,605,644	\$4,332,166.68	\$34,186.59	0.79%
2016	\$4,773,525,116	\$4,482,085.26	\$29,734.95	0.66%

(a) Sewer service charge.

Source: California Municipal Statistics, Inc.

Ten Largest Ratepayers. **TABLE 6** below shows the top ten wastewater collection customers of the Cardiff Sanitary Division for the 12 months ended June 30, 2016, as reported by Encinitas. Collectively, these customers represent less than 10% of the Cardiff Sanitary Division's total revenues for that period.

**TABLE 6: CITY OF ENCINITAS, CARDIFF SANITARY DIVISION
LARGEST WASTEWATER CUSTOMERS (fiscal year ended June 30, 2016)**

PROPERTY OWNER	PARCELS	SEWER SERVICE CHARGES	% OF CHARGES
Scripps Health	1	\$92,755	2.01%
Collwood Pines Apartments LP	4	74,877	1.62%
State of California Parks & Recreation	2	55,352	1.20%
San Dieguito Union High School District	2	44,485	0.96%
Newport Taft Inc.	1	30,682	0.66%
944 Regal Road LLC	1	29,344	0.64%
Cardiff Town Center LLC	1	26,365	0.57%
George's Restaurant Inc.	1	22,844	0.49%
West Village Inc.	1	22,373	0.48%
Deluca Trust	1	19,741	0.43%
TOTALS (all customers \$4,618,432)	15	\$418,818	9.07%

Source: City of Encinitas.

TABLE 7 shows an unaudited five-year summary of revenues (excluding reclaimed water revenues), expenses and net income of the Cardiff Sanitary Division, as derived from amounts included in Encinitas' annual combined financial statements for the fiscal years ended June 30, 2012 through 2016. See **"APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, ENCINITAS AND SOLANA BEACH."**

**TABLE 7: CITY OF ENCINITAS, CARDIFF SANITARY DIVISION
SUMMARY OF REVENUES AND EXPENSES (fiscal years ended June 30)**

	2012	2013	2014	2015	2016
Operating Revenue:					
Service charges ^(a)	\$ 4,923,299	\$ 4,755,573	\$ 4,605,867	\$ 4,528,511	\$ 4,761,486
Other revenues	47,363	-	-	40	7,165
Total operating revenues	\$ 4,970,662	\$ 4,755,573	\$ 4,605,867	\$ 4,528,551	\$ 4,768,651
Operating Expenses:					
General operations and maintenance	1,042,356	1,107,347	985,008	974,187	1,013,875
Facility operations and maintenance	1,204,250	1,148,118	1,395,857	1,384,221	1,250,059
General and administrative	239,574	239,736	241,404	246,450	228,039
Depreciation of capital assets	189,640	193,727	200,459	274,114	387,320
Amortization of other assets	215,000	367,126		1,281,841	915,952
Other	171,565	174,752	99,718	101,752	62,286
Total operating expenses	\$ 3,062,385	\$ 3,230,806	\$ 2,922,446	\$ 4,262,565	\$ 3,857,531
Operating Income (Loss)	1,908,277	1,524,767	1,683,421	265,986	911,120
Non-operating Revenues (Expenses):					
Use of money and property	79,347	39,015	757,211	56,900	85,383
Gain (loss) on sale of capital assets	-	-	(140,485)	-	-
Capital Grants	-	-	395,962	-	-
Accretion of bond premium	-	-	63,768	63,768	63,768
Interest expense	(248,400)	(142,898)	(126,337)	(109,282)	(91,757)
Other non-operating expenses	(74,654)	-	-	-	-
Total non-operating revenues (expenses)	\$ (243,707)	\$ (103,883)	\$ 950,119	\$ 11,386	\$ 57,394
Income (Loss) Before Capital Contributions and Transfers	\$ 1,664,570	\$ 1,420,884	\$ 2,633,540	\$ 277,372	\$ 968,514
Capital Contributions:	\$ 116,520	\$ 120,278	\$ 152,739	\$ 86,849	\$ 93,623
Transfers in (out):	\$ -	\$ (1,358,589)	\$ -	\$ (10,000)	\$ -
Change in Net Position	\$ 1,781,090	\$ 182,573	\$ 2,786,279	\$ 354,221	\$ 1,062,137
Beginning Balance	38,407,222	40,188,312	40,370,885	43,157,164	43,511,385
Ending Balance	\$ 40,188,312	\$ 40,370,885	\$ 43,157,164	\$ 43,511,385	\$ 44,573,522

Source: unaudited summaries derived from City of Encinitas annual reports.

Historical Debt Service Coverage. **TABLE 8** shows a five-year history of debt service coverage of Cardiff Sanitary Division excluding Loan Installments under the Series 2017 Loan Agreement and reclaimed water revenues. See **"APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, ENCINITAS AND SOLANA BEACH."**

TABLE 8: CITY OF ENCINITAS, CARDIFF SANITARY DIVISION
HISTORIC DEBT SERVICE COVERAGE (fiscal years ended June 30)

	2012	2013	2014	2015	2016
Revenues					
Operating revenues - including connection fees	\$ 5,087,182	\$ 4,875,851 ^(b)	\$ 4,758,606 ^(b)	\$ 4,615,399 ^(b)	\$ 4,862,274 ^(b)
Non-operating revenues	79,347	39,015	1,216,941	120,668	149,151
Gross Revenues ^(a)	\$ 5,166,529	\$ 4,914,866	\$ 5,975,547	\$ 4,736,067	\$ 5,011,425
Total Operating and Non-Operating Expenses	\$ 3,385,439	\$ 3,373,704	\$ 3,189,268	\$ 4,371,847	\$ 3,949,288
Net Income ^(a)	\$ 1,781,090	\$ 1,541,162	\$ 2,786,279	\$ 364,220	\$ 1,062,137
Add back:					
Interest expense	\$ 248,400	\$ 142,898	\$ 266,822 ^(c)	\$ 109,282	\$ 91,757
Deprecation and amortization expense	404,641	560,853	200,459	1,555,955	1,303,272
Net Revenues Available for Debt Service ^(a)	\$ 2,434,131	\$ 2,244,913	\$ 3,253,560	\$ 2,029,457	\$ 2,457,166
2011 Loan Agreement Debt Service	\$ 799,946	\$ 694,904 ^(d)	\$ 695,004	\$ 694,442	\$ 691,225 ^(d)
Coverage by Net Revenues Available for Debt Service	304%	323%	468%	292%	355%
(a) Totals may differ slightly from source due to rounding.					
(b) Changed to include connection fees.					
(c) Changed to include capital gain on disposal of assets.					
(d) Changed to agree with amortization schedules.					

Source: City of Encinitas.

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Balance Sheet History. TABLE 9 shows a five-year unaudited summary of assets, liabilities and retained earnings of the Cardiff Sanitary Division’s wastewater treatment system as of June 30, 2012 through 2016 as derived from Encinitas’ combined financial statements. For corresponding audited information, see “APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, ENCINITAS AND SOLANA BEACH.”

TABLE 9: CITY OF ENCINITAS, CARDIFF SANITARY DIVISION
SUMMARY (UNAUDITED) BALANCE SHEET INFORMATION (*fiscal years ended June 30*)

ASSETS:	2012	2013	2014	2015	2016
Current assets:					
Cash and investments	\$14,723,359	\$11,729,177	\$12,338,211	\$12,597,018	\$13,449,441
Cash with fiscal agent	-	-	-	-	-
Accounts and taxes receivable	\$259,826	\$139,021	\$106,651	\$84,922	\$88,244
Interest receivable	\$25,854	-	-	-	-
Inventory and prepaid items	-	-	-	-	-
Total Current Assets	\$15,009,039	\$11,868,198	\$12,444,862	\$12,681,940	\$13,537,685
NONCURRENT ASSETS:					
Restricted cash and investments with fiscal agent	-	-	-	-	-
Other assets	\$18,213,275	\$18,100,000	-	-	-
Investment in joint ventures	-	-	\$19,687,756	\$18,857,817	\$18,446,627
Capital assets:					
Land easements	\$1,358,591	-	-	-	-
Public works facility right-of-use	-	-	-	-	-
Construction in progress	\$7,349,479	\$11,184,840	\$7,279,754	\$1,146,036	\$1,495,624
Capacity rights, net of accumulated amortization	-	-	-	-	-
Utility, plant, vehicles, and equipment, net of accumulated depreciation	\$3,946,072	\$3,752,345	\$7,450,801	\$13,886,320	\$13,499,000
Total capital assets, net of accumulated depreciation	\$12,654,142	\$14,937,185	\$14,730,555	\$15,032,356	\$14,994,624
Total noncurrent assets	\$30,867,417	\$33,037,185	\$34,418,311	\$33,890,173	\$33,441,251
Total assets	\$45,876,456	\$44,905,383	\$46,863,173	\$46,572,113	\$46,978,936
CURRENT LIABILITIES:					
Accounts payable and accrued liabilities	\$747,915	\$209,793	\$13,740	\$17,137	\$24,806
Due to other funds	-	-	-	-	-
Accrued interest payable	\$49,455	\$43,989	\$38,359	\$32,565	\$26,630
Unearned revenue	-	-	-	-	-
Deposits	\$500	\$750	\$750	\$1,000	\$1,250
Current portion of long-term debt	\$546,540	\$563,037	\$579,366	\$593,530	\$612,192
Total current liabilities	\$1,344,410	\$817,569	\$632,215	\$644,232	\$664,878
NONCURRENT LIABILITIES:					
Capital leases payable	-	-	-	-	-
Revenue bonds payable, due in more than one year	-	-	-	-	-
Notes and mortgages payable, due in more than one year	\$4,343,734	\$3,481,992	\$2,868,224	\$2,240,293	\$1,593,700
Aggregate net pension liability	-	-	-	-	-
Total noncurrent liabilities	\$4,343,734	\$3,481,992	\$2,868,224	\$2,240,293	\$1,593,700
Total liabilities	\$5,688,144	\$4,299,561	\$3,500,439	\$2,884,525	\$2,258,578
DEFERRED INFLOWS OF RESOURCES:					
Deferred amount on refunding	-	\$234,937	\$205,570	\$176,203	\$146,836
Deferred pension related items (Note 14)	-	-	-	-	-
Total deferred inflows of resources		\$234,937	\$205,570	\$176,203	\$146,836
NET POSITION:					
Net investment in capital assets	\$7,763,868	\$10,892,156	\$11,282,965	\$12,198,533	\$12,641,896
Restricted	-	-	-	-	-
Unrestricted	-	\$29,478,729	\$31,874,199	\$31,312,852	\$31,931,626
TOTAL NET POSITION:	\$40,188,312	\$40,370,885	\$43,157,164	\$43,511,385	\$44,573,522

Source: unaudited summaries derived from City of Encinitas annual reports.

Solana Beach

The Solana Beach Sanitation District was formed following an election in 1946. The Board of Supervisors of the County acted as the Solana Beach Sanitation District Board of Directors until 1986, when the voters approved the reorganization (as approved by of the Board of Supervisors of the County) under which Solana Beach Sanitation District became a subsidiary district of Solana Beach (the “Subsidiary District”), and the City Council of Solana Beach became the new Board of Directors of the Subsidiary District. The reorganization also made certain boundary changes, causing transfers of certain fixed assets of the original District to the Subsidiary District. City staff is responsible for collection system engineering, budget and accounting, and new connections. The operating functions of line maintenance are provided under contract with Encinitas.

In 1990, the Subsidiary District was merged into Solana Beach as a department of the City, with the establishment of a City Sanitation Wastewater Enterprise Facilities Fund (the “Sanitation Wastewater Enterprise Facilities Fund”). The City Council serves as the governing board of the City Sanitation Department. The reorganization in no way affects the rights and obligations of the Subsidiary District under the Basic Agreement. The validity of the Original Series 2017 Loan Agreement entered into between the Subsidiary District and the Authority was not affected.

City Government. In 1986, the City was incorporated as a general law city in an election approving a reorganization consisting primarily of: (a) the incorporation of Solana Beach; (b) the detachment of territory from Encinitas and annexation of the same territory to the newly established Subsidiary District. Solana Beach operates under a council-manager form of government, with a five-member City Council elected at large and serving staggered four-year terms. The City Council selects the Mayor, who serves a one year term. The City Council also appoints the City Manager as the chief administrator of the City. All other city employees are appointed by and responsible to the City Manager (except the City Attorney, who is appointed by the City Council).

The Solana Beach System. The service area of Solana Beach wastewater collection system generally slopes westerly to the Pacific Ocean, allowing most of the wastewater to be collected and transported by gravity along the coastal plain, where the topography is relatively flat; however, pumping stations are required. The system comprises approximately 196,470 linear feet of collection and trunk sewer lines. Wastewater collected by the system is conveyed to Solana Beach’s pumping station on the south shore of the San Elijo Lagoon. The wastewater is then pumped to the Authority’s Facilities through a 5,500-foot-long, 12-inch diameter force main. The remaining wastewater is conveyed to Encinitas’ Olivenhain Pump Station (which the Authority operates), and then pumped to The San Elijo Water Reclamation Facilities.

Connections. Gradual suburban residential-type growth in the service area has occurred in recent years. **TABLE 10** shows the last 5 years’ growth in connections. Solana Beach estimates that 62% of sewer service users are residential, with the other users commercial or industrial.

TABLE 10: CITY OF SOLANA BEACH
SERVICE CONNECTIONS AND EDU CLASSES *(fiscal years ended June 30)*

	EQUIVALENT DWELLING UNITS ^(a)		
	SINGLE FAMILY RESIDENTIAL	COMMERCIAL / INDUSTRIAL	ALL
2012	2,734	2,304	5,038
2013	2,709	2,304	5,013
2014	2,707	2,306	5,013
2015	2,723	2,394	5,117
2016	2,736	2,406	5,142

(a) Includes 300 EDUs billed to the City of San Diego for services outside Solana Beach.

Source: City of Solana Beach.

Secured Sewer Service Charges and Delinquencies. The assessed valuation of Solana Beach is established by the County Assessor, except for utility property assessed by the State Board of Equalization. Taxes on non-exempt property in Solana Beach are levied against the assessed valuation of land and improvements. **TABLE 11** shows assessed values in Solana Beach, secured service charges and rates of delinquencies for the past five years within Solana Beach.

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TABLE 11: CITY OF SOLANA BEACH
ASSESSED VALUES, SECURED SERVICE CHARGES AND DELINQUENCIES
(fiscal years ended June 30)

	ASSESSED VALUES	SECURED TAX CHARGES / DELINQUENCIES		
	(LAND / IMPROVEMENTS)	CHARGES ^(a)	DELINQUENT (JUNE 30)	% (JUNE 30)
2012	\$3,669,445,588	\$5,133,863.58	\$83,073.86	1.62%
2013	\$3,761,931,714	\$5,438,039.91	\$65,015.08	1.20%
2014	\$3,980,087,328	\$5,586,521.30	\$54,408.58	0.97%
2015	\$4,202,395,135	\$5,909,334.49	\$53,042.44	0.90%
2016	\$4,429,757,720	\$6,254,795.91	\$47,369.97	0.76%

(a) Sewer service charge.

Source: California Municipal Statistics, Inc.

Ten Largest Ratepayers. **TABLE 12** shows the top ten wastewater collection customers of the Solana Beach Sanitation Enterprise Fund for the 12-month billing period ended June 30, 2016. Collectively, these customers represent approximately 11% of the Sanitation Enterprise Fund's total revenues for that period.

TABLE 12: CITY OF SOLANA BEACH
LARGEST WASTEWATER CUSTOMERS *(fiscal year 2015-2016)*

PROPERTY OWNER	SEWER SERVICE CHARGES	% OF CHARGES
Fenton Solana Highlands LLC	\$83,319	1.69%
Pacifica Solana Beach Holdings LP	65,261	1.32%
Muller-Beachwalk LLC	63,724	1.29%
ERP Operating LTD Partnership	61,718	1.25%
Uschel Holdings LP	48,757	0.99%
SB Corporate Centre III-IV LLC	44,499	0.90%
SBC Holdings LLC	41,968	0.85%
50% SBTC Holdings LLC	41,271	0.84%
SBTC Holdings LLC	41,209	0.83%
Solana Partners	32,711	0.66%
TOTALS (all customers \$4,939,084)	\$524,437	10.62%

Source: City of Solana Beach.

TABLE 13 shows an unaudited five-year summary of revenues (excluding reclaimed water revenues), expenses and net income of the Solana Beach Sanitation Enterprise Fund, as derived from amounts included in Solana Beach's annual combined financial statements for the fiscal years ended June 30, 2012 through 2016. See **"APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, ENCINITAS AND SOLANA BEACH."**

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TABLE 13: CITY OF SOLANA BEACH, SANITATION ENTERPRISE FUND
SUMMARY OF REVENUES AND EXPENSES (fiscal years ended June 30)

	2012	2013	2014	2015	2016
Operating Revenue:					
Charges for Services	\$ 4,517,005	\$ 4,708,765	\$ 4,775,489	\$ 4,949,069	\$ 5,151,671
Other revenues	13,802	46,470	36,300	28,939	49,090
Total operating revenues	\$ 4,530,807	\$ 4,755,235	\$ 4,811,789	\$ 4,978,008	\$ 5,200,761
Operating Expenses:					
Costs of sales and services	2,587,591	2,016,630	1,943,279	2,038,919	1,973,000
Administration	348,568	349,459	348,907	348,826	428,031
Depreciation	344,362	345,500	352,633	352,645	352,650
Total operating expenses	\$ 3,280,521	\$ 2,711,589	\$ 2,644,819	\$ 2,740,390	\$ 2,753,681
Operating Income (Loss)	1,250,286	2,043,646	2,166,970	2,237,618	2,447,080
Non-operating Revenues (Expenses):					
Interest income	152,477	78,615	71,541	71,973	115,321
Interest expense	(666,620)	(536,423)	(510,648)	(483,257)	(454,872)
Amortization of bond issuance costs	(91,263)	(70,986)	(7,651)	(49,923)	(42,853)
Amortization of investment premium	-	(21,890)	(10,945)	(10,945)	(10,945)
Share in joint venture net gain (loss)/capital contribution	255,556	(115,567)	318,695	(1,281,842)	(306,550)
Total non-operating revenues (expenses)	\$ (349,850)	\$ (666,251)	\$ (139,008)	\$ (1,753,994)	\$ (699,899)
Change in Net Position	\$ 900,436	\$ 1,377,395	\$ 2,027,962	\$ 483,624	\$ 1,747,181
Beginning Balance	29,364,154	30,074,994	31,452,389	33,074,739	33,558,363
Ending Balance	\$ 30,264,590	\$ 31,452,389	\$ 33,480,351	\$ 33,558,363	\$ 35,305,544

Source: unaudited summaries derived from City of Solana Beach annual reports.

Historical Debt Service Coverage. TABLE 14 shows a five-year history of debt service coverage of the Solana Beach Sanitation Enterprise Fund excluding Loan Installments under the Series 2017 Loan Agreement and reclaimed water revenues. See “APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, ENCINITAS AND SOLANA BEACH.”

TABLE 14: CITY OF SOLANA BEACH, SANITATION ENTERPRISE FUND
HISTORICAL DEBT SERVICE COVERAGE (fiscal years ended June 30)

	2012	2013	2014	2015	2016
Revenues					
Operating revenues - including connection fees	\$ 4,530,807	\$ 4,755,235	\$ 4,811,789	\$ 4,978,008	\$ 5,200,761
Non-operating revenues	408,033	78,615	390,236	71,973	115,321
Gross Revenues	\$ 4,938,840	\$ 4,833,850	\$ 5,202,025	\$ 5,049,981	\$ 5,316,082
Total Operating and Non-Operating Expenses	\$ 4,038,404	\$ 3,456,455	\$ 3,174,063	\$ 4,566,357	\$ 3,568,901
Net Income	\$ 900,436	\$ 1,377,395	\$ 2,027,962	\$ 483,624	\$ 1,747,181
Add back:					
Interest expense:	\$ 666,620	\$ 536,423	\$ 510,648	\$ 483,257	\$ 454,872
Depreciation and amortization expense:	435,625	438,376	371,229	413,513	406,448
Change in investment in other agencies:	(255,556)	115,567	(318,695)	1,281,842	306,550
Net Revenues Available for Debt Service	\$ 1,747,125	\$ 2,467,761	\$ 2,591,144	\$ 2,662,236	\$ 2,915,051
2011 Loan Agreement Debt Service	\$ 851,600	\$ 785,914	\$ 785,863	\$ 785,426	\$ 781,593
Coverage by Net Revenues Available for Debt Service	205%	314%	330%	339%	373%

Source: unaudited summaries derived from City of Solana Beach annual reports.

Other Obligations of Solana Beach City System. In 2007, the Solana Beach Public Financing Authority issued its \$9,825,000 Subordinate Wastewater Revenue Bonds, Series 2006 (the “2006 Bonds”) to finance certain capital improvements to the Solana Beach wastewater system. The 2006 Bonds are secured by installment payments to be made by Solana Beach Sanitation from its Sanitation Enterprise Fund on a basis *subordinate* to the payment of the Loan Installments relating to the Series 2017 Bonds. The 2006 Bonds mature March 1, 2037, and annual debt service payments are approximately \$590,000.

Balance Sheet History. TABLE 15 shows a five-year unaudited summary of assets, liabilities and retained earnings of the Solana Beach Sanitation Enterprise Fund as of June 30, 2012 through 2016 as derived from Solana Beach's combined financial statements. For corresponding audited information, see "APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, ENCINITAS AND SOLANA BEACH."

TABLE 15: CITY OF SOLANA BEACH, SANITATION ENTERPRISE FUND
SUMMARY (UNAUDITED) BALANCE SHEET INFORMATION (*fiscal years ended June 30*)

	2012	2013	2014	2015	2016
Assets:					
Current:					
Cash and investments	\$8,101,942	\$8,785,338	\$9,170,978	\$10,281,652	\$11,786,031
Receivables:					
Accounts	\$75,887	\$7,605	\$18,008	\$24,245	\$268,320
Taxes	-	-	-	-	\$2
Interest	\$5,115	\$2,553	\$48,387	\$5,901	\$14,754
Prepaid costs	\$41,059	\$38,844	\$36,628	\$34,413	\$32,197
Total Current Assets	\$8,224,003	\$8,834,340	\$9,274,001	\$10,346,211	\$12,101,304
Noncurrent:					
Cash and investments with fiscal agent	\$2,585,169	\$2,580,447	\$2,580,485	\$2,580,536	\$594,936
Advances to other funds	\$2,780,338	\$2,405,857	\$2,008,165	\$1,586,247	\$1,139,045
Deferred charges	\$189,596	-	-	-	-
Investment in joint venture	\$18,773,724	\$19,066,147	\$19,850,088	\$19,009,204	\$19,190,619
Capital Assets:					
Non-depreciable	\$270,596	\$281,883	\$693,099	\$1,342,123	\$2,108,289
Depreciable, net	\$11,208,959	\$11,077,621	\$11,132,990	\$10,780,345	\$10,768,131
Total Noncurrent Assets	\$35,808,382	\$35,411,955	\$36,264,827	\$35,298,455	\$33,801,020
Total Assets	\$44,032,385	\$44,246,295	\$45,538,828	\$45,644,666	\$45,902,324
Deferred Outflows of Resources:					
Deferred pension related items	-	-	-	\$42,302	\$88,513
Deferred charge on refunding	\$617,824	\$549,176	\$480,529	\$411,882	\$343,235
Total Deferred Outflows of Resources	\$617,824	\$549,176	\$480,529	\$454,184	\$431,748
Total Assets and Deferred Outflows	\$44,650,209	\$44,795,471	\$46,019,357	\$46,098,850	\$46,334,072
Liabilities, Deferred Inflows, and Net Position:					
Liabilities:					
Current:					
Accounts payable	\$241,169	\$32,708	\$156,839	\$633,260	\$15,496
Accrued liabilities	\$12,928	\$12,634	\$13,196	\$12,294	\$16,710
Interest payable	\$182,568	\$173,219	\$164,210	\$154,841	\$145,189
Compensated absences, due within one year	\$17,649	\$14,977	\$13,648	\$19,410	\$17,707
Long-term debt, due within one year	\$828,460	\$856,963	\$880,634	\$906,470	\$937,808
Total Current Liabilities	\$1,282,774	\$1,090,501	\$1,228,527	\$1,726,275	\$1,132,910
Noncurrent:					
Compensated absences, due in more than one year	\$7,338	\$13,914	\$15,657	\$5,607	\$11,608
Long-term debt, due in more than one year	\$13,095,507	\$12,238,668	\$11,294,822	\$10,367,413	\$9,401,597
Net Pension Liability	-	-	-	\$329,413	\$429,227
Total Noncurrent Liabilities	\$13,102,845	\$12,252,581	\$11,310,479	\$10,702,433	\$9,842,432
Total Liabilities	\$14,385,619	\$13,343,082	\$12,539,006	\$12,428,708	\$10,975,342
Deferred Inflows of Resources:					
Deferred pension related items	-	-	-	\$111,779	\$53,186
Total Deferred Inflows of Resources	-	-	-	\$111,779	\$53,186
Net Position:					
Net investment in capital assets	\$5,470,469	\$5,682,518	\$6,324,862	\$6,798,584	\$5,594,350
Unrestricted	\$24,794,121	\$25,769,871	\$27,155,489	\$26,759,779	\$29,711,194
Total Net Position	\$30,264,590	\$31,542,389	\$33,480,351	\$33,558,363	\$35,305,544
Total Liabilities, Deferred Inflows, and Net Position	\$44,650,209	\$44,795,471	\$46,019,357	\$46,098,850	\$46,334,072

Source: unaudited summaries derived from City of Solana Beach annual reports.

TAX MATTERS

Tax Exemption of Interest on the Series 2017 Bonds

The Internal Revenue Code of 1986 (the “Code”) imposes certain requirements that must be met subsequent to the execution and delivery of the Series 2017 Bonds for interest paid on the Series 2017 Bonds to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause such amounts to be included in gross income for federal income tax purposes retroactive to the date of first delivery of the Series 2017 Bonds. The Authority and the Cities have covenanted to maintain the exclusion of interest paid on the Series 2017 Bonds from the gross income of the owners thereof for federal income tax purposes.

Upon the execution and delivery of the Series 2017 Bonds, Procopio, Cory, Hargreaves & Savitch, LLP, San Diego, California, Bond Counsel, will deliver its legal opinion that under existing law, and assuming compliance with the covenants referred to in this section of the Official Statement, interest paid on the Series 2017 Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Further, on that same day Bond Counsel will render its legal opinion, based solely on the foregoing, and upon existing provisions of the laws of the State of California (the “State”), that interest on the Series 2017 Bonds is exempt from personal income taxes of the State. Bond Counsel will render its further opinion that, under existing statutes, regulations, rulings and court decisions, the Series 2017 Bonds will not constitute a “specified private activity bond” within the meaning of section 57(a)(5) of the Code and, therefore, that interest on the Series 2017 Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. The receipt of interest on any Series 2017 Bonds owned by a corporation may affect the computation of the alternative maximum taxable income of that corporation. A corporation’s alternative minimum taxable income is the basis upon which the alternative minimum tax imposed by section 55 of the Code is computed.

Pursuant to the Series 2017 Indenture, each Series 2017 Loan Agreement and in the *Tax Certificate Pertaining to Arbitrage and Other Matters under sections 103 and 141 through 150, inclusive, of the Internal Revenue Code of 1986*, dated the date of this Official Statement (the “Tax Certificate), executed and delivered by the Authority, Encinitas and Solana Beach (severally and collectively, the “Certifying Entities”) in connection with the execution and delivery of the Series 2017 Bonds, each of the Certifying Entities will make representations relevant to the determination of, and will make certain covenants regarding or affecting, the exclusion of interest paid on the Series 2017 Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching its legal opinions described above, Bond Counsel will assume the accuracy of each such representation and the present and future compliance by each of the Certifying Entities with each of its respective covenants.

Except as stated above in this section of the Official Statement, Bond Counsel will express no opinion as to any federal or state tax consequence of the receipt or accrual of interest on the Series 2017 Bonds, or of the ownership or disposition of any Bond. Furthermore, Special Counsel will express no opinion as to any federal, state or local tax law consequences with respect to the Series 2017 Bonds or interest paid or received on the Series 2017 Bonds if any action is taken with respect to the Series 2017 Indenture, either Series 2017 Loan Agreement, the Tax Certificate, the Series 2017 Bonds or the use or investment of proceeds of the Series 2017 Bonds predicated or permitted upon the advice or approval of other counsel. Bond Counsel has not undertaken to advise in the future whether any events may affect the tax status of interest on the Series 2017 Bonds or the tax consequences of the ownership or disposition of any Series 2017 Bond.

Bond Counsel’s legal opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of each of the Certifying Entities described above. No ruling has been sought from the Internal Revenue Service (the “Service”) with respect to the matters addressed in the legal opinion of Bond Counsel, and Bond Counsel’s legal opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations, including obligations like the Series 2017 Bonds. If an audit of the Series 2017 Bonds is commenced, under current procedures the Service is likely to treat each of the Certifying Entities as a “taxpayer,” and the owners of the Series 2017 Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of interest on the Series 2017 Bonds, any or all of the Certifying Entities may have interests that differ or conflict with interests of the owners of the Series 2017

Bonds. Public awareness of any future audit of the Series 2017 Bonds could adversely affect the value and liquidity of the Series 2017 Bonds during the pendency of the audit, regardless of its ultimate outcome.

Existing law may change to reduce or eliminate the benefit to owners of the Series 2017 Bonds of the exclusion of interest paid on the Series 2017 Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Series 2017 Bonds. Prospective purchasers of the Series 2017 Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

A copy of the proposed form of legal opinion of Bond Counsel relating to the Series 2017 Bonds is included in “**APPENDIX D – FORM OF BOND COUNSEL OPINION.**”

Tax Accounting Treatment of Bond Premium and Original Issue Discount

For purposes of the following discussion, each Series 2017 Bond should be treated as a separate debt instrument.

To the extent that a purchaser of a debt instrument acquires that debt instrument at a price that exceeds the aggregate amount of scheduled interest payments (other than payments of “qualified stated interest” as defined in section 1.1273-1 of the United States Treasury Regulations (the “Treasury Regulations”)) to be made on that debt instrument (determined, in the case of a prepayable debt instrument, under the assumption described below) (the “stated redemption price at maturity” of the instrument), such excess will constitute “bond premium” under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligations must be amortized on a constant yield, economic accrual, basis; the amount of premium so amortized will reduce the owner’s basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. In the case of a purchase of a Bond that is subject to redemption (in whole or in part), the determination whether there is amortizable bond premium, and the computation of the accrual of that premium, must be made under the assumption that the redemption price will be paid on the permitted date that would minimize the yield on the Bond (or that the Bond will not be prepaid prior to its stated maturity date if that would maximize the purchaser’s yield). The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when a Bond owned by that owner is sold or disposed of for an amount equal to, or in some circumstances even less, than the original cost of the Bond to that owner. Any person considering purchasing a Bond at a price that includes bond premium should consult such person’s own tax advisors with respect to the amortization and treatment of such bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption or other disposition of the Bond.

The excess, if any, of the stated redemption price at maturity of a Bond of a stated maturity over the initial offering price to the public of the Series 2017 Bonds of that stated maturity set forth on the inside front cover page of this Official Statement is “original issue discount”. Original issue discount accruing in respect of a Bond is treated for federal income tax and State (California) personal income tax purposes as additional interest in respect of that Bond and is excluded from the gross income of the owner of that Bond for federal income tax purposes and exempt from State personal income tax to the same extent as would be stated interest on that Bond. Original issue discount accruing in respect of any Bond purchased at its initial public offering price and pursuant to such initial offering will accrue on a semiannual basis over the term to stated maturity date of the Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount in respect of such a Bond accruing during each period is added to the adjusted basis of the Bond to determine taxable gain upon disposition (including upon sale, redemption or payment at maturity) of such Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of a purchaser of a Bond who purchases that Bond other than at the initial offering price and pursuant to the initial offering of that Bond.

Any person considering purchasing a Bond at a price that includes bond premium should consult such person’s own tax advisors with respect to the amortization and treatment of such bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption or other disposition of the Bond. Any person considering purchasing a Bond of a maturity in respect of which there is original issue discount should consult such person’s own tax advisors with respect to the tax consequences of ownership of such Bond, including the treatment of a purchaser who does not purchase in the original offering and at the original offering price of that Bond, the

allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount in respect of such Bond under federal individual and corporate alternative minimum taxes.

Certain Other Tax Consequences

Although interest paid on any Bond and received by the owner thereof may be excluded from the gross income of such owner for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of any Bond. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Series 2017 Bonds should be aware that (a) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2017 Bonds, and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations such as the Series 2017 Bonds; (b) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Series 2017 Bonds; (c) the payments of interest on any Series 2017 Bonds owned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code; (d) passive investment income, including interest accrued and paid on the Series 2017 Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporation that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income; (e) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, interest accrued and paid on any Series 2017 Bonds owned by such recipients for federal income tax purposes; and (f) under section 32(i) of the Code, receipt of investment income, including interest accrued and paid on the Series 2017 Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences.

CERTAIN LEGAL MATTERS

General

All legal matters incident to the authorization, issuance, sale and delivery of the Series 2017 Bonds by the Authority are subject to the approving legal opinion of Procopio, Cory, Hargreaves & Savitch, LLP, San Diego, California, Bond Counsel, whose approving legal opinion will be delivered with the initial delivery of the Series 2017 Bonds, and the proposed form of which is set forth in "**APPENDIX D – FORM OF BOND COUNSEL OPINION.**" The legal opinion delivered may vary from such form as and if necessary to reflect facts and law on the date of initial delivery of the Series 2017 Bonds. Certain legal matters will be passed upon for the Authority by Procopio, Cory, Hargreaves & Savitch, LLP, as Disclosure Counsel and general counsel to the Authority, for the Cities by their respective City Attorneys (or other counsel) and for the Underwriter by Nixon Peabody, LLP.

All legal opinions to be delivered concurrently with the initial delivery of the Series 2017 Bonds will speak only as of such date and will be qualified in certain customary respects, including as to the enforceability of the various legal instruments by limitations imposed by State and federal law affecting remedies and by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, the application of equitable principles and the exercise of judicial discretion in appropriate cases. The legal opinions express the professional judgment of counsel rendering them, respectively, but are not binding on any court or other governmental agency and are not guarantees of any particular result. Certain fees paid to Bond Counsel, Disclosure Counsel, the Underwriter, the Trustee and the Municipal Advisor for services rendered are contingent upon the issuance and delivery of the Series 2017 Bonds.

Absence of Litigation

No Proceedings Against Either City. In connection with the issuance of the Series 2017 Bonds, each City will deliver certificates which will state that, as of the date of issuance of the Series 2017 Bonds, to the best of their knowledge, there is no action, suit, proceeding, inquiry or investigation at law or in equity before or by any court, public board or body pending or threatened against or affecting such City, wherein an unfavorable decision, ruling or finding would adversely affect the transactions contemplated by the Series 2017 Indenture, the Series 2017 Loan Agreements, the Bond Purchase Contract (as hereinafter defined), the Disclosure Agreement, the Tax Certificate or

this Official Statement (collectively, the “Bond Documents”), the validity and enforceability of any of the Bond Documents or the Series 2017 Bonds or the operations, financial or otherwise, of such City.

No Proceedings Against the Authority. To the knowledge of the Authority, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending against the Authority seeking to restrain or enjoin the sale or issuance of the Series 2017 Bonds, or in any way contesting or affecting any proceedings of the Authority taken concerning the sale thereof, the pledge or application of any moneys or security provided for the payment of the Series 2017 Bonds, the validity or enforceability of the Bond Documents executed by the Authority in connection with the Series 2017 Bonds or the existence or powers of the Authority relating to the sale of the Series 2017 Bonds or the Authority’s ownership and operation of the Wastewater Enterprise Facilities.

MISCELLANEOUS

Rating

The Series 2017 Bonds have been assigned the “AA+” rating by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”). Such rating reflects only the views of S&P and do not constitute a recommendation to buy, sell or hold the Series 2017 Bonds. Explanation of the significance of such rating may be obtained only from S&P at S&P Global Ratings, 55 Water Street, New York, New York 10041. There is no assurance that such rating will continue for any given period of time or that any such rating will not be revised downward or withdrawn entirely by the rating agency, if, in the judgment of such agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2017 Bonds.

Underwriting

The Series 2017 Bonds are being purchased for reoffering by the Underwriter. The Underwriter has agreed to purchase the Series 2017 Bonds at a purchase price of \$_____ inclusive of original issuance premium and exclusive of original issue discount. The obligation to make such purchase is subject to the terms and conditions of the Bond Purchase Contract by and among the Authority, each City and the Underwriter. The Underwriter may offer and sell the Series 2017 Bonds to certain dealers and others at prices lower than the public offering price stated on the inside front cover page of this Official Statement. The Underwriter may change the offering price of the Series 2017 Bonds from time to time.

Continuing Disclosure

The Authority has covenanted for the benefit of the Owners and Beneficial Owners of the Series 2017 Bonds to provide certain financial information and operating data relating to the Series 2017 Bonds not later than 8 months following the end (currently June 30 of each year) of the Authority’s fiscal year (that is, not later than March 1 of the following fiscal year), or as adjusted correspondingly for any change in the Authority’s fiscal year (the “Annual Report”), commencing with the report for the fiscal year ending June 30, 2017, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by Applied Best Practices, LLC (the initial “Dissemination Agent”), on behalf of the Authority with each Nationally Recognized Municipal Securities Information Repository (“NRMSIR”) and with any then existing State Repository for the State (collectively, the “Repositories”). The notices of material events will be filed by the Dissemination Agent on behalf of the Authority with the Repositories. The specific nature of the information to be contained in the Annual Report or the notices of material events is described in “**APPENDIX E – FORM OF DISCLOSURE AGREEMENT.**” These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5).

The Authority became obligated to file notice of certain material events with the NRMSIR with the 2011 Bonds. All information has since been filed on EMMA including a notice of late filing. The Authority has implemented procedures to ensure timely filing of all future material events filings.

During the last five years, the Authority, Encinitas, the Encinitas Public Financing Authority, the San Dieguito Water District (“San Dieguito”), the Encinitas Ranch Golf Authority and the R.E. Badger Water Facilities Financing Authority (the “R.E. Badger Authority”) failed to comply in certain respects with continuing disclosure obligations related to outstanding bonded indebtedness. The failures to comply primarily include, but are not limited to

(a) failure to provide significant event notices with respect to changes in the ratings of outstanding indebtedness, primarily related to changes in the ratings of various bond insurers insuring the indebtedness of Encinitas or its related entities; and (b) incomplete, missing or late filing of annual reports with respect to certain bond issues. The incomplete filings are described below in detail.

For its City of Encinitas Refunding Certificates of Participation, Series A (Civic Center Project), Encinitas filed past the filing deadline its annual report for the Fiscal Year ended June 30, 2013 and its audited financial statements for the Fiscal Year ended June 30, 2013, and ratings event notices.

Ratings event notices were not filed timely for the following (listed in chronological order): Encinitas Public Financing Authority 2001 Lease Revenue Bonds, Series A (Acquisition Project), the San Elijo Joint Powers Authority San Diego County, California 2003 Refunding Revenue Bonds (San Elijo Wastewater Treatment Facilities), the San Dieguito Water District (San Diego County, California) Water Revenue Refunding Bonds, Series 2004, the City of Encinitas Community Facilities District No. 1 2004 Bonds, the Encinitas Public Financing Authority 2010 Lease Revenue Bonds, Series A (Park Project) and the San Elijo Joint Powers Authority 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facility).

For the R.E. Badger Water Facilities Financing Authority 2007 Water Revenue Refunding Bonds, the R.E. Badger Authority (a) filed past the filing deadline the annual reports of San Dieguito for fiscal years ended June 30, 2011, 2012 and 2013; (b) filed past the filing deadline the audited financial statements of San Dieguito for fiscal years ended June 30, 2012 and 2013; and (c) filed part the filing deadline ratings event notices.

For the San Elijo Joint Powers Authority 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facility), Encinitas filed past the filing deadline its annual report for the Fiscal Year ended June 30, 2012.

In addition to the listed incomplete filings of annual disclosure reports, Encinitas has outstanding Assessment District No. 93-1 (Requeza Street/Bracero Road) Limited Obligation Improvement Bonds, Series A and Subordinate Series B. Encinitas has timely filed the annual reports for the Assessment District Bonds; however, Encinitas has not included its Audited Financial Statements with the annual reports.

In order to ensure ongoing compliance by Encinitas, on behalf of itself and its related agencies, with the continuing disclosure undertakings (a) Encinitas has instituted new procedures to ensure future compliance and coordination by the City and its related agencies as part of its financial reporting policies; and (b) Encinitas has contracted with a consultant to assist it in filing accurate, complete and timely disclosure reports on behalf of the City and its related agencies.

Encinitas was advised by Southwest Securities, Inc. (“SSI”) that it was reported by SSI under the Municipalities Continuing Disclosure Cooperation (“MCDC”) initiative of the SEC. The reporting relates to the Encinitas Public Financing Authority 2010 Lease Revenue Bonds, Series A (the “2010 Encinitas PFA Bonds”) and the statement in the official statement for the 2010 Encinitas PFA Bonds that Encinitas was in compliance with all continuing disclosure requirements. MCDC was a program allowing issuers and underwriters of municipal securities to report voluntarily any non-compliance with disclosure obligations. The SEC has concluded its MCDC review for such period, and Encinitas was not contacted in connection with such review.

Municipal Advisor

The Authority has retained Fieldman, Rolapp & Associates as an independent registered municipal advisor (the “Municipal Advisor”) in connection with the execution and delivery of the Series 2017 Bonds. The Municipal Advisor has not been engaged, nor has it undertaken, to audit, authenticate or otherwise verify the information set forth in this Official Statement, or any other related information available to the Authority or either City with respect to the accuracy or completeness of disclosure of such information. The Municipal Advisor has reviewed this Official Statement but makes no guaranty, warranty or other representation respecting accuracy and completeness of the information

Financial Statements

The fiscal year 2015-16 financial statements included in this Official Statement as “**APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, ENCINITAS AND SOLANA BEACH,**” with audit reports accompanying the financial statements, such reports being prepared as follows: (a) for the Authority by The Pun Group, LLP,

(“TPG”); (b) for Encinitas by TPG; (c) and for Solana Beach by Lance, Soll & Lunghard, LLP, to the extent and for the periods indicated in their respective reports. Such financial statements have been included in reliance upon the respective reports of each Auditor, and each Auditor has consented to the reproduction of its respective reports in this Official Statement. Neither the Authority, Encinitas nor Solana Beach is aware of any facts that would make its respective financial statements misleading in any material respect.

Additional Information

The summaries of or references to constitutional provisions, statutes, resolutions, agreements, contracts, financial statements, reports, publications and other documents or compilations of data or information set forth in this Official Statement do not purport to be complete statements of the provisions of the items summarized or referred to and are qualified in their entirety by the actual provisions of such items, copies of which are either publicly available or available upon request and the payment of a reasonable copying, mailing and handling charge as described in “**INTRODUCTION – Additional Information.**”

Official Statement Certification

The preparation of this Official Statement and its distribution have been authorized by the Authority, Encinitas and Solana Beach. This Official Statement is not to be construed as an agreement or contract between the Authority, Encinitas or Solana Beach and any purchaser, holder or Owner of any Bond.

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APPENDIX A

DEMOGRAPHIC AND ECONOMIC INFORMATION ABOUT ENCINITAS AND SOLANA BEACH

The following information regarding Encinitas, Solana Beach and the surrounding area is presented as general background data. The information herein is subject to change without notice, and neither delivery of this Official Statement nor any sale thereafter of the Series 2017 Bonds shall under any circumstances imply that there has not been any change in the affairs of Encinitas or Solana Beach or any other information contained herein since the date of this Official Statement. The Series 2017 Bonds are payable solely from the sources described under “**SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS.**” The taxing power of Encinitas, Solana Beach, the State of California or any political subdivision thereof is not pledged to the payment of the Series 2017 Bonds. See “**THE SERIES 2017 BONDS.**”

ENCINITAS

Encinitas was incorporated in October 1986. Encinitas’ incorporation involved a reorganization consisting primarily of (a) the incorporation of the City of Encinitas; (b) the detachment of territory from the Cardiff Sanitation District and annexation of the detached territory to the Solana Beach Sanitation District; and (c) the establishment of the Encinitas Fire Protection District, the San Dieguito Water District (the “Water District”) and the Encinitas Sanitation District as subsidiary districts of Encinitas. All subsidiary districts other than the Water District have been absorbed by Encinitas as separate accounting divisions of Encinitas.

Encinitas lies in the coastal area of northern San Diego County overlooking the Pacific Ocean. Its territory covers approximately 21.4 square miles, about 25 miles north of San Diego and immediately north of Solana Beach. Topography of the surrounding area varies from broad coastal plains to inland valleys, with mountains to the east.

Encinitas maintains a website at www.encinitasca.gov. *No website information is part of this Official Statement or incorporated in it by reference. Website information should not be relied upon in making an investment decision with respect to the Series 2017 Bonds.*

City Government

Encinitas is a general law city and operates under a council-manager form of government. The City Council consists of four members elected at large, who also serve as the Board of Directors of the three subsidiary districts of Encinitas. Council members serve four-year terms, with elections every two years for either two or three seats. The Mayor is elected city-wide for a two-year term. The Mayor sits as a member of the subsidiary districts of Encinitas. The City Manager is appointed by the City Council and serves as the City Council’s administrative head of Encinitas. All other city employees are appointed by and responsible to the City Manager, except the City Attorney and the City Clerk, who are appointed by the City Council.

Encinitas supplies portions of its residents with water and sewer service through its subsidiary districts. The northern area of Encinitas is provided with sewer service by the independent Leucadia County Wastewater District. The eastern half of Encinitas receives potable water from the Olivenhain Municipal Water District. Encinitas operates and maintains its community services departments and parks, but it contracts with the County for police service.

Demographics

As of January 1, 2017, the California Department of Finance estimates that Encinitas has a population of 62,288, and expects to be built out according to general plan estimates at 73,600. Encinitas is a low-density community consisting predominately of single family homes.

Economic Data

The following tables show assessed valuations, taxable retail transactions and building activity in Encinitas.

CITY OF ENCINITAS, SCHEDULE OF ASSESSED PROPERTY (as of June 30)

	SECURED	UNSECURED	TOTAL
2013	\$11,581,761,879	\$143,523,614	\$11,725,285,493
2014	\$11,997,858,077	\$151,308,388	\$12,149,166,465
2015	\$12,715,936,309	\$155,935,794	\$12,871,872,103
2016	\$13,553,813,809	\$150,782,981	\$13,704,596,790
2017	\$14,326,676,416	\$147,287,886	\$14,473,964,302

Source: California Municipal Statistics, Inc. and San Diego County Auditor-Controller.

CITY OF ENCINITAS, TAXABLE RETAIL SALES (fiscal years ended June 30)

	2011	2012	2013	2014	2015	2016
Autos and Transportation	\$1,330,270	\$1,427,132	\$1,446,737	\$1,519,008	\$1,638,839	\$1,684,618
Building and Construction	774,109	868,790	820,467	887,182	944,334	980,140
Business and Industry	537,840	518,699	560,723	573,032	556,835	738,490
Food and Drugs	945,542	995,511	1,003,491	1,001,942	1,028,085	1,005,870
Fuel and Service Stations	1,351,288	1,569,265	1,577,783	1,559,342	1,500,416	1,382,946
General Consumer Goods	2,818,809	3,117,547	3,165,746	3,355,540	3,476,481	3,535,734
Restaurant and Hotels	1,442,976	1,624,007	1,699,705	1,825,971	1,978,072	2,113,116
TOTALS	\$9,200,834	\$10,120,951	\$10,274,652	\$10,722,015	\$11,123,062	\$11,440,916

Source: City of Encinitas Audited Financial Statements.

CITY OF ENCINITAS, SINGLE-FAMILY RESIDENTIAL BUILDING PERMITS (as of June 30)

YEAR ISSUED	TOTAL PERMITS
2012	121
2013	63
2014	161
2015	135
2016	117

Source: City of Encinitas.

SOLANA BEACH

Solana Beach lies in the coastal area of northern San Diego County. Its territory covers approximately 3.4 square miles, about 23 miles north of San Diego, between the San Elijo Lagoon to the north and Del Mar to the south, with the Pacific Ocean to the west and the City of San Diego and unincorporated areas of San Diego County to the east. Topography of the surrounding area varies from broad coastal plains to inland valleys, with mountains to the east.

Solana Beach was incorporated in 1986 as a general law city with a council-manager form of government. The Solana Beach City Council consists of five members elected at large. Council members serve a four-year term. The Mayor and Deputy Mayor are selected by the Council from among its members to serve one-year terms. The Council acts as the legislative and policy-making body of Solana Beach, enacting laws and directing actions providing for the general welfare of the community.

Council members appoint the City Manager, who serves as the Chief Executive Officer and is responsible to the Council for the administration of all City affairs and for the implementation of policies established by the Council. The City Attorney is the only other position appointed by the Council. All other department heads and employees are appointed by and responsible to the City Manager.

Solana Beach maintains a website at www.ci.solana-beach.ca.us. *No website information is part of this Official Statement or incorporated in it by reference. Website information should not be relied upon in making an investment decision with respect to the Series 2017 Bonds.*

Demographics

As of January 1, 2017, the California Department of Finance estimates that Solana Beach has a population of 13,527. Projected build-out under the Solana Beach general plan estimates the addition of 6,536 residential units and an estimated population of 16,897, of which approximately 58.6% will reside single-family units.

Economic Data

The following tables show assessed valuations, taxable retail transactions and building activity in Solana Beach.

CITY OF SOLANA BEACH, SCHEDULE OF ASSESSED PROPERTY (as of June 30)

	SECURED	UNSECURED	TOTAL
2013	\$3,630,362,561	\$39,083,027	\$3,669,445,588
2014	\$3,721,739,936	\$40,191,778	\$3,761,931,714
2015	\$3,938,386,162	\$41,701,166	\$3,980,087,328
2016	\$4,159,719,518	\$42,675,617	\$4,202,395,135
2017	\$4,384,043,696	\$45,714,024	\$4,429,757,720

Source: California Municipal Statistics, Inc. and San Diego County Auditor-Controller.

CITY OF SOLANA BEACH, TAXABLE RETAIL SALES (dollars in thousands)

	2011	2012	2013	2014	2015 ^(a)
Retail and Food Services	\$203,420	\$214,518	\$212,097	\$211,477	\$228,380
All Outlets	255,481	252,494	242,756	242,193	259,114

(a) Taxable transactions of motor vehicle and parts dealers, gasoline stations and general merchandise stores omitted because their publication would result in the disclosure of confidential information.

Source: State of California, Board of Equalization.

CITY OF SOLANA BEACH, PLAN CHECKS (fiscal years ended June 30)

	TOTAL PLAN CHECKS
2012	211
2013	63
2014	161
2015	135
2016	117

Source: City of Solana Beach.

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AREA EMPLOYMENT INFORMATION

Encinitas and Solana Beach are part of the Metropolitan Statistical Area (MSA) comprised of San Diego County-Carlsbad. The two tables on the next page show information by annual average regarding employment by industry groups and the labor force in general in the County of San Diego-Carlsbad MSA.

COUNTY OF SAN DIEGO-CARLSBAD MSA, EMPLOYMENT BY INDUSTRY GROUP

MAJOR INDUSTRY GROUP	2012	2013	2014	2015	2016
Total All Industries ^(a)	1,294,400	1,327,500	1,355,900	1,395,900	1,431,600
Total Farm	9,800	9,800	9,400	9,100	9,000
Mining and Logging	400	300	400	300	300
Construction	57,000	61,000	63,900	69,900	76,100
Manufacturing	98,200	99,400	102,200	106,200	107,800
Wholesale Trade	43,500	43,900	43,700	44,000	44,800
Retail Trade	137,200	141,300	144,300	146,800	147,400
Transportation, Warehousing and Utilities	27,300	27,200	27,000	28,400	29,400
Publishing (except Internet)	7,600	7,300	7,000	6,800	6,400
Broadcasting (except Internet)	3,500	3,500	3,400	3,000	3,100
Finance and Insurance	43,700	43,900	42,100	43,500	44,900
Real Estate	21,200	21,800	22,000	21,800	22,100
Professional and Business Services	213,400	221,100	224,300	230,200	234,000
Educational Services	29,000	29,500	29,700	29,400	30,000
Health Care & Social Assistance	145,500	151,500	156,400	163,300	168,600
Leisure and Hospitality	161,700	168,600	177,000	183,900	190,700
Other Services	49,200	49,300	52,000	53,200	54,900
Federal Government	46,800	46,500	45,800	46,000	46,500
State and Local Government	181,100	183,000	186,200	190,200	195,600

(a) Figures may not add to total due to independent rounding; estimated and published as of the March 2016 Benchmark.

Source: State of California Employment Development Department, Labor Market Information Division.

Industry employment data above is organized by standard industrial classification codes; however, employment in certain technology sectors may extend across multiple sectors.

COUNTY OF SAN DIEGO EMPLOYMENT TRENDS-(annual averages)

	2012	2013	2014	2015	2016
Labor Force	1,540,400	1,543,200	1,543,700	1,563,000	1,570,400
Employment	1,399,900	1,442,500	1,444,500	1,481,900	1,497,000
Unemployment Rate	9.1%	4.5%	6.4%	5.2%	4.7%

Source: California Employment Development Department.

APPENDIX B

CERTAIN DEFINITIONS AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

This Appendix B presents only summary information about certain definitions and legal documents relevant to this offering; however, it is qualified in its entirety by the entire provisions of such documents and the documents referenced therein. Investors may obtain copies of documents described or summarized in this Official Statement from public sources as well as upon request and the payment of a reasonable copying, mailing and handling charge from the administrative office of the Authority at 2695 Manchester Avenue, Cardiff, California 92007, Attention: General Manager, or from the Underwriter at Hilltop Securities Inc., 2533 South Coast Hwy 101, Suite 250, Cardiff, California 92007, telephone 760.632.6824, or such other contact information as either of them may provide from time to time.

This Appendix B is comprised of three Parts, as follows:

PART ONE: CERTAIN DEFINITIONS

PART TWO: THE SERIES 2017 INDENTURE

PART THREE: THE SERIES 2017 LOAN AGREEMENTS

* * *

PART ONE: CERTAIN DEFINITIONS

The definitions appearing below are presented in alphanumeric order and are extracted or paraphrased, as appropriate, for convenience of reference only, from the documents to which they apply. Certain definitions may not be applicable to every document. The definitions should be referenced in reading the summaries of certain documents in this Appendix B as well as the rest of this Official Statement.

“*Act*” means Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with section 6500) of the Government Code of the State, as in existence on the Closing Date or as thereafter amended from time to time.

“*Additional Bonds*” means all revenue bonds of the Authority, other than the Series 2017 Bonds initially executed, authenticated, issued and delivered under the Series 2017 Indenture, authorized by and at any time Outstanding under the Series 2017 Indenture.

“*Authority*” means the San Elijo Joint Powers Authority, a joint powers authority duly organized and existing under the Basic Agreement and the laws of the State.

“*Basic Agreement*” means that certain Joint Exercise of Powers Agreement, dated June 17, 1987, entered into under the Act by and between the Cardiff Sanitation District and the Solana Beach Sanitation District, together with any amendments and restatements thereof and supplements thereto.

“*Beneficial Owner*” means any Person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2017 Bonds or Additional Bonds, as applicable (including Persons holding such Series 2017 Bonds or Additional Bonds through nominees, depositories or other intermediaries).

“*Beneficial Ownership Interest*” means the beneficial right to receive payments and notices with respect to the Series 2017 Bonds (or any Additional Bonds, as applicable) which are held by the Depository under a Book-Entry System.

“*Board*” means the Board of the Authority.

“*Bond Counsel*” means any firm of nationally recognized municipal bond attorneys, selected by the Authority, experienced in the issuance of municipal bonds and matters relating to the exclusion of the interest thereon from gross income for federal income tax purposes.

“*Bond Purchase Contract*” means (a) the Series 2017 Bond Purchase Contract, dated June __, 2017, by and among the Authority, the Cities and the Underwriter; and (b) as to one or more series of Additional Bonds, the similar agreement with respect to such series of Additional Bonds.

“*Bond Resolution*” means (a) the resolution of the Board providing for the issuance of the Series 2017 Bonds and approving the Series 2017 Loan Agreements, the Series 2017 Indenture, the Tax Certificate and the Bond Purchase Contract and related matters; and (b) as to one or more series of Additional Bonds, the resolution of the Board providing for the issuance of such series of Additional Bonds and approving any amendment or supplement to the Series 2017 Loan Agreements, any Supplemental Indenture and related agreements and matters.

“*Bond Year*” means: (a) as to the Series 2017 Bonds, each twelve-month period extending from March 2 in one calendar year to March 1 of the succeeding calendar year, both dates inclusive, except that the first Bond Year shall extend from the Closing Date to March 1, 2018, both dates inclusive; and (b) as to one or more series of Additional Bonds, each twelve-month period ending March 1 in any year in which such series of Additional Bonds are Outstanding, except that the first Bond Year shall commence the date such series of Additional Bonds are issued and end March 1 of the year specified in the Supplemental Indenture authorizing the issuance of such series of Additional Bonds.

“*Bonds*” means, collectively, the Series 2017 Bonds and all series of Additional Bonds, if any.

“*Book-Entry System*” means, with respect to the Series 2017 Bonds or one or more series of Additional Bonds, a form or system, as applicable, under which (a) the Beneficial Ownership Interests may be transferred only through a book-entry-only system; and (b) physical certificates of Series 2017 Bonds or Additional Bonds (as applicable) in fully registered form are registered only in the name of a Depository or its nominee as Owner, with the physical certificates of Series 2017 Bonds or Additional Bonds (as applicable) duly “immobilized” in the custody of the Trustee on behalf of the Depository.

“*Business Day*” means any day which is not any of the following: (a) Saturday, Sunday or legal holiday as set forth by the Federal Reserve Bank of San Francisco; (b) any other day on which banks in Los Angeles, California, New York, New York or any city where the Trust Office is located are authorized or required to be closed by the appropriate regulatory authorities; or (c) a day on which the New York Stock Exchange is authorized or required to be closed.

“*City*” or “*Cities*” means, severally and collectively, the City of Encinitas, as successor in interest to Cardiff Sanitation District, and the City of Solana Beach, as successor in interest to Solana Beach Sanitation District.

“*Clean Water Projects*” means the projects of the Authority to be financed in whole or in part with the proceeds of the Series 2017 Bonds.

“*Code*” means the Internal Revenue Code of 1986, as in effect on the date of issuance of the Series 2017 Bonds or (except as otherwise referenced in the Series 2017 Indenture) as it may be amended to apply to obligations issued on the date of issuance of the Series 2017 Bonds, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, thereunder or any successor federal tax code thereto. Reference to any particular Code section shall, in the event of such successor federal tax code, be deemed to be reference to the successor to such Code section, as applicable.

“*Costs of Issuance*” means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Series 2017 Bonds, including but not limited to all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the Authority and the Trustee, compensation of any financial consultants or advisors, compensation of any underwriters, other legal fees and expenses, filing and recording fees and costs, costs of preparation, reproduction and printing of documents, initial fees and charges of the Trustee and its counsel, Rating Agency fees, other fees and charges for preparation, execution, transportation and safekeeping of Series 2017 Bonds, and any other cost, charge or fee in connection with the original issuance of the Series 2017 Bonds.

“*Costs of Issuance Fund*” means the fund by that name established and held by the Trustee under the Series 2017 Indenture.

“*Debt Service*” means, as of any date of calculation and with respect to any period, the amount obtained as of such date or for such period by totaling the following amounts:

(a) the principal amount of all Outstanding Serial Series 2017 Bonds coming due and payable by their terms on such date or during such period; and

(b) the interest which would be due on such date or during such period on the aggregate principal amount of Series 2017 Bonds which would be Outstanding in such period if the Series 2017 Bonds are retired as scheduled, but deducting and excluding from such aggregate amount the principal amount of Series 2017 Bonds no longer Outstanding.

“*Depository*” means: (a) with respect to the Series 2017 Bonds, The Depository Trust Company and its successors and assigns, or any other depository selected pursuant to the Series 2017 Indenture; and (b) with respect to one or more series of Additional Bonds, the provisions of the Supplemental Indenture authorizing such series of Additional Bonds, with respect to which such Depository agrees to follow the procedures required to be followed by such depository in connection with such series of Additional Bonds.

“*Direct Participant*” means a Participant as defined in the Letter of Representations.

“*Disclosure Agreement*” and “*Dissemination Agent*” mean (a) the Continuing Disclosure Agreement executed and delivered by the Authority, Encinitas and Solana Beach, with (b) Applied Best Practices, LLC, in the capacity of Dissemination Agent, with respect to the Disclosure Requirements and the Rule.

“*Disclosure Requirements*” and “*Rule*” mean (a) the continuing disclosure and related requirements provided in paragraph (b)(5)(i) of (b) SEC Rule 15c2-12 promulgated by the SEC under the 1934 Act (17 CFR Part 240 Section 240.15c2-12), as it may be amended from time to time.

“*Electronic Means*” means telecopy, facsimile transmissions, e-mail transmissions or other similar electronic means of communication providing evidence of transmission.

“*EMMA*” means the Electronic Municipal Market Access of the Municipal Securities Rulemaking Board.

“*Encinitas*” means the City of Encinitas, a general law city under State law, as successor to the Cardiff Sanitation District.

“*Event of Default*” means any of the events specified in Section 7.01 of the Series 2017 Indenture.

“*Federal Securities*” means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or other noncallable obligations of any government-sponsored agency the timely payment of principal of and interest on which are directly or indirectly fully and unconditionally guaranteed by the United States of America.

“*Favorable Opinion of Bond Counsel*” means, with respect to any action the occurrence or non-occurrence of which requires such an opinion, an opinion of Bond Counsel to the effect that such action is permitted under the Series 2017 Indenture and will not, in and of itself, cause interest on the Series 2017 Bonds to be included in gross income for purposes of federal income taxation.

“*Fiscal Year*” means the period beginning July 1 of each year and ending the next succeeding June 30 or any other 12-month period selected and designated as the official fiscal year period of the Authority.

“*Interest Payment Date*” means each March 1 and September 1, commencing September 1, 2017, and continuing thereafter so long as any Series 2017 Bonds remain Outstanding.

“*Letter of Representations*” means, collectively, the Blanket Issuer Letter of Representations filed by the Authority with the Depository and the Operational Arrangements Letter of Representations filed with the Depository.

“*Loan Default Event*” means any Event of Default under the provisions of Section 5.01 of either or both Series 2017 Loan Agreements.

“*Net Proceeds*”, when used with reference to any insurance or eminent domain award or sale of property, means, the respective gross proceeds from the sale of property or insurance or eminent domain award remaining after payment of all expenses (including attorneys’ fees and any extraordinary expenses of the Trustee) incurred in the collection of such gross proceeds.

“*Opinion of Counsel*” means a written opinion of counsel (who may be counsel for the Authority) selected by the Authority.

“*Outstanding*” means, when used as of any particular time with reference to the Series 2017 Bonds or one or more series of Additional Bonds, all Series 2017 Bonds and Additional Bonds theretofore, or thereupon being, executed, authenticated and delivered under the Series 2017 Indenture except:

- (a) Series 2017 Bonds and Additional Bonds cancelled by or surrendered to the Trustee for cancellation;
- (b) Series 2017 Bonds and Additional Bonds fully discharged under the Series 2017 Indenture;
- (c) Series 2017 Bonds and Additional Bonds in lieu of or in substitution for which other Series 2017 Bonds and Additional Bonds, as applicable, have been executed, authenticated and delivered; and
- (d) with respect to any voting or consents of rights, Series 2017 Bonds and Additional Bonds held by the Authority.

“*Owner*” of any Series 2017 Bond or Additional Bond, means the Person in whose name such bond is registered in the Registration Books.

“*Participating Underwriter*” means any broker, dealer or municipal securities dealer acting as an underwriter in a primary offering of municipal securities subject to SEC Rule 15c2-12 under the 1934 Act.

“*Permitted Investments*” means the following, but only to the extent that the same are acquired at fair market value, which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

- (a) Federal Securities;
- (b) interest-bearing demand or time deposits (including certificates of deposit) in federal or State chartered savings and loan associations or in federal or State banks (including without limitation the Trustee), fully secured as to the payment of principal and interest by Federal Securities;
- (c) money market funds the policy of which is to invest solely in Federal Securities or in obligations which are fully defeased or collateralized by Federal Securities, including funds for which the Trustee or an affiliate of the Trustee provides banking or trust services;
- (d) obligations the interest on which is excludable from gross income pursuant to section 103 of the Code and which are fully secured as to the payment of principal and interest by Federal Securities; and
- (e) the Local Agency Investment Fund – Bond Proceeds Pool established and maintained by the Treasurer of the State of California.

“*Person*” means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including any governmental entity or any agency or political subdivision thereof.

“*Rating Agency*” means S&P.

“*Rating Category*” means one of the general rating categories of any Rating Agency, without regard to any refinement or gradation of such rating category by a numerical or symbolic modifier or otherwise.

“*Record Date*” means, with respect to any Interest Payment Date, the fifteenth calendar day of the month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

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

“*Refunding Bonds*” means all revenue bonds of the Authority authorized by and at any time Outstanding under the Series 2017 Indenture, proceeds of which are used to refund all or any portion of Outstanding Series 2017 Bonds or Outstanding Additional Bonds, as applicable.

“*Registration Books*” means the records maintained by the Trustee for the registration and transfer of ownership of the Series 2017 Bonds.

“*Revenues*” means (a) all amounts payable by the Cities pursuant to the Series 2017 Loan Agreements (taking into account any limitations contained therein with respect to such payment), other than (i) administrative fees and expenses and indemnity against claims payable to the Authority and the Trustee and (ii) amounts payable to the United States of America pursuant to the rebate payment requirements of each Series 2017 Loan Agreement; (b) any proceeds of Series 2017 Bonds originally deposited with the Trustee and all moneys deposited and held from time to time by the Trustee in the funds and accounts established under the Series 2017 Indenture; and (c) income and gains with respect to the investment of amounts on deposit in the funds and accounts established under the Series 2017 Indenture.

“*S&P*” means S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, its successors and assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Authority by notice to the Trustee.

“*SEC*” means the United States Securities and Exchange Commission and any successor thereto.

“*Serial Series 2017 Bonds*” means all Series 2017 Bonds other than the Series 2017 Bonds maturing March 1, 20__ or thereafter.

“*Series 2017 Bonds*” means the Series 2017 Bonds authorized by and at any time Outstanding under the Series 2017 Indenture.

“*Series 2017 Indenture*” mean the Series 2017 Indenture of Trust, dated as of June 1, 2017, by and between the Authority and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

“*Series 2017 Interest Account*” means the account by that name established and held by the Trustee under the Series 2017 Indenture.

“*Series 2017 Loan Agreements*” means, severally and collectively, (a) the Series 2017 Loan Agreement, dated as of June 1, 2017, by and between the Authority and Encinitas, relating to the Series 2017 Loan to Encinitas in the amount of \$_____; and (b) the Series 2017 Loan Agreement, dated as of June 1, 2017, by and between the Authority and Solana Beach, relating to the Series 2017 Loan to Solana Beach in the amount of \$_____.

“*Series 2017 Loans*” mean: (a) as to the Series 2017 Bonds, the loans by the Authority to Encinitas and Solana Beach, respectively, of the proceeds received from the sale of the Series 2017 Bonds; and (b) each additional loan made by the Authority to the Cities of the proceeds received from the sale of one or more series of Additional Bonds.

“*Series 2017 Principal Account*” means the account by that name established and held by the Trustee under the Series 2017 Indenture.

“*Series 2017 Proceeds Fund*” means the temporary trust account by that name established and held by the Trustee under the Series 2017 Indenture.

“*Series 2017 Project Costs*” means all costs paid or incurred by or on behalf of the Authority at any time prior to or after the issuance of the Series 2017 Bonds for or in connection with the planning, design, acquisition, construction, renovation, improvement, equipping, furnishing and/or installation of the Clean Water Projects, and

shall include, but not be limited to, any sums required to reimburse the Authority for advances and payments made by or on behalf of the Authority at any time prior to or after the issuance of the Series 2017 Bonds for capital expenditures related to the Clean Water Projects, or for any other cost incurred or work done by or with the approval of the Authority which is properly allocable to the Clean Water Projects.

“*Series 2017 Project Fund*” means the fund by that name established and held in trust by the Trustee under the Series 2017 Indenture.

“*Series 2017 Rebate Fund*” means the fund by that name established and held by the Trustee under the Series 2017 Indenture.

“*Series 2017 Revenue Fund*” means the fund by that name established and held by the Trustee under the Series 2017 Indenture.

“*Solana Beach*” means the City of Solana Beach, a general law city under State law, as successor to the Solana Beach Sanitation District.

“*State*” means the State of California.

“*Subordinate Debt*” means (a) Additional Bonds issued and so designated and secured by and payable from Revenues on a basis that is subordinate and junior to the pledge of Revenues for the Series 2017 Bonds; and (b) any loan or other form of indebtedness (including without limitation notes, other debt instruments or financing leases) that are secured by and payable from Revenues on a basis that is subordinate and junior to the pledge of Revenues for the Series 2017 Bonds.

“*Supplemental Indenture*” means any indenture specifically authorized under the Series 2017 Indenture.

“*Tax Certificate*” means the Tax Certificate Pertaining to Arbitrage and Other Matters under sections 103 and 141 through 150, inclusive, of the Internal Revenue Code of 1986 executed and delivered by the Authority with respect to the Series 2017 Bonds.

“*Treasury Regulations*” has the meaning ascribed to such term in the Tax Certificate.

“*Trust Office*” means the corporate trust office of the Trustee at 445 South Figueroa Street, Suite 401, Los Angeles, California 90071 (Attention: Corporate Trust Services), fax: 213.972.5694, email: AccountAdministration-CorporateTrust@unionbank.com and CashControlGroup-LosAngeles@unionbank.com, or such other address or addresses as the Trustee may designate in writing to the Authority from time to time.

“*Trustee*” means MUFJ Union Bank, N.A., a national banking association organized and existing under the laws of the United States of America, and its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as Trustee under the Series 2017 Indenture.

“*Underwriter*” means Hilltop Securities, Inc., as initial purchaser of the Series 2017 Bonds.

“*Wastewater Enterprise Facilities*” means any and all facilities of any kind or purpose of or used by the Authority (excluding the Authority’s Water Reclamation Facilities) used for the treatment and disposal of wastewater, including without limitation sewage treatment plants, intercepting and collecting sewers, outfall sewers, force mains, pumping stations, ejector stations, pipes, valves, machinery, safety and systems for the protection, monitoring, command, control and operation thereof, and all other appurtenances necessary, useful or convenient for the foregoing, and any necessary lands, rights of way and other real or personal property useful in connection therewith.

“*Water Reclamation Facilities*” means the Authority’s recycled water production and distribution facilities to the extent such facilities are used or useful in the Authority’s tertiary treatment, sale and delivery of recycled water.

PART TWO: THE SERIES 2017 INDENTURE

Certificates and Opinions

Every certificate or opinion with respect to compliance with any provision of the Series 2017 Indenture must include all of the following: (a) a statement that the Person making or giving such certificate or opinion has read the

provision the related definitions; (b) a brief statement about the nature and scope of the examination or investigation upon which the certificate or opinion is based; (c) a statement that, in the opinion of such Person, such Person has made or caused to be made such examination or investigation as is necessary to enable such Person to express an informed opinion with respect to the subject matter; (d) a statement of the assumptions upon which such Certificate or opinion is based, and that such assumptions in the opinion of such Person are reasonable; and (e) a statement as to whether or not, in the opinion of such Person, such provision has been satisfied.

Equal Security

The Series 2017 Indenture is a contract between the Authority and the Owners from time to time of all Series 2017 Bonds and Additional Bonds authorized, executed, issued and delivered thereunder or under any Supplemental Indenture, as applicable, and then Outstanding to secure the full and final payment of the principal or Redemption Price of and interest on all Series 2017 Bonds and Additional Bonds, as applicable, which may from time to time be authorized, executed, issued and delivered thereunder or under any Supplemental Indenture, as applicable, subject to the agreements, conditions, covenants and provisions contained therein; and all agreements and covenants set forth therein to be performed by or on behalf of the Authority shall be for the equal and proportionate benefit, protection and security of all Owners of the Series 2017 Bonds and Additional Bonds without distinction, preference or priority as to security or otherwise of any Series 2017 Bonds or Additional Bonds over any other Series 2017 Bonds or Additional Bonds by reason of the number or date thereof or the time of authorization, sale, execution, issuance or delivery thereof, except as expressly provided therein.

The Series 2017 Bonds

The Authority is duly authorized by law to issue the Series 2017 Bonds and to enter into the Series 2017 Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned under the Series 2017 Indenture in the manner and to the extent provided in the Series 2017 Indenture. The Authority has duly authorized the execution, sale and delivery of the Series 2017 Bonds and the Series 2017 Indenture under the terms and provisions of the Act and a resolution adopted by its Board and further represents, covenants and warrants that all requirements have been met and procedures have occurred in order to ensure the enforceability against the Authority of the Series 2017 Bonds and the Series 2017 Indenture. The Authority has taken all necessary action and has complied with all provisions of the Act required to make the Series 2017 Bonds and the Series 2017 Indenture the valid, legal and binding special obligations of the Authority.

Limited Obligations. None of the Authority, the Cities or any Person executing the Series 2017 Bonds is liable personally on the Series 2017 Bonds or subject to any personal liability or accountability by reason of their issuance. The Series 2017 Bonds are special obligations of the Authority, payable solely from and secured by the pledge of Revenues under the Series 2017 Indenture. Neither the Authority, the Cities, the State, nor any political subdivision of the State shall be directly, indirectly, contingently, morally or otherwise obligated to use any other moneys or assets to pay all or any portion of the Debt Service due on the Series 2017 Bonds, to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The Series 2017 Bonds are not a pledge of the faith and credit of the Authority, either of the Cities, the State or any political subdivision of the State, nor do they constitute indebtedness within the meaning of any constitutional or statutory debt limitation. The Authority has no taxing power. The Authority shall not be liable for payment of the principal of, Redemption Price or interest on the Series 2017 Bonds or any other costs, expenses, losses, damages, claims or actions under or by reason of or in connection with the Series 2017 Indenture, the Series 2017 Bonds or any other documents, except only to the extent Revenues are received for the payment thereof under the Series 2017 Loan Agreements.

Additional Bonds; Refunding Bonds. The Authority may (but is not required to) issue Additional Bonds from time to time for any purpose permitted by the Act, if the Additional Bonds are secured and payable on a parity with or subordinate to the Series 2017 Bonds and any Additional Bonds theretofore or thereafter issued and Outstanding as to the assignment to the Trustee of the Authority's right, title and interest in the Revenues and Series 2017 Loan Agreements and any undisbursed Series 2017 Bond proceeds on deposit in the Series 2017 Project Fund and any account therein to provide for payment of Debt Service on the Series 2017 Bonds; provided, that nothing in the Series 2017 Indenture will prevent payment of Debt Service on any series of Additional Bonds from (a) being otherwise secured and payable from sources or by property or instruments not applicable to the Series 2017 Bonds or any one or more series of Additional Bonds, or (b) not being secured or payable from sources or by property or instruments applicable to the Series 2017 Bonds or one or more series of Additional Bonds. Likewise, the Authority

may (but is not required to) issue Refunding Bonds if the refunded bonds are defeased and discharged as described below under “Discharge and Defeasance” in this Part II.

Bond Procedures. The Series 2017 Bonds are subject to the Series 2017 Indenture’s procedures regarding payment, form, execution, authentication, exchange, transfer, replacement, disposition, registration and the Book-Entry System (the latter described in “**APPENDIX F – BOOK-ENTRY ONLY.**”

Payment of all Series 2017 Bonds will be made only in United States Dollars. Interest will be paid on each Interest Payment Date to the Owner in whose name the applicable Series 2017 Bond is registered as of the Record Date for such Interest Payment Date, except as described below. Interest not punctually paid or provided will not be payable to the Owner on such Record Date and must be paid to the Owner in whose name the Series 2017 Bond is registered at the close of business on a Special Record Date for the payment of defaulted interest set by the Trustee, with notice of the Special Record Date being mailed at least 15 days before the Special Record Date. Interest payments may be made by check mailed on the due date to the Owners of Series 2017 Bonds at the close of business on the applicable Record Date at the registered addresses of Owners appearing on the Registration Books, but before the Record Date, any Owner of more than \$1,000,000 principal of Series 2017 Bonds, may give the Trustee written wire transfer instructions to a bank account within in the United States of America in order to receive interest by wire transfer. While the Series 2017 Bonds are under the Book-Entry System, the Trustee will wire all payments of principal, Redemption Price, if any, and interest on the Series 2017 Bonds to DTC without any presentation or surrender of Series 2017 Bonds. However, without notice to or consent of any Owner, the Trustee, the Authority and DTC may arrange for the Trustee make any payment by other means.

Interest Accrual will be calculated for 360-day years, each comprising twelve 30-day months, beginning to accrue on the dated date of the Series 2017 Bonds.

The *form and handling* of Series 2017 Bonds (generally referred to as “bonds”) will follow these requirements: (a) only fully registered bonds without coupons will be delivered; (b) each Series 2017 Bond will be lettered and numbered “R-n” (with n as a series of consecutive numbers), beginning with “R 1”; (c) each bond will be dated the date of delivery shown on the front cover page of the final Official Statement; (d) each bond will bear a manual or facsimile signature of any authorized signatory of the Authority; (e) the Trustee will then authenticate each bond manually, and any unauthenticated bond will neither be valid nor binding; (f) each authenticated bond may be exchanged or transferred at the registered Owner’s expense, but the Trustee may suspend such activity (i) from any Record Date until the next Interest Payment Date, (ii) for any bond called for redemption or (iii) during the 15-day period before the Trustee gives a redemption notice affecting the bond. The Authority and the Trustee may recover any tax, fee or governmental charge and any other cost incurred with any exchange or transfer from the Owner. Mutilated paper bonds will be replaced at the Owner’s expense if they are delivered to the Trustee, but any bonds that are destroyed, stolen or lost will not be replaced unless the Owner provides the Trustee with sufficient evidence, indemnity and payment of related expenses. Temporary bonds, if delivered, may be replaced with definitive bonds at no cost to the Owner.

The *validity* of the Series 2017 Bonds does not depend and will not be affected by any proceedings taken by the Authority or the Trustee with respect to the Series 2017 Indenture. The Series 2017 Bonds recite that any and all acts, conditions and things required to exist, to have happened and to have been performed precedent to and in their issuance exist, have happened and have been performed in due time, form and manner as required by the Constitution and laws of the State, and that the amount of the Series 2017 Bond, together with all other indebtedness of the Authority, does not exceed any limit prescribed by the Constitution and laws of the State and is not in excess of the amount of Series 2017 Bonds permitted to be issued under the Series 2017 Indenture.

Optional Redemption. The redemption of Series 2017 Bonds before their maturity will conform to the description presented in this Official Statement under “**THE SERIES 2017 BONDS –Redemption.**” For optional redemption, the Authority must give written notice to the Trustee at least 45 days before redemption, stating the redemption date, series and principal amounts of each maturity of Series 2017 Bonds to be redeemed. If the Authority does not specify the series, maturities and principal amounts, then the Trustee will select the series, maturities and principal amounts in inverse order of maturity, by lot. The Trustee must give notice of any redemption of Series 2017 Bonds at least 30 days but not more than 60 days before the redemption date, stating any

conditions to redemption and the Authority's right to rescind the redemption notice before the redemption date. Redemption will be cancelled if the Trustee does not hold or will not hold on the redemption date funds sufficient to pay the principal or Redemption Price and accrued interest to the redemption date. Neither the Authority nor the Trustee will have any liability to Owners of Series 2017 Bonds related to or arising from any rescission of redemption. The Trustee will give notices of redemption and any rescission of redemption will be given by Electronic Means and to EMMA or by first class mail, postage prepaid, to Owners of affected Series 2017 Bonds at their last known addresses on the Trustee's Registration Books. Nevertheless, any failure of an Owner to receive notice or a defect in the notice will not affect the validity of the redemption. All redemption notices will be valid even if CUSIP numbers are in error, because the numbers are assigned by an independent service only for reference; therefore, the Authority and the Trustee are not responsible for CUSIP number errors. Series 2017 Bonds redeemed in part will be exchanged for the unredeemed part at no cost to the Owner.

Funds and Accounts

Revenue Fund. The Series 2017 Indenture provides for funds and accounts that the Trustee will establish and administer. Chief among them is the Series 2017 Revenue Fund, which will hold Revenues and other moneys the Trustee receives to secure and pay the Series 2017 Bonds. All Revenues and other moneys in the Series 2017 Revenue Fund are pledged to pay the Series 2017 Bonds, but they will not include moneys for the Series 2017 Rebate Fund. Subject to the foregoing exclusion, all funds in or derived from the Series 2017 Revenue Fund and any and all other property, rights and interests from time to time granted, conveyed, pledged, transferred, assigned or delivered as additional security under the Series 2017 Indenture, are pledged and constitute a first lien on and security interest in such funds and other assets.

Accordingly, the Series 2017 Indenture provides that the Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners of the Series 2017 Bonds, all of the Revenues and other assets included in the pledge described in the preceding paragraph and all of the right, title and interest of the Authority in each Series 2017 Loan Agreement. The Trustee is entitled to collect and receive all Revenues, and any Revenues collected or received by the Authority will be held and considered as collected or received by the Authority as the Trustee's agent and paid by the Authority to the Trustee. The Trustee will also act as reasonably necessary in its judgment to enforce all of the rights of the Authority and all of the obligations of each City under the Series 2017 Loan Agreements.

The Trustee will also deposit in the Series 2017 Revenue Fund all Loan Installments it receives under the Series 2017 Loan Agreements and, except as described in Flow of Funds below, all funds received under the Series 2017 Loan Agreements will be deposited promptly by the Trustee in the Series 2017 Revenue Fund and held in trust, disbursed, allocated and applied by the Trustee only as provided in the Series 2017 Indenture.

If the Trustee has not received the amounts required to make the transfers and deposits required under the Series 2017 Indenture on or before the fourth Business Day before the next Interest Payment Date, and unless any deficiency has been cured prior to such notification, the Trustee shall notify the Authority and each City by Electronic Means of such deficiency at least one Business Day before the next Interest Payment Date.

In all events, the Authority has no obligation, and instead the Trustee may take steps, actions and proceedings to enforce Authority rights under the Series 2017 Indenture or the Series 2017 Loan Agreements, including, without limitation, the enforcement of remedies for an Event of Default and each City's obligations under the Series 2017 Loan Agreements.

Flow of Funds. On or before each Interest Payment Date the Trustee will transfer from the Series 2017 Revenue Fund and deposit into funds, accounts and subaccounts (each of which the Trustee shall establish and maintain within the Series 2017 Revenue Fund) the following amounts, in the following order of priority, the requirements of each such account, subaccount or fund (including the making up of any deficiencies in any such account, subaccount or fund resulting from lack of Revenues or other payments sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account, subaccount or fund subsequent in priority:

FIRST: on or before each Interest Payment Date, the Trustee will deposit in the Series 2017 Interest Account an amount required to cause the aggregate amount on deposit in the Series 2017 Interest Account to equal the amount of interest coming due and payable on such Interest Payment Date on all Outstanding

Series 2017 Bonds. No deposit need be made into the Series 2017 Interest Account if the amount contained therein is at least equal to the interest becoming due and payable upon all Outstanding Series 2017 Bonds on the next succeeding Interest Payment Date. All amounts on deposit in the Series 2017 Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Series 2017 Bonds as it becomes due and payable (including accrued interest on any Series 2017 Bonds redeemed prior to maturity). All amounts on deposit in the Series 2017 Interest Account on the first day of any Bond Year, to the extent not required to pay any interest then having come due and payable on the Outstanding Series 2017 Bonds, will be retained in or withdrawn from the Series 2017 Interest Account by the Trustee and: (a) in the absence of any written request as described in clause (b) of this paragraph: (i) such amounts will be retained in the Series 2017 Interest Account and credited toward the payment of interest on the Series 2017 Bonds on the next Interest Payment Date, or (ii) to the extent such amounts exceed the amount of interest payable on the Series 2017 Bonds on the next succeeding Interest Payment Date, such amounts will be transferred to the Series 2017 Principal Account and credited toward the payment of principal of the Series 2017 Bonds coming due the next March 1; and (b) at the written request of the Authority, transferred to the Authority, or to each of the Cities if so stated in the request. Any transfer to the Cities as described in clause (b) shall be in proportion to the Revenues (determined with reference solely to Revenues described in clause (a) of the definition of Revenues) received from each City; in each case to be used for any lawful purposes of the Authority or the Cities, as applicable;

SECOND: on or before each Interest Payment Date (or redemption date if not an Interest Payment Date) on which the principal of the Series 2017 Bonds is payable, the Trustee will deposit in the Series 2017 Principal Account an amount required to cause the aggregate amount on deposit in the Series 2017 Principal Account to equal the amount of principal coming due and payable on such Interest Payment Date or redemption date on all Outstanding Series 2017 Bonds, or the Redemption Price of the Series 2017 Bonds required to be redeemed on such Interest Payment Date or redemption date. All moneys in the Series 2017 Principal Account shall be used and withdrawn by the Trustee solely for the purposes of paying (a) the principal of the Series 2017 Bonds at the maturity thereof or (b) paying the Redemption Price on any Outstanding Series 2017 Bonds upon redemption. All amounts on deposit in the Series 2017 Principal Account on the first day of any Bond Year, to the extent not required to pay any principal of the Outstanding Series 2017 Bonds then having come due and payable, will be retained in or withdrawn from the Series 2017 Principal Account by the Trustee and: (i) in the absence of any written request as described in clause (ii) of this paragraph, such amounts shall be retained in the Series 2017 Principal Account and credited toward the payment of principal of the Series 2017 Bonds on the next succeeding March 1 (or redemption date, if earlier); and (ii) at the written request of the Authority, transferred to the Authority, or to each of the Cities if so stated in the request. Any transfer to the Cities as described in clause (ii) shall be in proportion to the Revenues (determined with reference solely to Revenues described in clause (a) of the definition of Revenues) received from each City; in each case to be used for any lawful purposes of the Authority or the Cities, as applicable; and

THIRD: to the Series 2017 Rebate Fund all amounts required by the Tax Certificate to be deposited therein.

Series 2017 Rebate Fund. Compliance by the Authority and each City with each rebate requirement under the Tax Certificate and the Series 2017 Loan Agreements will be funded and administered by the Trustee, solely under the instructions of the Authority, through the Series 2017 Rebate Fund. The Trustee has no liability or duty to enforce compliance by the Authority or either City with the Tax Certificate or any tax covenants, nor is the Trustee responsible for calculating rebate amounts or the sufficiency of any rebate report or calculation. The Trustee has no independent duty to review rebate calculations or the applicability of the Code; its sole obligation is to act under the Authority's instructions. Compliance with each Series 2017 Rebate Requirement will survive defeasance or full payment of the Series 2017 Bonds.

Series 2017 Project Fund. Except as described below, all moneys in the Series 2017 Project Fund will be. The Trustee will disburse funds to pay Series 2017 Project Costs only by requisition of the Authority. Upon completion of the Project (when the Authority delivers Certificate of Completion to the Trustee), the Trustee will transfer any remaining funds to the Series 2017 Interest Account.

Costs of Issuance Fund. The Trustee will pay certain Costs of Issuance from the Costs of Issuance Fund pursuant to Authority requisitions. At the Authority's request or 180 days after delivery of the Series 2017 Bonds, the Trustee will transfer any remaining balance in the Fund to the Series 2017 Project Fund.

Investment of Funds and Accounts

In general, moneys in any Indenture fund or account will be invested by the Trustee in Permitted Investments as directed by the Authority. The Trustee is not required to verify that any investment is an "Permitted Investment" as described above in "**PART ONE: CERTAIN DEFINITIONS.**" Unless the Authority directs otherwise, the Trustee will invest solely in money market mutual funds invested solely in Government Obligations or categories (b), (c) or (d) as described above. Eligible money market mutual funds will include any funds for which the Trustee or any of its affiliates serves as an investment provider or otherwise. All Permitted Investments are subject to limitations set forth in the Series 2017 Indenture, limitations as to maturities and other limitations or requirements consistent with the foregoing that the Authority may direct. The Trustee may trade with itself or with any of its affiliates in the purchase and sale of Permitted Investments.

Moneys in all Indenture funds and accounts (other than the Reserve Account) will be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Series 2017 Indenture. Moneys in the Reserve Account will be invested in Permitted Investments with a maturity of or ability to withdraw in full not more than five years after the date of investment. Permitted Investments purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Trustee may deliver such Permitted Investments for repurchase under such agreement. Permitted Investments that are registrable securities will be registered in the name of the Trustee or its nominee.

All interest, profits and other income received from the investment of moneys in the Series 2017 Rebate Fund will be deposited when received in said Fund. All interest, profits and other income received from the investment of moneys in any other Indenture fund or account will be deposited when received: (a) before the Trustee receives the Authority's Certificate of Completion of the Project, in the Series 2017 Project Fund; and (b) thereafter, in the Series 2017 Revenue Fund. Interest received that was accrued and paid in the purchase price of an Investment Security will be credited to corresponding Indenture fund or account.

Permitted Investments acquired as an investment of moneys in any Indenture fund or account will be credited to that fund or account. The balance held in any Indenture fund or account (other than the Reserve Account) will be calculated according to the value of the Permitted Investments credited to such fund or account, as the lower of cost (excluding accrued interest after the first payment of interest following acquisition) or market value (plus, prior to the first payment of interest following acquisition, the amount of interest paid as part of the purchase price).

The Authority acknowledges that regulations of the Comptroller of the Currency grant the Authority the right to receive broker confirmations of security transactions as they occur. The Authority waives such notification to the extent permitted by law and acknowledge that the Authority will receive periodic cash transaction statements detailing all investment transactions. Unless contrary to any investment instructions, account statements constitute written confirmation by the Authority that the investment transactions confirmed in the statements conform to their instructions, absent their notice to the Trustee to the contrary within 30 days after the statement date.

Covenants of the Authority

Punctuality. The Authority shall punctually pay or cause to be paid the principal of, Redemption Price, and interest to become due in respect of all the Series 2017 Bonds, in strict conformity with the terms of the Series 2017 Bonds and the Series 2017 Indenture, but only out of Revenues and other assets pledged for such payment as provided in the Series 2017 Indenture.

No Extensions. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Series 2017 Bonds or the time of payment of any claims for interest by the purchase or funding of such Series 2017 Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Series 2017 Bonds or the time of payment of any such claims for interest shall be extended, such Series 2017 Bonds or claims for interest shall not be entitled, in case of any default under the Series 2017 Indenture, to the benefits of the Series 2017 Indenture, except subject to the prior payment in full of the principal of all of the Series 2017 Bonds then Outstanding and of all claims for interest thereon which are not extended. Nonetheless, the issuance of Refunding Bonds by the Authority is not an extension of maturity of Series 2017 Bonds.

Against Encumbrances. Except as expressly permitted under the Series 2017 Indenture, or in connection with the issuance of any Subordinate Debt, the Authority shall not create any pledge, lien, charge or other encumbrance on the Revenues and other assets pledged or assigned under the Series 2017 Indenture while any of the Series 2017 Bonds are Outstanding, except the pledge and assignment created by the Series 2017 Indenture, and the Authority will assist the Trustee in contesting any such pledge, lien, charge or other encumbrance.

Maintenance and Operation of Wastewater Enterprise Facilities. The Authority covenants to maintain and operate the Wastewater Enterprise Facilities in an efficient and economical manner, and to operate, maintain, preserve and secure the Wastewater Enterprise Facilities in good repair and working order.

No Sale or Eminent Domain as to Wastewater Enterprise Facilities. The Authority will not sell, lease or otherwise dispose of the Wastewater Enterprise Facilities or any part thereof essential to the proper operation of the Wastewater Enterprise Facilities or the maintenance of Revenues, except as expressly permitted in the Series 2017 Indenture. The Authority will not enter into any lease or agreement which impairs the operation of the Wastewater Enterprise Facilities or any part thereof necessary to realize adequate Revenues for the payment of Debt Service on the Series 2017 Bonds or which would otherwise impair the rights of Owners of Series 2017 Bonds with respect to Revenues or the operation of the Wastewater Enterprise Facilities. Any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Wastewater Enterprise Facilities, or any material or equipment which has worn out or otherwise is no longer useful for such purposes, may be sold if such sale in and of itself will not reduce Revenues. Any amounts received as awards as a result of the taking of all or any part of the Wastewater Enterprise Facilities by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the Authority, shall either (a) be used for the acquisition or construction of improvements or extensions of the Wastewater Enterprise Facilities or (b) be deposited in the Series 2017 Revenue Fund.

Insurance. The Authority covenants to maintain insurance on the Wastewater Enterprise Facilities as customarily maintained similar facilities against accident, loss or damage. The Authority may maintain insurance provided by the California Sanitation Risk Management Authority (“CSRMA”) a joint powers authority organized under the Act and provisions of the California Government Code about insurance and self-insurance coverage for local public entities like the Authority. If any useful part of the Water Enterprise Facilities is damaged or destroyed, it must be restored to use. The Net Proceeds of insurance must be used for repair, reconstruction, restoration or replacement of the damaged or destroyed portions of the Water Enterprise Facilities. Insurance must be provided by insurers in good standing in the State, and CSRMA is permitted to pool the self-insurance claims of two or more local public entities. On that basis, claims or losses payable to the Authority or may be in the form of self-insurance maintained by or on behalf of the Authority (as is the case with CSRMA).

The Series 2017 Loan Agreements. The Trustee, as assignee of the Authority’s rights under the Series 2017 Loan Agreements, shall promptly collect all amounts due from the Cities under the Series 2017 Loan Agreements, exercise all assigned rights and enforce those rights as well as all obligations of the Cities. Excepting amendments or restatements for the issuance of Additional Bonds, the Series 2017 Loan Agreements may not be amended or terminated, and none of the Authority, the Trustee or the Cities may consent to any such amendment without the written consent of the Owners of a majority in aggregate principal amount of the Series 2017 Bonds then Outstanding; however, an amendment, modification or termination may be made without the consent of any of the Owners of the Series 2017 Bonds if is for any of the following purposes:

- to add to the covenants and agreements of, or to limit or surrender any rights or power reserved to or conferred upon, either or both of the Cities in the applicable Series 2017 Loan Agreements; or
- to cure any ambiguity or defective provision, or for other purposes either or both of the Cities may deem necessary or desirable, no such provision will become effective if it materially and adversely affects the interests of the Owners of the Series 2017 Bonds; or
- to amend any provision relating to the Code, but only if and to the extent the amendment will not adversely affect the exclusion from gross income of interest on any Series 2017 Bonds under the Code, as confirmed with a Favorable Opinion of Bond Counsel.

Additional Obligations Payable from Revenues. Unless permitted under the Series 2017 Indenture, the Authority shall not issue or incur additional bonds, notes or other indebtedness payable, in whole or in part, from the Revenues.

Waivers of Laws. The Authority may not claim or take advantage of any stay or extension of law affecting its covenants and agreements in the Series 2017 Indenture or in the Series 2017 Bonds, and to the extent permitted by law, the Authority waives benefit or advantage of any such law.

Further Assurances. At the request of the Trustee or any Owner of any Series 2017 Bond, the Authority will make, execute and deliver further indentures, instruments and assurances and promptly do or cause to be done anything reasonably necessary or proper to carry out the intent or to facilitate its performance of the Series 2017 Indenture as assurance and confirmation of the rights and benefits of Owners of the Series 2017 Bonds under the Series 2017 Indenture and more fully vest in the Trustee and the Owners of the Series 2017 Bonds all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred on them in the Series 2017 Indenture and the Series 2017 Loan Agreements.

Events of Default

Any of these events is an “Event of Default”: (a) default in the due and punctual payment of the principal or Redemption Price of any Series 2017 Bond when and as due and payable, whether at maturity, by redemption, by declaration or otherwise; (b) default in the due and punctual payment of interest on any Series 2017 Bond when and as due and payable; (c) default by the Authority regarding its covenants, agreements or conditions in the Series 2017 Indenture or the Series 2017 Bonds if the default continues for 60 days after the Trustee provides notice of the default to the Authority and requires the Authority to remedy it (or the Owners of 25% or more aggregate principal amount of Series 2017 Bonds then Outstanding provide such notice to the Authority); or (d) a Loan Default Event described below under “**PART THREE: THE SERIES 2017 LOAN AGREEMENTS – Events of Default.**”

Acceleration of Maturities

If an Event of Default occurs and persists, and the Trustee gives written notice to the Authority, the Trustee may (but is not required to) declare the principal of and interest on the Series 2017 Bonds immediately due and payable, without regard to any scheduled maturity or Interest Payment Date. If the Trustee accelerates the maturities of the Series 2017 Bonds in that manner, the Authority must pay immediately all principal of and accrued interest on the Series 2017 Bonds. Nonetheless, the Trustee will rescind and annul its declaration and its consequences and waive any default if, before any judgment or decree is obtained or entered for the payment of all money due, the Authority deposits with the Trustee enough money to pay all overdue principal or Redemption Price of and interest on the Series 2017 Bonds, with interest on the overdue principal at the rates borne by the respective Series 2017 Bonds; along with the reasonable fees, charges and expenses of the Trustee (including the Trustee’s attorneys’ fees and disbursements), and the Authority cures all other defaults known to the Trustee (other than payment of accelerated principal and interest) to the Trustee’s satisfaction, or the Authority makes arrangements to cure that the Trustee deems adequate; but no rescission and annulment will extend to or affect any subsequent default or impair, nor will any rescission or annulment exhaust any right or power related to any subsequent default.

The Authority has no obligation, and instead the Trustee, without further direction from the Authority, may take steps, actions and proceedings to enforce any and all rights of the Authority under the Series 2017 Indenture or the Series 2017 Loan Agreements, including, without limitation, all rights to enforce the remedies upon the occurrence and continuation of an Event of Default and the obligations of the Cities under the Series 2017 Loan Agreements.

Application of Revenues and Other Funds After Default

If an Event of Default occurs and persists, the Trustee will apply all Revenues and other funds then held or later received by the Trustee (subject to the provisions of the Series 2017 Indenture and excluding money required to be deposited in the Series 2017 Rebate Fund) as follows and in the following order:

- (a) to pay any expenses that Trustee considers necessary to protect the interests of the Owners of the Series 2017 Bonds and to pay the reasonable fees and expenses of the Trustee (including the Trustee’s attorneys’ fees and disbursements) incurred in the course of performing the Trustee’s its powers and duties under the Series 2017 Indenture; and next

(b) to pay the principal or Redemption Price of and interest then due on the Series 2017 Bonds (upon presentation of the Series 2017 Bonds to be paid, whether for stamping any partial payment on any Series 2017 Bond not fully paid, for as surrender of any fully paid Series 2017 Bond, subject to the following:

(i) unless the principal of all Series 2017 Bonds has become or been declared due and payable:

FIRST, to pay all installments of interest then due in the order of the maturity of such installments, and if available funds are insufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to all Persons entitled to such payment, without any discrimination or preference; and

SECOND, to pay the unpaid principal (including mandatory sinking fund payments) or Redemption Price of any Series 2017 Bonds then due, whether at maturity or by redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Series 2017 Bonds, and if available funds are insufficient to pay in full all Series 2017 Bonds due on any date, together with interest, then to the payment of Series 2017 ratably, according to the amounts of principal or Redemption Price then due, to all Persons entitled to such payment, without any discrimination or preference; and

(ii) if the principal of all Series 2017 Bonds has become or been declared due and payable, to pay the principal and interest then due and unpaid on the Series 2017 Bonds, with interest on the overdue principal at the rate borne by the respective Series 2017 Bonds, and if available funds are insufficient to pay in full all amounts then due and unpaid, then to the payment of Series 2017 ratably, according to the amounts of principal or Redemption Price then due, to all Persons entitled to such payment, without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, or of any Series 2017 Bond over any other Series 2017 Bond, according to the amounts due respectively for principal and interest, to the Persons entitled to such payments, without any discrimination or preference.

Limitation on Series 2017 Bond Owners' Right To Sue

As attorney-in-fact of the Owners of the Series 2017 Bonds for the purpose of exercising and prosecuting on their behalf any rights and remedies available to such Owners under the Series 2017 Bonds, the Series 2017 Indenture, the Series 2017 Loan Agreements or applicable provisions of law, when an Event of Default occurs and persists, or on any other occasion giving the Trustee the right to represent the Owners of the Series 2017 Bonds, the Trustee in its discretion may, and upon the written request of the Owners of not less than 25% in aggregate principal amount of the Series 2017 Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus, or other proceedings as it deems most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement in the Series 2017 Indenture, or for the execution of any power granted under the Series 2017 Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the provisions of the Series 2017 Bonds, the Series 2017 Indenture, the Series 2017 Loan Agreements or applicable provisions of any law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Series 2017 Indenture, pending such proceedings. All rights of action under the Series 2017 Indenture or the Series 2017 Bonds or otherwise may be prosecuted and enforced by the Trustee without possession of any Series 2017 Bonds or the production of Series 2017 Bonds in any related proceeding, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all Owners of Series 2017 Bonds, subject to all provisions of the Series 2017 Indenture (including without limitation provisions of the Series 2017 Indenture pertaining to the Trustee).

In any case, the Owners of a majority in aggregate principal amount of the Series 2017 Bonds then Outstanding, shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnifying the Trustee to its satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee under the Series 2017 Indenture; provided that: (a) such direction shall not be otherwise than in accordance with law and the provisions of the Series 2017 Indenture; (b) the Trustee shall have the right to decline to follow any such direction if the Trustee considers such to be unjustly prejudicial to any Owners of Series 2017 Bonds not parties to such direction, it being understood that (subject to provisions of the Series 2017

Indenture pertaining to the Trustee) the Trustee shall have no duty to ascertain whether or not such action or forbearance may be unduly prejudicial to Owners of Series 2017 Bonds; and (c) such direction shall not involve the Trustee in personal liability.

No Owner of any Series 2017 Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Series 2017 Indenture, the Series 2017 Loan Agreements or applicable provisions of any law with respect to such Series 2017 Bond, unless all of the following events and conditions have occurred or been satisfied: (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than 25% in aggregate principal amount of the Series 2017 Bonds then Outstanding shall have made written request to the Trustee to exercise the powers granted to it or to institute such suit, action or proceeding in its own name; (c) such Owner or said Owners shall have tendered to the Trustee indemnity satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for 60 days after the request and indemnity are made to the Trustee. Such notification, request, tender of indemnity, and refusal or omission will always be conditions precedent to the exercise by any Owner of Series 2017 Bonds of any remedy under the Series 2017 Indenture or under law; it being understood and intended that no one or more Owners of Series 2017 Bonds shall have any right in any manner or by any action to affect, disturb or prejudice the security of the Series 2017 Indenture or the rights of any other Owners of Series 2017 Bonds, or to enforce any right under the Series 2017 Indenture, the Series 2017 Loan Agreements or applicable provisions of any law with respect to the Series 2017 Bonds, except as provided in the Series 2017 Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained as provided in the Series 2017 Indenture and for the benefit and protection of all Owners of the Outstanding Series 2017 Bonds, subject to the provisions of the Series 2017 Indenture (including without limitation provisions of the Series 2017 Indenture pertaining to the Trustee).

Absolute Obligation of the Authority

The Series 2017 Indenture provides that nothing in it or the Series 2017 Bonds will affect or impair the Authority's absolute and unconditional obligation to pay the principal or Redemption Price of and interest on the Series 2017 Bonds to the respective Owners of the Series 2017 Bonds at their respective dates of maturity, or upon redemption, but only out of the Revenues and other assets pledged under the Series 2017 Indenture, and not otherwise, or affect or impair the absolute and unconditional right of Series 2017 Bond Owners to enforce such payment by virtue of the contract embodied in the Series 2017 Bonds.

Termination of Proceedings

Any proceedings taken by the Trustee or any Owner of Series 2017 Bonds regarding any Event of Default that is discontinued or abandoned or determined adversely to the Trustee or Owners of Series 2017 Bonds, then, subject to any determination in such proceedings, the Authority, the Trustee and the Owners of Series 2017 Bonds will be restored to their former positions and rights, and all rights, remedies, powers and duties of the Authority, the Trustee and the Owners of Series 2017 Bonds will continue as though no proceedings had been taken.

Remedies Not Exclusive

No remedy conferred on or reserved to the Trustee or Owners of the Series 2017 Bonds by the Series 2017 Indenture is intended to exclude any other remedy, and each remedy, to the extent permitted by law, is cumulative and in addition to any other remedy under the Series 2017 Indenture, or now or later existing at law or in equity, or otherwise.

No Waiver of Default

No delay or omission of the Trustee or any Owner of the Series 2017 Bonds to exercise any right or power arising upon the occurrence of any default will impair any right or waive or acquiesce in any such default; and every power and remedy given by the Series 2017 Indenture to the Trustee or the Owners of the Series 2017 Bonds may be exercised from time to time, as often as No delay or omission of the Trustee or of any Owner of the Series 2017 Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Series 2017 Indenture to the Trustee or to the Owners of the Series 2017 Bonds may be exercised from time to time and as often as may be deemed expedient.

Duties, Immunities and Liabilities of Trustee

Appointment; Standard of Care. The Authority has appointed MUFG Union Bank, N.A., a national banking association, as the initial Trustee. Prior to any Event of Default, and after the cure of all Events of Default which have occurred, the Trustee will perform only its duties specifically set forth in the Series 2017 Indenture, and, except to the extent required by law, no implied covenants or obligations will be read into the Series 2017 Indenture against the Trustee. While any Event of Default remains uncured, The Trustee shall exercise rights and powers vested in it by the Series 2017 Indenture and use the same degree of care and skill in their exercise as a prudent Person would exercise or use under the circumstances in the conduct of such Person's own affairs.

Removal of Trustee. Unless an Event of Default has happened and not been cured, the Authority may remove the Trustee, and the Authority must remove the Trustee at the written request of the Owners of at least a majority in aggregate principal amount of the Series 2017 Bonds then Outstanding (or their attorneys duly authorized in writing) or if the Trustee ceases to be eligible to act as Trustee under the Series 2017 Indenture or becomes incapable of acting, or is adjudged bankrupt or insolvent, or a receiver of the Trustee or its property is appointed, or any public officer takes control or charge of the Trustee or its property or affairs for rehabilitation, conservation or liquidation, in each case by written notice to the Trustee, and then the Authority will appoint a successor Trustee.

Resignation of Trustee. At any time, the Trustee may resign by its written notice of resignation to the Authority and by giving the Series 2017 Bond Owners notice of its resignation by mail at the addresses shown on the Registration Books. Upon its receipt of the Trustee's resignation notice, the Authority will promptly appoint a successor Trustee.

Appointment of Successor Trustees. The Trustee will not be relieved of its duties under the Series 2017 Indenture until its successor Trustee has accepted its appointment and assumed the duties of Trustee under the Series 2017 Indenture. Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee will have been appointed and have accepted appointment within 30 days after giving notice of removal or notice of resignation, the resigning Trustee or any Series 2017 Bond Owner (on behalf of all Series 2017 Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after any notice it may deem proper, appoint a successor Trustee. Any successor Trustee will accept its appointment by executing and delivering to the Authority and the predecessor Trustee its written acceptance, and the successor Trustee, without any further act, deed or conveyance, will become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of the predecessor Trustee, with the same effect as if the successor Trustee had been named the predecessor Trustee in the Series 2017 Indenture. However, at the successor Trustee's request, the predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do any other things as the successor Trustee may reasonably require for more fully and certainly vesting in and confirming to the successor Trustee all the right, title and interest of the predecessor Trustee in and to any property the predecessor held under the Series 2017 Indenture, and the predecessor Trustee will pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Series 2017 Indenture. At the successor Trustee's request, the Authority will execute and deliver any and all instruments the successor Trustee may reasonably require for more fully and certainly vesting in and confirming to the successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as described in this paragraph, the Authority will cause the successor Trustee to mail a notice of the succession of such Trustee under the Series 2017 Indenture to the Series 2017 Bond Owners at the addresses shown on the Registration Books.

Eligibility as Successor Trustee. Any successor Trustee must be a trust company or bank with the powers of a trust company having (or, in the case of a trust company or bank included in a bank holding company system, with a bank holding company having) a combined capital and surplus of at least \$100,000,000 and subject to supervision or examination by federal or state authority. If such trust company or bank publishes a report of condition at least annually, pursuant to law or requirements of any supervising or examining authority, then the combined capital and surplus of such trust company or bank will be deemed to be its combined capital and surplus as set forth in its most recently published report of condition. If any Trustee ceases to be eligible as described in this paragraph, the Trustee must resign immediately.

Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a

party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company is eligible as described in the preceding paragraph, will be the successor to such Trustee.

Liability of Trustee. The Trustee assumes no responsibility for statements by the Authority in the Series 2017 Indenture or the Series 2017 Bonds and makes no representations as to the legality, validity or sufficiency of the Series 2017 Indenture, the Series 2017 Loan Agreements or any other document related thereto, or of the Series 2017 Bonds, and has no responsibility other than its duties or obligations under the Series 2017 Indenture or the Series 2017 Bonds. The Trustee is responsible for its representations contained in its certificate of authentication on the Series 2017 Bonds. The Trustee is not liable in connection with the performance of its duties under the Series 2017 Indenture, except for its own negligence or willful misconduct except as described below. The Trustee may become the Owner of Series 2017 Bonds with the same rights it would have if it were not the Trustee, and, to the extent permitted by law, may act as depositary for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of Series 2017 Bonds, whether or not the committee represents the Owners of a majority in principal amount of the Series 2017 Bonds then Outstanding. The Trustee is not liable for any error of judgment or action taken or made in good faith and reasonably believed to be authorized or within the discretion, rights or powers conferred on it by the Series 2017 Indenture, unless the Trustee was negligent about the error or action. The Trustee is not liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount (or lesser principal amount as provided in the Series 2017 Indenture) of the Series 2017 Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Series 2017 Indenture. The Trustee has no obligation to exercise any of the rights or powers vested in it by the Series 2017 Indenture at the request, order or direction of any of the Owners of Series 2017 Bonds pursuant to the Series 2017 Indenture unless they have offered the Trustee security or indemnity acceptable to it against the costs, expenses and liabilities which may be incurred.

Trustee Expenditures. The Trustee is not required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Series 2017 Indenture, or in the exercise of any of its rights or powers.

Protections and Limitations on Responsibilities. All provisions in the Series 2017 Indenture, the Series 2017 Loan Agreements or other documents relating to the issuance of the Series 2017 Bonds, relating to the conduct, or affecting the liability of or affording protection to the Trustee are subject to the provisions described in this summary. The Trustee is not required to investigate facts or matters in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document, but the Trustee, in its discretion and at its expense, may make further investigation or inquiry into such facts or matters as it deems fit, and, if the Trustee determines to make further inquiry or investigation, the Authority must assure that the Trustee will be entitled to examine the books, records and premises of the Authority and each of the Cities personally or by agent or attorney. The Trustee is not responsible for any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Series 2017 Bonds. The Trustee is not required to take notice nor deemed to have notice of any Event of Default under the Series 2017 Indenture (other than Events of Default with respect to the payment of Loan Installments or principal (or Redemption Price) of or interest on the Series 2017 Bonds), under the Series 2017 Loan Agreements or any other document related to the Series 2017 Bonds unless an officer in the corporate trust department of the Trustee has actual notice of the Event of Default or the Trustee is specifically notified in writing of such Event of Default by the Authority or the Owners of at least a majority in aggregate principal amount of Series 2017 Bonds then Outstanding. All notices or other instruments required to be delivered to the Trustee, must, in order to be effective, be delivered at the address of the Trustee provided under the Series 2017 Indenture, and, in the absence of such notice so delivered, the Trustee may conclusively assume that there is no Event of Default except as described above.

Reliance. The Trustee is protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document it believes to be genuine and signed or presented by the proper party or parties. Before the Trustee acts or refrains from acting, it may consult with counsel, who may be counsel of or to the Authority, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by the Trustee under the Series 2017 Indenture in good faith and in accordance therewith. With the exception of Persons in whose names Series 2017

Bonds are registered on the Registration Books, the Trustee shall not be bound to recognize any Person as the Owner of a Series 2017 Bond unless and until such Series 2017 Bond is submitted for inspection, if required, and the Owner's title thereto is satisfactorily established, if disputed. If the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Series 2017 Indenture, such matter (unless other pertinent evidence is specifically prescribed in the Series 2017 Indenture) may be deemed to be conclusively proved and established by a Certificate of the Authority, and such Certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Series 2017 Indenture in reliance upon such Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as the Trustee may deem reasonable.

Accounting Records; Financial Statements; Documents and Records. The Trustee will keep, or cause to be kept, proper books of record and account prepared in accordance with industry standards, in which complete and accurate entries will be made of all transactions relating to the receipt, investment, disbursement, allocation and application of the proceeds of the Series 2017 Bonds, the Revenues and all funds and accounts established by the Trustee under the Series 2017 Indenture. Such books of record and account shall be available for inspection by the Authority, either City and any Series 2017 Bond Owner, or any agent or representative duly authorized in writing by any of them, upon reasonable notice at reasonable hours and under reasonable circumstances. All documents received by the Trustee under the Series 2017 Indenture will be retained in the Trustee's possession, subject to its records retention policy, and at all reasonable times be subject to the inspection of the Authority, the Cities, and any Owner of any Series 2017 Bond, and their agents and representatives duly authorized in writing (if such Person provides to the Trustee 30 days' prior written notice and such notice specifies a date upon which such inspection shall occur), during normal business hours and under reasonable conditions.

Performance of Duties. The Trustee may execute any of the trusts or powers and perform the duties required of it provided or required under the Series 2017 Indenture either directly or by or through attorneys or agents, and the Trustee is entitled to advice of counsel concerning all matters of trust and its duties under the Series 2017 Indenture and will be absolutely protected in relying thereon. The Trustee is not responsible for the misconduct of anyone it selects with reasonable care.

Amendments Permitted

The Series 2017 Indenture and the rights and obligations of the Authority, the Trustee and the Owners of the Series 2017 Bonds may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into only with the written consent of the Owners of a majority in aggregate principal amount of the Series 2017 Bonds then Outstanding filed with the Trustee (as described below). No such modification or amendment: (a) will extend the fixed maturity of any Series 2017 Bond, or reduce its principal amount, or extend the time of payment or reduce the amount of any mandatory sinking fund payment, or reduce the rate of interest thereon, or change the method of determining the accrual of interest thereon, or extend the time of payment of interest thereon, or reduce any Redemption Price payable upon the redemption thereof, without the consent of the Owner of each Series 2017 Bond so affected; or (b) reduce the aforesaid percentage of Series 2017 Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Series 2017 Indenture prior to or on a parity with the lien created by the Series 2017 Indenture (except as expressly permitted by the Series 2017 Indenture, as in the issuance of Additional Bonds), or deprive the Owners of the Series 2017 Bonds of the lien created by the Series 2017 Indenture on such Revenues and other assets (except as expressly provided in the Series 2017 Indenture), without the consent of the Owners of all Series 2017 Bonds then Outstanding. It will not be necessary for the consent of the Series 2017 Bond Owners to approve the particular form of any Supplemental Indenture, but it will be sufficient if their consent approves its substance. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture as described in this paragraph, the Trustee will mail a notice, setting forth in general terms the substance of the Supplemental Indenture to the Series 2017 Bond Owners at the addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any Supplemental Indenture.

If the Authority requests the Trustee to enter into a Supplemental Indenture, the Trustee will send by first class mail notice of the proposed execution of such Supplemental Indenture to the Owners of the Series 2017 Bonds at their addresses last appearing in the Registration Books. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and state that copies thereof are on file at the designated office of the Trustee for

inspection by all Owners. If, within 60 days after the notice is mailed, the Owners of the requisite principal amount of the Series 2017 Bonds Outstanding at the time of the execution of any such Supplemental Indenture shall have consented to and approved the execution thereof, no Owner of any Series 2017 Bond will have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof.

In any event, the Series 2017 Indenture and the rights and obligations of the Authority, the Trustee and the Owners of the Series 2017 Bonds may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Series 2017 Bond Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Authority in the Series 2017 Indenture any other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Series 2017 Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority in the Series 2017 Indenture; provided, that no such covenant, agreement, pledge, assignment or surrender will materially adversely affect the interests of the Owners of the Series 2017 Bonds;

(b) to cure or correct any ambiguity, inconsistency, omission or defective provision in the Series 2017 Indenture, or regarding matters or questions arising under the Series 2017 Indenture, as the Authority or the Trustee may deem necessary or desirable and not inconsistent with the Series 2017 Indenture, and which will not materially adversely affect the interests of the Owners of the Series 2017 Bonds;

(c) to modify, amend or supplement the Series 2017 Indenture as required to permit the qualification of the Series 2017 Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute then in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which will not materially adversely affect the interests of the Owners of the Series 2017 Bonds;

(d) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of the interest on the Series 2017 Bonds, including the amendment of the Tax Certificate;

(e) to provide for the issuance of Additional Bonds; or

(f) to make any other changes which will not materially adversely affect the interests of the Owners of the Series 2017 Bonds.

At its discretion, the Trustee may enter into any authorized Supplemental Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Series 2017 Indenture or otherwise. In executing, or accepting the additional trusts created by such Supplemental Indenture or the modifications thereby of the trusts created by the Series 2017 Indenture, the Trustee will be entitled to receive, and will be fully protected in relying upon, an Opinion of Counsel stating that the execution of such Supplemental Indenture is authorized by and in compliance with the provisions of the Series 2017 Indenture.

Discharge or Defeasance of Indenture

The Series 2017 Bonds may be paid by the Authority or the Trustee on behalf of the Authority in any of these ways: (a) by paying or causing to be paid the principal or Redemption Price of and interest on all Series 2017 Bonds Outstanding, as and when the same become due and payable; (b) by depositing with the Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided in the Series 2017 Indenture) to pay when due or redeem all Series 2017 Bonds then Outstanding; or (c) by delivering to the Trustee for cancellation all Series 2017 Bonds then Outstanding.

Discharge. If the Authority pays Series 2017 Bonds then Outstanding and also pays or causes to be paid all other sums payable by the Authority under the Series 2017 Indenture, then and in that case at the election of the Authority (evidenced by a Certificate of the Authority filed with the Trustee signifying the Authority's intent to discharge all such indebtedness and the Series 2017 Indenture), and notwithstanding that any Series 2017 Bonds have not been surrendered for payment, the Series 2017 Indenture and the pledge of Revenues and other assets made

under the Series 2017 Indenture and all covenants, agreements and other obligations of the Authority under the Series 2017 Indenture (except as otherwise provided in the Series 2017 Indenture) will cease, terminate, become void and be completely discharged and satisfied. In such event, upon the request of the Authority, the Trustee will cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and will execute and deliver to the Authority all such instruments as may be necessary to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver to the Borrower all moneys or securities or other property held by the Trustee pursuant to the provisions of the Series 2017 Indenture which are not required for the payment or redemption of Series 2017 Bonds not theretofore surrendered for such payment or redemption; provided that in all events moneys in the Rebate Fund will be subject to the provisions of the Series 2017 Indenture and the Tax Certificate.

Defeasance. In order to defease the Series 2017 Bonds and discharge the Series 2017 Indenture by depositing money or securities in the amount necessary to pay or redeem any Series 2017 Bonds, the money or securities deposited or held may include money or securities held by the Trustee in the funds and accounts established under the Series 2017 Indenture (other than the Series 2017 Rebate Fund) and shall be (a) cash or (b) Federal Securities (not callable by the issuer thereof prior to maturity), the principal of and interest on which when due (without any income from the reinvestment thereof) will provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Series 2017 Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due; provided that, in the case of Series 2017 Bonds which are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Series 2017 Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice. The sufficiency of the deposits described in this paragraph must be certified by a firm of independent certified public accountants.

Funds Held After Discharge. Money held by the Trustee in trust for the payment of the principal of, or interest on, any Series 2017 Bonds and remaining unclaimed for the period which is one year less than the statutory escheat period after the principal of all of the Series 2017 Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration), if the moneys were so held at such date, or the period which is one year less than the statutory escheat period after the date of deposit of such moneys if deposited after said date when all of the Series 2017 Bonds became due and payable, will be repaid to the Authority free from the trusts created by the Series 2017 Indenture upon receipt of an indemnification agreement acceptable to the Authority and the Trustee indemnifying the Authority and the Trustee with respect to claims of Owners of Series 2017 Bonds which have not yet been paid, and all liability of the Trustee with respect to such money shall thereupon cease; provided, however, that before the repayment of money to the Authority, the Trustee may (at the cost of the Authority) first mail to the Owners of Series 2017 Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in form deemed appropriate by the Trustee, with respect to the Series 2017 Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the money held for the payment of the Series 2017 Bonds.

PART THREE: THE SERIES 2017 LOAN AGREEMENTS

This summary of the Series 2017 Loan Agreements excludes certain provisions described in “SECURITY AND SOURCES OF PAYMENT OF THE SERIES 2017 BONDS – Special Obligations.”

Certain Covenants of Each of the Cities

In its respective Series 2017 Loan Agreement, each City covenants as follows:

Punctual Payment of Series 2017 Loan. Each City will punctually pay or cause to be paid the principal of and interest on its respective Series 2017 Loan together with any prepayment premiums thereon, in strict conformity with the terms of its respective Series 2017 Loan Agreement, and it will faithfully observe and perform all of the conditions, covenants and requirements of its Series 2017 Loan Agreement.

Limitation on Superior Debt. Each City covenants that, so long as its respective Series 2017 Loan remains unpaid, such City shall not issue any bonds, notes or other obligations, enter into any agreement or otherwise incur any loan, advances or indebtedness, which are in any case secured by a lien on all or any part of the System Revenues of such City which is superior to or on a parity with the lien established under its Series 2017 Loan Agreement for the security of its Series 2017 Loan, excepting only Parity Debt issued as described in “SECURITY

AND SOURCES OF PAYMENT OF THE SERIES 2017 BONDS – Outstanding and Additional Parity Debt.” Each City may issue or incur loans, bonds, notes, advances or other indebtedness which are unsecured or which are secured by any lien on the System Revenues of such City that is subordinate to the lien established under its Series 2017 Loan Agreement.

Payment of Claims. Each City will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the properties owned by such City or upon the System Revenues of such City or any part thereof, or upon any funds in the hands of the Trustee, or which might impair the security of its Series 2017 Loan. Nonetheless, each City will not be required to pay such claims so long as such City, in good faith, contests their validity.

Books and Records; Annual Review of System Revenues. Each City will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of such City and the Authority, in which complete and correct entries shall be made of all transactions relating to the System Revenues of such City. Such books of record and accounts shall at all times during business hours be subject, upon prior written request, to the reasonable inspection of the Authority, the Trustee and the Owners of any Series 2017 Bonds then Outstanding, or their representatives authorized in writing. Each City shall review in each fiscal year, and take appropriate action to provide for, the future availability of sufficient System Revenues of such City for the timely payments of debt service on its Series 2017 Loan and any Parity Debt.

Taxes and Other Charges. Each City will pay and discharge, or cause to be paid and discharged, all taxes, service charges, assessments and other governmental charges as they become due and which are lawfully imposed upon such City or the properties it then owns. Nonetheless, each City will not be required to pay such taxes, assessments or charges so long as such City, in good faith, contests their validity. Each City will duly observe and conform with all valid requirements of any governmental authority relative to its respective City System or any part thereof.

Expenses and Indemnification. Upon the occurrence of an Event of Default, the Trustee shall have a first lien on the System Revenues of the respective City to secure the payment to the Trustee of all fees, costs and expenses, including reasonable compensation to its experts, attorneys and counsel incurred in declaring such Event of Default and in exercising the rights and remedies under such City’s Series 2017 Loan Agreement. Each City further covenants and agrees to indemnify and save the Trustee and its officers, directors, agents and employees, harmless against any losses, expenses and liabilities which the Trustee may incur arising out of or in the exercise and performance of its powers and duties under the Series 2017 Indenture, including the costs and expenses of defending against any claim of liability, but excluding any and all losses, expenses and liabilities which are due to the negligence or willful misconduct of the Trustee, its officers, directors, agents or employees. Each City’s respective indemnification obligations will survive the resignation or removal of the Trustee under the Series 2017 Indenture, this Series 2017 Loan Agreement and payment of the Series 2017 Loan and the discharge of this Series 2017 Loan Agreement.

Limitation on Private Activity. Each City shall assure that the proceeds of its respective Series 2017 Loan are not used so as to cause the Series 2017 Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

No Federal Guarantee. Neither City may take any action or permit or suffer any action to be taken if the result of the action would be to cause any of the Series 2017 Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

Events of Default

Each of the following events will constitute and be referred to in the respective Series 2017 Loan Agreement of each City as a “Loan Default Event”:

(a) Failure to pay the principal of or interest on or prepayment premium (if any) on its respective Series 2017 Loan or any Parity Debt as and when due and payable.

(b) Failure to observe and perform any of the covenants, agreements or conditions on the part of the respective City under its Series 2017 Loan Agreement (or, until no 2011 Bonds remain Outstanding under the 2011 Indenture, the 2011 Agreement), other than as referred to in the preceding subsection (a), for a period of

60 days after written notice specifying such failure and requesting that it be remedied has been given to such City by the Trustee, or to such City and the Trustee by the Owners of not less than 25% in aggregate principal amount of the Outstanding Series 2017 Bonds; provided, however, that if in the reasonable opinion of such City the failure stated in such notice can be corrected, but not within such 60-day period, the Trustee shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by such City within such 60-day period and diligently pursued until such failure is corrected; provided, that in no event shall the cure period specified above exceed 90 days.

(c) The filing by the respective City of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of such City, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of such City or of the whole or any substantial part of its property.

Remedies

If a Loan Default Event has occurred and is continuing of which the Trustee has actual knowledge or is deemed to have knowledge under the Series 2017 Indenture, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Outstanding Series 2017 Bonds the Trustee shall (1) declare the principal of the Series 2017 Loan of the respective City, together with the accrued interest on all unpaid Loan Installments thereof, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, and (2) exercise any other remedies available to the Trustee in law or at equity. Promptly upon obtaining actual knowledge or being deemed to have knowledge under the Series 2017 Indenture of the occurrence of an Event of Default, the Trustee shall give notice of such Event of Default to such City by telephone or other Electronic Means, promptly confirmed in writing. Nonetheless, if, at any time after the principal of such City's Series 2017 Loan shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, such City shall deposit with the Trustee a sum sufficient to pay all Loan Installments of principal of its Series 2017 Loan matured prior to such declaration and all accrued interest thereon, with interest on such overdue Loan Installments of principal and interest at the net effective rate then borne by the Outstanding Series 2017 Bonds, and the reasonable expenses of the Trustee (including but not limited to attorneys' fees), and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on such City's Series 2017 Loan due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of a majority in aggregate principal amount of the Outstanding Series 2017 Bonds may, by written notice to the Trustee and such City, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Event of Default

All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of either Series 2017 Loan Agreement, or otherwise held by the Trustee upon the occurrence of a Loan Default Event, shall be applied by the Trustee in the following order:

First, to the payment of the costs and expenses of the Trustee in declaring such Event of Default and in carrying out the powers and duties assigned to the Trustee by the Authority under the Series 2017 Indenture, including reasonable compensation to its agents, attorneys and counsel and other amounts owing to the Trustee and secured by the lien granted to the Trustee under the respective Series 2017 Loan Agreement; and

Second, to the payment of the whole amount of interest on and principal of the respective Series 2017 Loan then due and unpaid, with interest on overdue Loan Installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Series 2017 Bonds; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

(1) first, to the payment of all Loan Installments of interest on such Series 2017 Loan then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full,

(2) second, to the payment of principal of all Loan Installments of such Series 2017 Loan then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such principal in full,

(3) third, to the payment of principal of such Series 2017 Loan then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such principal in full, and

(4) fourth, to the payment of interest on overdue Loan Installments of principal and interest, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full.

No Waiver

Nothing in a City's respective Series 2017 Loan Agreement shall affect or impair the obligation of such City, which is absolute and unconditional, to pay from the System Revenues of such City and other amounts pledged under such Series 2017 Loan Agreement, the principal of and interest and premium (if any) on the respective Series 2017 Loan to the Trustee on the respective Interest Payment Dates, or affect or impair the right of action, which is also absolute and unconditional, of the Trustee to institute suit to enforce such payment by virtue of such Series 2017 Loan Agreement and the Series 2017 Indenture. No waiver with respect to any default under such Series 2017 Loan Agreement shall affect any subsequent default or impair any rights or remedies with respect to any subsequent default. No delay or omission of the Trustee to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Trustee by law, by the respective Series 2017 Loan Agreement or the Series 2017 Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee.

Effects of Outcome

If a suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Authority or the Trustee, as assignee of the Authority, Encinitas and the Trustee shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

Remedies Not Exclusive

No remedy conferred upon or reserved to the Authority, or to the Trustee as assignee of the Authority, under a City's respective Series 2017 Loan Agreement is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under such Series 2017 Loan Agreement or existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by law or in equity.

Discharge of Series 2017 Loan Agreement

If a respective City shall pay and discharge the entire indebtedness on its Series 2017 Loan in any one or more of the following ways: (a) by paying or causing to be paid the entire principal of and all interest and prepayment premiums (if any) on such Series 2017 Loan, as and when the same become due and payable; (b) by irrevocably depositing with the Trustee, in trust, at or before maturity, cash in an amount which, together with the available amounts then on deposit in any of the funds and accounts established pursuant to the Series 2017 Indenture or the respective Series 2017 Loan Agreement, is fully sufficient to pay all principal of and interest and prepayment premiums (if any) on such Series 2017 Loan; or (c) by irrevocably depositing with the Trustee or any other fiduciary, in trust, Federal Securities in such amount as an independent certified public accountant shall determine in a written report filed with the Trustee (upon which report the Trustee may conclusively rely) will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established pursuant to the Series 2017 Indenture or pursuant to such Series 2017 Loan Agreement, be fully sufficient to pay and discharge the indebtedness on such Series 2017 Loan (including all principal, interest and prepayment premiums) at or before maturity; then, at the election of such City, but only if the Series 2017 Bonds relating to such Series 2017 Loan Agreement have been fully paid or defeased, and all other amounts then due and payable under such Series 2017

Loan Agreement shall have been paid or provision for their payment made, the pledge of and lien upon the System Revenues of such City and other funds provided for in such Series 2017 Loan Agreement and all other obligations of such City and the Authority under such Series 2017 Loan Agreement with respect to such Series 2017 Loan shall cease and terminate, except only the obligation of such City to pay or cause to be paid to the Trustee, from the amounts so deposited with the Trustee or such other fiduciary, all sums due with respect to such Series 2017 Loan and all expenses and costs of the Trustee. The respective City will file notice of such election with the Authority and the Trustee. Any funds thereafter held by the Trustee with respect to such Series 2017 Loan Agreement, which are not required for the purposes of such Series 2017 Loan Agreement, will be paid to the respective City.

No Personal Liability

No member, officer, agent or employee of either City shall be individually or personally liable for the payment of the principal of or interest on such City's Series 2017 Loan; but no provision of such City's respective Series 2017 Loan Agreement shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

APPENDIX C

AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY, ENCINITAS AND SOLANA BEACH

SAN ELIJO JOINT POWERS AUTHORITY

Fiscal Year 2015-2016 Audited Financial Statements, with report of The Pun Group, LLP

CITY OF ENCINITAS

Fiscal Year 2015-2016 Consolidated Audited Financial Report, with report of The Pun Group, LLP

CITY OF SOLANA BEACH

Fiscal Year 2015-2016 Consolidated Audited Financial Report, with report of Lance, Soll & Lunghard, LLP

APPENDIX D

FORM OF BOND COUNSEL OPINION

THE FOLLOWING IS A PRELIMINARY DISCUSSION DRAFT OF AN OPINION BEING CONSIDERED FOR ISSUANCE BY PROCOPIO, CORY, HARGREAVES & SAVITCH, LLP. ISSUANCE OF ANY FINAL OPINION IS SUBJECT TO: (A) SATISFACTION OF ALL NECESSARY TRANSACTION CONDITIONS; (B) SATISFACTORY COMPLETION OF ALL NECESSARY DUE DILIGENCE; (C) REVIEW OF FINAL DRAFTS OF RELEVANT DOCUMENTS OPINED UPON; AND (D) REVIEW AND APPROVAL OF THE FINAL OPINION BY THE FIRM'S LEGAL OPINION COMMITTEE. SUBSTANTIAL REVISIONS MAY BE NECESSARY DEPENDING UPON THE DOCUMENTS OPINED UPON. THIS DRAFT HAS NOT BEEN APPROVED FOR ISSUANCE AS A FINAL OPINION.

[Date of Delivery]

San Elijo Joint Powers Authority
2695 Manchester Avenue
Cardiff by the Sea, California 92007

City of Encinitas
505 South Vulcan Avenue
Encinitas, California 92024

City of Solana Beach
380 Stevens Avenue, Suite 305
Solana Beach, California 92075

OPINION: \$_____ San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects)

Greetings:

We have acted as bond counsel ("Bond Counsel") to the San Elijo Joint Powers Authority (the "Authority") in connection with the issuance by the Authority of \$_____ aggregate principal amount of San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects) (the "Series 2017 Bonds"), pursuant to: (a) the Constitution and laws of the State of California, including Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with section 6500) of the Government Code of the State of California (the "Act"); (b) a resolution (the "Resolution") adopted by the Board of Directors of the Authority at its meeting held June 12, 2017; and (c) a Series 2017 Indenture of Trust, dated as of June 1, 2017 (the "Series 2017 Indenture") by and between the Authority and MUFJ Union Bank, N.A., as trustee (the "Trustee") thereunder. The Series 2017 Bonds are secured by loans (the "Series 2017 Loans") which have been made by the Authority to the City of Encinitas and to the City of Solana Beach, respectively (each, a "City," and together, the "Cities), pursuant to Series 2017 Loan Agreements, each dated as of June 1, 2017 (the "Series 2017 Loan Agreements"), by and among the respective Cities and the Authority. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

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

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

1. The Authority is a joint exercise of powers agency duly organized and validly existing under the laws of the State of California, with the full power to enter into the Indenture and the Series 2017 Loan Agreements, to perform the agreements on its part contained therein and to issue the Series 2017 Bonds.
2. The Cities are general law cities, both duly organized and validly existing under the laws of the State of California, with the full power to enter into the Series 2017 Loan Agreements and to perform the agreements on their part contained therein.

3. The Series 2017 Indenture and the Series 2017 Loan Agreements have been duly approved by the Authority and constitute valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms. The Series 2017 Indenture creates a valid first and exclusive lien on and pledge of the Revenues (as such term is defined in the Series 2017 Indenture) and other funds pledged thereby for the security of the Series 2017 Bonds, in accordance with the terms of the Series 2017 Indenture.

4. The Series 2017 Loan Agreements have been duly authorized by the Cities and constitute valid and binding obligations of the Cities enforceable against the respective Cities in accordance with their respective terms. Each of the respective Series 2017 Loan Agreements creates a valid first lien on and pledge of the Net Revenues (as such term is defined in the respective Series 2017 Loan Agreements) and other funds pledged thereby for the security of the respective Series 2017 Loans, in accordance with the terms of each of the respective Series 2017 Loan Agreements.

5. The Series 2017 Bonds have been duly authorized, executed and delivered by the Authority, and are valid and binding special obligations of the Authority, payable solely from the sources provided therefor in the Indenture.

6. Interest on the Series 2017 Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, that for the purpose of computing the alternative minimum tax imposed on such corporations (as defined for federal income tax purposes), such interest is required to be taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the Authority comply with all requirements of the Internal Revenue Code of 1986 which must be satisfied subsequent to the issuance of the Series 2017 Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The Authority has covenanted in the Indenture and in other instruments relating to the Series 2017 Bonds to comply with each of such requirements, and the Authority has full legal authority to make and comply with such covenants. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series 2017 Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series 2017 Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Series 2017 Bonds.

7. Interest on the Series 2017 Bonds is exempt from personal income taxation imposed by the State of California. We express no opinion regarding any other state or local tax consequences with respect to the Series 2017 Bonds.

The rights of the owners of the Series 2017 Bonds and the enforceability of the Series 2017 Bonds, the Series 2017 Indenture and the Series 2017 Loan Agreements are limited by and subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, and by equitable principles and the exercise of judicial discretion in appropriate cases. Equitable principles include, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and the limitations on legal remedies against governmental entities in California.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Respectfully submitted,

APPENDIX E

Form of Disclosure Agreement

THIS CONTINUING DISCLOSURE AGREEMENT (the “Disclosure Agreement”) is executed and delivered by San Elijo Joint Powers Authority (the “Issuer”), the City of Encinitas (“Encinitas”), and the City of Solana Beach (“Solana Beach”), in connection with the issuance and delivery by the Issuer of its 2017 Revenue Bonds (Clean Water Projects) (the “Series 2017 Bonds”). The Series 2017 Bonds are being issued pursuant to a Series 2017 Indenture of Trust, dated as of June 1, 2017 (the “Series 2017 Indenture”), by and between the Issuer and MUFG Union Bank, N.A. in its capacity as Trustee (the “Trustee”). The Issuer, Encinitas and Solana Beach each covenant as follows:

SECTION 1. Purpose of this Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer, Encinitas and Solana Beach, for the benefit of the Owners of the Series 2017 Bonds and in order to assist the Participating Underwriter in complying with the Rule. Applied Best Practices, LLC, in its capacity as the Dissemination Agent designated by the Issuer (the “Dissemination Agent”), has acknowledged and accepted this Disclosure Agreement at the express direction of the Issuer evidenced by the Issuer’s signature to this Disclosure Agreement. No party to this Disclosure Agreement or the transaction regarding the issuance and delivery of the Series 2017 Bonds shall have any right to rely on the Dissemination Agent for any purpose other than the performance of its duties under this Disclosure Agreement.

SECTION 2. Definitions. In addition to the definitions set forth in the Series 2017 Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean each Annual Report provided by the Issuer, together with each Annual Report required of Encinitas and Solana Beach, respectively, pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Disclosure Representative” shall mean the General Manager of the San Elijo Joint Powers Authority, the Finance Director of the City of Encinitas, and the City Manager of the City of Solana Beach or any respective designee of such officers, or such other officer or employee as the Issuer, Encinitas and Solana Beach shall designate in writing to the Dissemination Agent from time to time.

“Disclosure Requirements” shall have the meaning set forth in Section 6.13 of the Series 2017 Indenture.

“Dissemination Agent” shall mean, initially, Applied Best Practices, LLC, acting in its capacity as Dissemination Agent designated by the Issuer under this Disclosure Agreement, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the then current Dissemination Agent and the Issuer a written acceptance of such designation.

“EMMA” shall mean the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board (“MSRB”), which can be found at www.emma.msrb.org., or any other repository of disclosure information that may be designated by the SEC or the MSRB in the future.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“Participating Underwriter” shall mean Hilltop Securities Inc., currently at 2533 South Coast Highway 101, Suite 250, Cardiff-by-the-Sea, California 92007.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the United States Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934, as the same may be amended by the SEC from time to time.

“Series 2017 Bonds” means the San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects).

“Tax-Exempt” shall mean that interest on the Series 2017 Bonds is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preferences or otherwise includable

directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

SECTION 3. Provision of Annual Reports.

(a) The Issuer (together with Encinitas and Solana Beach) shall, or shall cause the Dissemination Agent upon its written direction to, not later than eight months after the end of the Issuer's fiscal year, commencing with the report for the fiscal year ending June 30, 2017, provide to EMMA an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer, Encinitas and Solana Beach may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

The Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. Each of the Issuer's, Encinitas' and Solana Beach's fiscal year is currently effective from July 1 to the next succeeding June 30 of the following calendar year. Each of the Issuer, Encinitas and Solana Beach will promptly notify EMMA and the Dissemination Agent of any change in its respective fiscal year dates. The Issuer (together with Encinitas and Solana Beach) shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it under this Disclosure Agreement. The Dissemination Agent may conclusively rely upon such certification of the Issuer (together with Encinitas and Solana Beach) and shall have no duty or obligation to review such Annual Report.

(b) Not later than 15 Business Days prior to the date specified in subsection (a) of this Section 3 for providing each Annual Report to EMMA, the Issuer (together with Encinitas and Solana Beach) shall provide, or cause to be provided, each Annual Report to the Dissemination Agent. If by 15 Business Days prior to such date the Dissemination Agent has not received a copy of any Annual Report, the Dissemination Agent shall contact the Issuer, Encinitas and Solana Beach, as applicable, to determine if the Issuer, Encinitas and Solana Beach are in compliance with the provisions of said subsection (a).

(c) If the Dissemination Agent is unable to verify that any Annual Report has been provided to EMMA by the date required in subsection (a) of this Section 3, the Dissemination Agent shall send a notice to EMMA, in substantially the form attached to this Disclosure Agreement as Exhibit A.

(d) Promptly after its receipt of each fiscal year's Annual Report, the Dissemination Agent shall file a report with the Issuer, Encinitas and Solana Beach certifying that each Annual Report has been provided pursuant to this Disclosure Agreement and stating the date such Annual Report was provided to EMMA. The Dissemination Agent's duties under this subsection (d) shall exist only if the Issuer (together with Encinitas and Solana Beach) provide, or cause to be provided, the Annual Report to the Dissemination Agent for filing.

(e) The Issuer, for itself and on behalf of Encinitas and Solana Beach, shall, or if received by the Dissemination Agent, the Dissemination Agent shall, deliver, or cause to be delivered, a copy of each Annual Report to the Participating Underwriter at the time that each Annual Report is provided to EMMA in accordance with the provisions of this Section 3.

SECTION 4. Content of Annual Reports. Each Annual Report of the Issuer (together with Encinitas and Solana Beach) shall contain or include by reference the following:

(a) The audited financial statements of each of the Issuer, Encinitas and Solana Beach, respectively, for the most recent fiscal year of the Issuer, Encinitas and Solana Beach then ended. If the audited financial statements are not available by the time the Annual Report is required to be filed, each Annual Report shall contain any unaudited financial statements of the Issuer, Encinitas and Solana Beach, as applicable, in a format similar to the audited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements, if any, of the Issuer, Encinitas and Solana Beach shall be audited by such auditor as shall then be required or permitted by State law or the Series 2017 Indenture. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board ("GASB"), as such principals may be amended, revised or issued by GASB from time to time; provided, however, that the Issuer, Encinitas and

Solana Beach may from time to time, if required by federal or State legal requirements or under GASB accounting principles, modify the basis upon which its respective financial statements are prepared. If any of the Issuer, Encinitas and Solana Beach shall modify the basis upon which its respective financial statements are prepared, the Issuer, Encinitas and Solana Beach, as applicable, shall provide a notice of such modification to EMMA, including a reference to the specific federal or State law, regulation or GASB accounting principles specifically describing the relevant requirements for the change in accounting basis.

(b) Encinitas' portions of the Annual Report shall also include updates of financial information and operating data with respect to the Cardiff Sanitation Division of the type included in the tables under the heading "Encinitas and Solana Beach" of the Official Statement (excluding tables under such heading shown as produced by California Municipal Statistics, Inc.).

(c) Solana Beach's portions of the Annual Report shall also include updates of financial information and operating data with respect to its wastewater enterprise of the type included in the tables under the heading "Encinitas and Solana Beach" of the Official Statement (excluding tables under such heading shown as produced by California Municipal Statistics, Inc.).

(d) Any or all of the items listed above in this Section 4 may be included by specific reference to other documents, including final official statements of debt issues of the Issuer, Encinitas and Solana Beach, as applicable, or related public entities, which have been submitted to EMMA or the SEC. Each final official statement incorporated by reference must be available from EMMA from and after the date of delivery of the applicable Annual Report. The Issuer, Encinitas and Solana Beach, as applicable, shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Listed Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Series 2017 Bonds, the Issuer, Encinitas or Solana Beach, as applicable, not more than ten Business Days after any such event:

1. principal and interest payment delinquencies;
2. non-payment related defaults, if material;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers, or their failure to perform;
6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2017 Bonds, or other material events affecting the tax status of the Series 2017 Bonds;
7. modifications to rights of holders of Series 2017 Bonds, if material;
8. bond calls, if material, and tender offers;
9. defeasances;
10. release, substitution or sale of property securing repayment of the Series 2017 Bonds, if material;
11. ratings changes;
12. bankruptcy, insolvency, receivership or similar event of the Issuer, Encinitas or Solana Beach (each, an "Obligated Person");
13. the consummation of a merger, consolidation or acquisition involving any Obligated Person or the sale of all or substantially all of the assets of any Obligated Person, other than in the ordinary

course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, of material; and

14. appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Issuer determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Issuer shall promptly file a notice of such occurrence with EMMA or provide notice of such reportable event to the Dissemination Agent in format suitable for filing with EMMA. The Dissemination Agent shall have no duty to independently prepare or file any report of any Listed Event. The Dissemination Agent may conclusively rely on the Issuer's determination of materiality pursuant to subsections (b) and (c) of this Section 5.

(d) If the Issuer determines that the Listed Event would not be material under applicable federal securities laws and if the Dissemination Agent is other than the Issuer, then unless the Issuer in its discretion determines that the Listed Event should be reported, the Issuer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence.

(e) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with EMMA. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) of this Section 5 need not be given earlier than the notice (if any) of the underlying event is given to Owners of affected Series 2017 Bonds pursuant to the Series 2017 Indenture. In each case of the occurrence of any Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this Section 5 prior to the occurrence of such Listed Event.

(f) The Issuer agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Issuer and, if the Dissemination Agent is other than the Issuer, the Dissemination Agent shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the Issuer, Encinitas and Solana Beach, and with respect to the Dissemination Agent under this Disclosure Agreement, shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2017 Bonds. If such termination occurs prior to the final maturity of the Series 2017 Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing not less than 30 days' prior written notice to the Issuer. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the Issuer. The Dissemination Agent shall have no duty to prepare any information, notice or report, nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Issuer, Encinitas or Solana Beach, as applicable, in a timely manner and in a form suitable for filing.

(a) **Amendment.** (a) This Disclosure Agreement may be amended, by written agreement of the parties, without the consent of the Owners of the Series 2017 Bonds, if all of the following conditions are satisfied: (i) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer, Encinitas or Solana Beach or the types of businesses conducted any of them; (ii) this Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (iii) there shall have been delivered to the Issuer an opinion of a nationally recognized Bond Counsel or other counsel expert in federal securities laws, addressed to the Issuer, to the same effect as set forth in clause (ii) above; (iv) the Issuer shall have delivered to the Dissemination Agent an opinion of nationally recognized Bond Counsel or other counsel expert in federal securities laws, addressed to the

Issuer, to the effect that the amendment does not materially impair the interests of the Owners of the Series 2017 Bonds; and (v) the Issuer shall have delivered copies of such opinion and amendment to EMMA and the Dissemination Agent.

(b) This Disclosure Agreement may be amended, by written agreement of the parties, upon obtaining consent of Owners at least 25% of the Outstanding Series 2017 Bonds; provided that the conditions set forth in clauses (i), (ii) and (iii) of subsection (a) of this Section 8 have been satisfied; and provided, further, that the Dissemination Agent shall not be obligated to enter into any such amendment that modifies or increases its duties or obligations under this Disclosure Agreement.

(c) To the extent any amendment to this Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided after such change shall include a narrative explanation of the reasons for the amendment and the effects of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Each of the Issuer, Encinitas and Solana Beach acknowledges and understands that other State and federal laws, including but not limited to the Securities Act of 1933, as amended, and the Rule, may apply to any or all of said parties, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all of their respective duties and obligations under such laws.

SECTION 9. Default. In the event of a failure of the Issuer, Encinitas or Solana Beach, or of the Dissemination Agent, to comply with any provision of this Disclosure Agreement, any Owner of the Series 2017 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Series 2017 Indenture or either Series 2017 Loan Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer, Encinitas or Solana Beach, as applicable, to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 10. Duties; Immunity and Liability of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and no other duties shall be implied hereunder, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents (collectively, the "Indemnified Parties"), harmless against any loss, expense and liabilities (whether or not litigated) which any of the Indemnified Parties may incur arising out of or in the exercise or performance of the powers and duties provided under this Disclosure Agreement, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's failure to file any Annual Report or any notice of a Listed Event delivered to it. The Dissemination Agent shall be paid compensation by the Issuer for its services provided under this Disclosure Agreement in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties under this Disclosure Agreement. The Dissemination Agent shall have no duty or obligation to review any information provided to it under this Disclosure Agreement and shall not be deemed to be acting in any fiduciary capacity for the Issuer, Encinitas, Solana Beach or the Owners of the

Series 2017 Bonds, or any other party. The obligations of the Issuer under this Section 11 shall survive resignation or removal of the Dissemination Agent and payment of the Series 2017 Bonds. No person shall have any right to commence any action against the Trustee or the Dissemination Agent under this Disclosure Agreement, seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement.

SECTION 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, Encinitas, Solana Beach, the Dissemination Agent, the Participating Underwriter and Owners from time to time of the Series 2017 Bonds, and shall create no rights in any other person or entity.

SECTION 12. Notices. Notices shall be sent in writing to the following addresses, whether physically delivered or delivered by Electronic Means. The following information may be conclusively relied upon until changed in writing.

Issuer Disclosure Representative:	San Elijo Joint Powers Authority 2695 Manchester Avenue Cardiff-by-the-Sea, CA 92007-1007 Attention: General Manager fax: 760.753.5935 email: kinkelp@SEJPA.org
Encinitas Disclosure Representative:	City of Encinitas 505 South Vulcan Avenue Encinitas, California 92024 Attention: Finance Director
Solana Beach Disclosure Representative:	City of Solana Beach 635 South Highway 101 Solana Beach, California 92075 Attention: City Manager
Dissemination Agent:	Applied Best Practices, LLC 19900 MacArthur Boulevard, Suite 1100 Irvine, CA 92612-2433 Attention: James Fabian, Principal

SECTION 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SAN ELIJO JOINT POWERS AUTHORITY

By: _____
General Manager

CITY OF ENCINITAS

By: _____
Finance Director

CITY OF SOLANA BEACH

By: _____
City Manager

ACCEPTANCE BY DISSEMINATION AGENT:

The undersigned hereby accepts the designation of Dissemination Agent and agrees to further the duties set forth in Section 3(c) of the foregoing Continuing Disclosure Agreement

APPLIED BEST PRACTICES, LLC, as Dissemination Agent

By: _____
Authorized Signatory

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: San Elijo Joint Powers Authority
Name of Bond Issue: San Elijo Joint Powers Authority
2017 Revenue Bonds
(Clean Water Projects)
Name of Obligated Party: [AUTHORITY, ENCINITAS OR SOLANA BEACH]
Date of Issuance: July __, 2017
CUSIP Numbers: _____

NOTICE IS HEREBY GIVEN that San Elijo Joint Powers Authority (the "Issuer") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of July __, 2017, executed by the Issuer, the City of Encinitas and the City of Solana Beach. [The Issuer/obligated party anticipates that its Annual Report will be filed by _____, 20__.

Dated: _____, 20__

APPLIED BEST PRACTICES, LLC,
as Dissemination Agent

Authorized Signatory

APPENDIX F

The Book Entry Only System

The information in this section concerning The Depository Trust Company (“DTC”) New York, New York and DTC’s book-entry only system has been obtained from DTC, and the Authority, Borrower, UDA, Trustee and the Underwriter take no responsibility for the accuracy thereof.

DTC will act as securities depository for the Series 2017 Bonds. The Series 2017 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Series 2017 Bonds, as set forth on the cover page hereof, in the aggregate principal amount of each maturity of the Series 2017 Bonds and deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation & Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Series 2017 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2017 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2017 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2017 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2017 Bonds, except in the event that use of the book entry-system for the Series 2017 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2017 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2017 Bonds 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 Series 2017 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2017 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants remain responsible for keeping accounts of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of the Series 2017 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2017 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Series 2017 Bonds may wish to ascertain that the nominee holding the Series 2017 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Series 2017 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2017 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2017 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2017 Bonds are to 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 Authority or Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other name as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2017 Bonds purchased or tendered, through its Participant, to Tender or Remarketing Agent, and shall effect delivery of such Series 2017 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2017 Bonds, on DTC's records, to Tender or Remarketing Agent. The requirement for physical delivery of the Series 2017 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2017 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit for tendered Series 2017 Bonds to Tender or Remarketing Agent's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Series 2017 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

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

§ _____
SAN ELIJO JOINT POWERS AUTHORITY
(San Diego County, California)
2017 Revenue Bonds
(Clean Water Projects)

CONTINUING DISCLOSURE AGREEMENT
dated July __, 2017

THIS CONTINUING DISCLOSURE AGREEMENT (the “Disclosure Agreement”) is executed and delivered by San Elijo Joint Powers Authority (the “Issuer”), the City of Encinitas (“Encinitas”), and the City of Solana Beach (“Solana Beach”), in connection with the issuance and delivery by the Issuer of its 2017 Revenue Bonds (Clean Water Projects) (the “Series 2017 Bonds”). The Series 2017 Bonds are being issued pursuant to a Series 2017 Indenture of Trust, dated as of June 1, 2017 (the “Series 2017 Indenture”), by and between the Issuer and MUFG Union Bank, N.A. in its capacity as Trustee (the “Trustee”). The Issuer, Encinitas and Solana Beach each covenant as follows:

SECTION 1. Purpose of this Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer, Encinitas and Solana Beach, for the benefit of the Owners of the Series 2017 Bonds and in order to assist the Participating Underwriter in complying with the Rule (defined below). Applied Best Practices, LLC, in its capacity as the Dissemination Agent designated by the Issuer (the “Dissemination Agent”), has acknowledged and accepted this Disclosure Agreement at the express direction of the Issuer evidenced by the Issuer’s signature to this Disclosure Agreement. No party to this Disclosure Agreement or the transaction regarding the issuance and delivery of the Series 2017 Bonds shall have any right to rely on the Dissemination Agent for any purpose other than the performance of its duties under this Disclosure Agreement.

SECTION 2. Definitions. In addition to the definitions set forth in the Series 2017 Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean each Annual Report provided by the Issuer, together with each Annual Report required of Encinitas and Solana Beach, respectively, pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Disclosure Representative” shall mean: (a) for the San Elijo Joint Powers Authority, its General Manager; (b) for the City of Encinitas, its Finance Director; and (c) for the City of Solana Beach, its City Manager; or any respective designee of such officers, or such other officer or employee as the Issuer, Encinitas or Solana Beach shall designate in writing to the Dissemination Agent from time to time.

“Disclosure Requirements” shall have the meaning set forth in Section 6.13 of the Series 2017 Indenture.

“Dissemination Agent” shall mean, initially, Applied Best Practices, LLC, acting in its capacity as Dissemination Agent designated by the Issuer under this Disclosure Agreement, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the then current Dissemination Agent and the Issuer a written acceptance of such designation.

“EMMA” shall mean the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board (“MSRB”), which can be found at www.emma.msrb.org., or any other repository of disclosure information that may be designated by the SEC or the MSRB in the future.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“Participating Underwriter” shall mean Hilltop Securities Inc., currently at 2533 South Coast Highway 101, Suite 250, Cardiff-by-the-Sea, California 92007.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the United States Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934, as the same may be amended by the SEC from time to time.

“Series 2017 Bonds” means the San Elijo Joint Powers Authority 2017 Revenue Bonds (Clean Water Projects).

“Tax-Exempt” shall mean that interest on the Series 2017 Bonds is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preferences or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

SECTION 3. Provision of Annual Reports.

(a) The Issuer, Encinitas and Solana Beach shall, or shall cause the Dissemination Agent upon their written direction to, not later than eight months after the end of the Issuer’s fiscal year, commencing with the report for the fiscal year ended June 30, 2017, provide to EMMA an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer, Encinitas and Solana Beach may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

The Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. Each of the Issuer’s, Encinitas’ and Solana Beach’s fiscal year is currently effective from July 1 to the next succeeding June 30 of the following calendar year. Each of the Issuer, Encinitas and Solana Beach will promptly notify EMMA and the Dissemination Agent of any change in its respective fiscal year dates. Each of the Issuer, Encinitas and Solana Beach shall provide its written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it under this Disclosure Agreement. The Dissemination Agent may conclusively rely upon such certifications of the Issuer, Encinitas and Solana Beach and shall have no duty or obligation to review such Annual Report.

(b) Not later than 15 Business Days prior to the date specified in subsection (a) of this Section 3 for providing each Annual Report to EMMA, each of the Issuer, Encinitas and Solana Beach shall provide, or cause to be provided, each Annual Report to the Dissemination Agent. If by 15 Business Days prior to such date the Dissemination Agent has not received a copy of any Annual Report, the Dissemination Agent shall contact the Issuer, Encinitas and Solana Beach, as applicable, to determine if the Issuer, Encinitas and Solana Beach are in compliance with the provisions of said subsection (a).

(c) If the Dissemination Agent is unable to verify that any Annual Report has been provided to EMMA by the date required in subsection (a) of this Section 3, the Dissemination Agent shall send a notice to EMMA, in substantially the form attached to this Disclosure Agreement as Exhibit A.

(d) Promptly after its receipt of each fiscal year’s Annual Report, the Dissemination Agent shall file a report with the Issuer, Encinitas and Solana Beach certifying that each Annual Report has been provided pursuant to this Disclosure Agreement and stating the date such Annual Report was provided to EMMA. The Dissemination Agent’s duties under this subsection (d) shall exist only if each of the Issuer, Encinitas and Solana Beach provide, or cause to be provided, the Annual Report to the Dissemination Agent for filing.

(e) The Issuer, Encinitas and Solana Beach, shall, or if received by the Dissemination Agent, the Dissemination Agent shall, deliver, or cause to be delivered, a copy of each Annual Report to the Participating Underwriter at the time that each Annual Report is provided to EMMA in accordance with the provisions of this Section 3.

SECTION 4. Content of Annual Reports. Each Annual Report of the Issuer, Encinitas and Solana Beach shall contain or include by reference the following:

(a) The audited financial statements of each of the Issuer, Encinitas and Solana Beach, respectively, for the most recent fiscal year of the Issuer, Encinitas and Solana Beach then ended. If the audited financial statements are not available by the time the Annual Report is required to be filed, each Annual Report shall contain any unaudited financial statements of the Issuer, Encinitas and Solana Beach, as applicable, in a format similar to the audited financial statements, and the audited financial statements shall be filed in the same manner as the Annual

Report when they become available. Audited financial statements, if any, of the Issuer, Encinitas and Solana Beach shall be audited by such auditor as shall then be required or permitted by State law or the Series 2017 Indenture. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board (“GASB”), as such principals may be amended, revised or issued by GASB from time to time; provided, however, that the Issuer, Encinitas and Solana Beach may from time to time, if required by federal or State legal requirements or under GASB accounting principles, modify the basis upon which its respective financial statements are prepared. If any of the Issuer, Encinitas and Solana Beach shall modify the basis upon which its respective financial statements are prepared, the Issuer, Encinitas and Solana Beach, as applicable, shall provide a notice of such modification to EMMA, including a reference to the specific federal or State law, regulation or GASB accounting principles specifically describing the relevant requirements for the change in accounting basis.

(b) Encinitas’ portions of the Annual Report shall also include updates of financial information and operating data with respect to the Cardiff Sanitation Division of the type included in the tables under the heading “**ENCINITAS AND SOLANA BEACH – ENCINITAS**” of the Official Statement (excluding tables under such heading shown as produced by California Municipal Statistics, Inc.).

(c) Solana Beach’s portions of the Annual Report shall also include updates of financial information and operating data with respect to its wastewater enterprise of the type included in the tables under the heading “**ENCINITAS AND SOLANA BEACH – SOLANA BEACH**” of the Official Statement (excluding tables under such heading shown as produced by California Municipal Statistics, Inc.).

(d) Any or all of the items listed above in this Section 4 may be included by specific reference to other documents, including final official statements of debt issues of the Issuer, Encinitas and Solana Beach, as applicable, or related public entities, which have been submitted to EMMA or the SEC. Each final official statement incorporated by reference must be available from EMMA from and after the date of delivery of the applicable Annual Report. The Issuer, Encinitas and Solana Beach, as applicable, shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Listed Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Series 2017 Bonds, the Issuer, Encinitas or Solana Beach, as applicable, not more than ten Business Days after any such event:

1. principal and interest payment delinquencies;
2. non-payment related defaults, if material;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers, or their failure to perform;
6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2017 Bonds, or other material events affecting the tax status of the Series 2017 Bonds;
7. modifications to rights of holders of Series 2017 Bonds, if material;
8. bond calls, if material, and tender offers;
9. defeasances;
10. release, substitution or sale of property securing repayment of the Series 2017 Bonds, if material;
11. ratings changes;

12. bankruptcy, insolvency, receivership or similar event of the Issuer, Encinitas or Solana Beach (each, an “Obligated Person”);

13. the consummation of a merger, consolidation or acquisition involving any Obligated Person or the sale of all or substantially all of the assets of any Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, of material; and

14. appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Issuer determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Issuer shall promptly file a notice of such occurrence with EMMA or provide notice of such reportable event to the Dissemination Agent in format suitable for filing with EMMA. The Dissemination Agent shall have no duty to independently prepare or file any report of any Listed Event. The Dissemination Agent may conclusively rely on the Issuer’s determination of materiality pursuant to subsections (b) and (c) of this Section 5.

(d) If the Issuer determines that the Listed Event would not be material under applicable federal securities laws and if the Dissemination Agent is other than the Issuer, then unless the Issuer in its discretion determines that the Listed Event should be reported, the Issuer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence.

(e) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with EMMA. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) of this Section 5 need not be given earlier than the notice (if any) of the underlying event is given to Owners of affected Series 2017 Bonds pursuant to the Series 2017 Indenture. In each case of the occurrence of any Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this Section 5 prior to the occurrence of such Listed Event.

(f) The Issuer agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Issuer and, if the Dissemination Agent is other than the Issuer, the Dissemination Agent shall not be responsible for determining whether the Issuer’s instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the Issuer, Encinitas and Solana Beach, and with respect to the Dissemination Agent under this Disclosure Agreement, shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2017 Bonds. If such termination occurs prior to the final maturity of the Series 2017 Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5 of this Disclosure Agreement.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing not less than 30 days’ prior written notice to the Issuer. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the Issuer. The Dissemination Agent shall have no duty to prepare any information, notice or report, nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Issuer, Encinitas or Solana Beach, as applicable, in a timely manner and in a form suitable for filing.

SECTION 8. Amendment. (a) This Disclosure Agreement may be amended, by written agreement of the parties, without the consent of the Owners of the Series 2017 Bonds, if all of the following conditions are satisfied: (i) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer, Encinitas or Solana Beach or the types of businesses conducted any of them; (ii) this Disclosure Agreement as so amended would have complied with the

requirements of the Rule as of the date of this Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (iii) there shall have been delivered to the Issuer an opinion of a nationally recognized Bond Counsel or other counsel expert in federal securities laws, addressed to the Issuer, to the same effect as set forth in clause (ii) above; (iv) the Issuer shall have delivered to the Dissemination Agent an opinion of nationally recognized Bond Counsel or other counsel expert in federal securities laws, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the Owners of the Series 2017 Bonds; and (v) the Issuer shall have delivered copies of such opinion and amendment to EMMA and the Dissemination Agent.

(b) This Disclosure Agreement may be amended, by written agreement of the parties, upon obtaining consent of Owners at least 25% of the Outstanding Series 2017 Bonds; provided that the conditions set forth in clauses (i), (ii) and (iii) of subsection (a) of this Section 8 have been satisfied; and provided, further, that the Dissemination Agent shall not be obligated to enter into any such amendment that modifies or increases its duties or obligations under this Disclosure Agreement.

(c) To the extent any amendment to this Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided after such change shall include a narrative explanation of the reasons for the amendment and the effects of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Each of the Issuer, Encinitas and Solana Beach acknowledges and understands that other State and federal laws, including but not limited to the Securities Act of 1933, as amended, and the Rule, may apply to any or all of said parties, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all of their respective duties and obligations under such laws.

SECTION 10. Default. In the event of a failure of the Issuer, Encinitas or Solana Beach, or of the Dissemination Agent, to comply with any provision of this Disclosure Agreement, any Owner of the Series 2017 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Series 2017 Indenture or either Series 2017 Loan Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer, Encinitas or Solana Beach, as applicable, to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties; Immunity and Liability of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and no other duties shall be implied hereunder, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents (collectively, the "Indemnified Parties"), harmless against any loss, expense and liabilities (whether or not litigated) which any of the Indemnified Parties may incur arising out of or in the exercise or performance of the powers and duties provided under this Disclosure Agreement, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's failure to file any Annual Report or any notice of a Listed Event delivered to it. The Dissemination Agent shall be paid

compensation by the Issuer for its services provided under this Disclosure Agreement in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties under this Disclosure Agreement. The Dissemination Agent shall have no duty or obligation to review any information provided to it under this Disclosure Agreement and shall not be deemed to be acting in any fiduciary capacity for the Issuer, Encinitas, Solana Beach or the Owners of the Series 2017 Bonds, or any other party. The obligations of the Issuer under this Section 10 shall survive resignation or removal of the Dissemination Agent and payment of the Series 2017 Bonds. No person shall have any right to commence any action against the Trustee or the Dissemination Agent under this Disclosure Agreement, seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, Encinitas, Solana Beach, the Dissemination Agent, the Participating Underwriter and Owners from time to time of the Series 2017 Bonds, and shall create no rights in any other person or entity.

SECTION 13. Notices. Notices shall be sent in writing to the following addresses, whether physically delivered or delivered by Electronic Means. The following information may be conclusively relied upon until changed in writing.

Issuer Disclosure Representative:	San Elijo Joint Powers Authority 2695 Manchester Avenue Cardiff-by-the-Sea, CA 92007-1007 Attention: General Manager fax: 760.753.5935 email: kinkelp@SEJPA.org
Encinitas Disclosure Representative:	City of Encinitas 505 South Vulcan Avenue Encinitas, California 92024 Attention: Finance Director
Solana Beach Disclosure Representative:	City of Solana Beach 635 South Highway 101 Solana Beach, California 92075 Attention: City Manager
Dissemination Agent:	Applied Best Practices, LLC 19900 MacArthur Boulevard, Suite 1100 Irvine, CA 92612-2433 Attention: James Fabian, Principal

SECTION 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SAN ELIJO JOINT POWERS AUTHORITY

By: _____
General Manager

CITY OF ENCINITAS

By: _____
Finance Director

CITY OF SOLANA BEACH

By: _____
City Manager

ACCEPTANCE BY DISSEMINATION AGENT:

The undersigned hereby accepts the designation of Dissemination Agent and agrees to perform the duties set forth in Section 3(c) of the foregoing Continuing Disclosure Agreement

APPLIED BEST PRACTICES, LLC, as Dissemination Agent

By: _____
Authorized Signatory

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: San Elijo Joint Powers Authority
Name of Bond Issue: San Elijo Joint Powers Authority
2017 Revenue Bonds
(Clean Water Projects)
Name of Obligated Party: [ISSUER, ENCINITAS OR SOLANA BEACH]
Date of Issuance: July __, 2017
CUSIP Numbers: _____

NOTICE IS HEREBY GIVEN that San Elijo Joint Powers Authority (the "Issuer") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of July __, 2017, executed by the Issuer, the City of Encinitas and the City of Solana Beach. [The Issuer/obligated party anticipates that its Annual Report will be filed by _____, 20__.

Dated: _____, 20__

APPLIED BEST PRACTICES, LLC,
as Dissemination Agent

Authorized Signatory

§ _____
**SAN ELIJO JOINT POWERS AUTHORITY
2017 REVENUE BONDS (CLEAN WATER PROJECTS)**

June ____, 2017

BOND PURCHASE CONTRACT

San Elijo Joint Powers Authority
2695 Manchester Avenue
Cardiff by the Sea, California 92007

City of Encinitas
505 S. Vulcan Ave
Encinitas, CA 92024

City of Solana Beach
635 S. HWY 101
Solana Beach, CA 92075

Ladies and Gentlemen:

Hilltop Securities Inc. (the “**Underwriter**”), offers to enter into this Bond Purchase Contract (this “**Purchase Contract**”) with the City of Encinitas (“**Encinitas**”), the City of Solana Beach (“**Solana Beach**,” together with Encinitas, the “**Cities**,” and each individually, a “**City**”) and the San Elijo Joint Powers Authority (the “**Authority**”) with regard to the Series 2017 Bonds described below, which Purchase Contract, upon the acceptance hereof by the Cities and the Authority, will be binding upon the Authority, the Cities, and the Underwriter. This offer is made subject to the written acceptance of this Purchase Contract by the Authority and the Cities and the delivery of such acceptance to the Underwriter at or prior to 11:59 p.m., Pacific time, on the date hereof, and, if it is not so accepted, such offer may be withdrawn by the Underwriter upon written notice to the Cities and the Authority by the Underwriter at any time before its acceptance.

The Authority and the Cities acknowledge and agree that: (i) the purchase and sale of the Series 2017 Bonds (as defined below) pursuant to this Purchase Contract is an arm’s-length commercial transaction among the Authority, the Cities, and the Underwriter; (ii) in connection with such transaction, the Underwriter is acting solely as a principal and not as an agent or a fiduciary of the Authority or the Cities; (iii) the Underwriter has not assumed a fiduciary responsibility in favor of the Authority or the Cities with respect to: (A) the offering of the Series 2017 Bonds or the process leading thereto (whether or not the Underwriter, or any affiliate of the Underwriter, has advised or is currently advising the Authority or the Cities on other matters), or (B) any other obligation to the Authority or the Cities except the obligations expressly set forth in this Purchase Contract; and (iv) each of the Authority and the Cities have consulted with their respective legal and financial advisors to the extent it deemed appropriate in connection with the offering of the Series 2017 Bonds.

1. Upon the terms and conditions and upon the basis of the representations, warranties, and agreements hereinafter set forth, the Underwriter hereby agrees to purchase from the Authority for reoffering to the public, and the Authority hereby agrees to sell to the Underwriter for such purpose, all (but not less than all) of the \$_____ aggregate principal amount of the Authority's 2017 Revenue Bonds (Clean Water Projects) (the "**Series 2017 Bonds**"). The purchase price of the Series 2017 Bonds shall be \$[_____] (representing the par amount of the Series 2017 Bonds, plus/less net original issue premium/discount of \$[_____] , less an Underwriter's discount of \$[_____]). The Preliminary Official Statement with respect to the Series 2017 Bonds, dated June [___], 2017 (the "**Preliminary Official Statement**"), as amended to conform to the terms of this Purchase Contract, and dated the date hereof, and with such changes and amendments as are mutually agreed to by the Authority, the Cities, and the Underwriter, including the cover page, the appendices, and all information incorporated therein by reference, is herein collectively referred to as the "**Official Statement.**" The Authority represents that it has deemed the Preliminary Official Statement to be final as of its date, except for either revision or addition of the offering price(s), yield(s) to maturity, selling compensation, aggregate denominational amount and maturity value, denominational amount and maturity value per maturity, delivery date, rating(s), and other terms of the Series 2017 Bonds that depend upon the foregoing as provided in and pursuant to Rule 15c2-12 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "**Rule**").

2. The Series 2017 Bonds shall mature on the dates and in the amounts, and will bear interest at the rates, set forth in Exhibit A hereto and as further described in the Official Statement and shall be issued under and pursuant to the Indenture of Trust, dated as of June 1, 2017 (the "**Indenture**"), by and between the Authority and MUFG Union Bank, N.A. (the "**Trustee**"). Capitalized terms used herein without definition shall have the meanings given to such terms in the Indenture, the Series 2017 Loan Agreement dated as of June 1, 2017, by and between Encinitas and the Authority (the "**Encinitas Loan Agreement**"), or the Series 2017 Loan Agreement, dated as of June 1, 2017, by and between Solana Beach and the Authority (the "**Solana Beach Loan Agreement,**" and together with the Encinitas Loan Agreement, the "**Series 2017 Loan Agreements**").

3. The Underwriter shall make a bona fide public offering of all the Series 2017 Bonds at not in excess of the respective initial public offering prices to be set forth on the cover page of the Official Statement. The Underwriter reserves the right to change such initial offering prices as the Underwriter shall deem necessary in connection with the marketing of the Series 2017 Bonds and to offer and sell the Series 2017 Bonds to certain dealers (including dealers depositing such bonds into investment trusts) and others at prices lower than the initial offering prices set forth on the cover page of the Official Statement. The Underwriter also reserves the right to (i) over allot or effect transactions that stabilize or maintain the market prices of the Series 2017 Bonds at levels above those which might otherwise prevail in the open market and (ii) discontinue such stabilizing, if commenced, at any time. "Public offering" shall include an offering to a representative number of institutional investors or registered investment companies, regardless of the number of such investors to which the Series 2017 Bonds are sold.

4. The Authority and the Cities hereby authorize the use by the Underwriter of (i) the Indenture, (ii) the Series 2017 Loan Agreements, (iii) the Continuing Disclosure Certificates, dated July [___], 2017 (the “**Continuing Disclosure Certificates**”), by and between the Authority, each City and Applied Best Practices, LLC, as dissemination agent (the “**Dissemination Agent**”), and (iv) the Official Statement, and any supplements or amendments thereto, and the information contained in each of such documents, in connection with the public offering and sale of the Series 2017 Bonds.

The Authority will deliver to the Underwriter, within seven (7) business days after the date of this Purchase Contract and in sufficient time to accompany any confirmation requesting payment from any customers of the Underwriter, copies of the Official Statement in final form (including all documents incorporated by reference therein) and any amendment or supplement thereto in such quantities as the Underwriter may reasonably request in order to comply with the obligations of the Underwriter pursuant to the Rule and the rules of the Municipal Securities Rulemaking Board (the “**MSRB**”). As soon as practicable following receipt thereof from the Authority, the Underwriter shall deliver the Official Statement to the MSRB.

5. At 8:00 a.m., Pacific Standard Time, on July [6], 2017, or at such other time or on such other business day as shall have been mutually agreed upon by the Authority and the Underwriter (the “**Closing Date**”), the Authority will cause the Trustee to authenticate and deliver to the Underwriter at the office of The Depository Trust Company (“**DTC**”) in New York, New York, or at such other place as the Authority and the Underwriter may mutually agree upon, the Series 2017 Bonds in fully-registered book-entry form, duly executed and registered in the name of Cede & Co., as nominee of DTC. Subject to the terms and conditions hereof, the Underwriter will accept such delivery and pay the purchase price of the Series 2017 Bonds by wire transfer payable in immediately available funds to or upon the order of the Authority at such place in Los Angeles, California, or New York, New York, as shall have been mutually agreed upon by the Authority and the Underwriter. Such delivery of and payment for the Series 2017 Bonds is referred to herein as the “**Closing**.” The Series 2017 Bonds shall be made available for inspection by DTC at least one business day before the Closing.

6. The Authority represents, warrants, and covenants to the Underwriter that:

(A) The Authority is a joint powers authority under Article 1 of Chapter 5 of Division 7 of Title 1 of the California Government Code duly organized and validly existing under and by virtue of the Constitution and the laws of the State of California (the “**State**”).

(B) The Authority has the legal right and power to issue and deliver the Series 2017 Bonds and to execute and deliver, and to perform its obligations under, the Indenture, the Series 2017 Loan Agreements and this Purchase Contract (collectively, the “**Authority Documents**”). The Authority has duly authorized the issuance and delivery of the Series 2017 Bonds and the execution and delivery of, and performance of its obligations under, the Authority Documents and, as of the date hereof, such authorizations are in full force and effect and have not been amended, modified, or rescinded. When executed and delivered by the respective parties thereto, the Authority

Documents will constitute legal, valid, and binding obligations of the Authority in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws and the application of equitable principles relating to or affecting creditors' rights generally. The Authority has complied, and will at the Closing be in compliance in all material respects, with its obligations under the Authority Documents.

(C) The Series 2017 Bonds are special limited obligations of the Authority and are payable, as to principal, premium (if any), and interest with respect thereto, from the Loan Installments (as defined in the Series 2017 Loan Agreements) made under the Series 2017 Loan Agreements.

(D) The Series 2017 Bonds will be issued in accordance with the Indenture and will conform in all material respects to the descriptions thereof contained in the Official Statement. The Indenture creates a valid pledge of, first lien upon, and security interest in, the pledged Loan Installments.

(E) The information in the Official Statement (excluding any information with respect to DTC, the book-entry only system and the Cities) is true and correct in all material respects, and the information in the Official Statement does not contain any misstatement of any material fact and does not omit any statement necessary to make the statements, in the light of the circumstances in which such statements were made, not misleading.

(F) The Authority covenants with the Underwriter that for twenty-five days after the Closing Date (the "**Delivery Period**"), if any event occurs that might or would cause the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the Authority shall notify the Underwriter thereof, and if in the reasonable opinion of the Underwriter such event requires the preparation and publication of a supplement or amendment to the Official Statement, the Authority will cooperate with the Underwriter and the Cities in the preparation of an amendment or supplement to the Official Statement, at the expense of the Authority and the Cities, in a form and in a manner approved by the Underwriter.

(G) The Authority will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent shall not be unreasonably withheld. The Authority will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise affecting the use of the Official Statement in connection with the offering, sale, or distribution of the Series 2017 Bonds.

(H) If the Official Statement is supplemented or amended, the Official Statement, as so supplemented or amended, as of the date of such supplement or amendment, will not contain any untrue statement of a material fact or omit to state a

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

(I) The Authority is not in breach of or in default, in any material respect, under any applicable constitutional provision, law, or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, consent, or other agreement to which the Authority is a party, and no event has occurred and is continuing that, with the passage of time or the giving of notice, or both, would constitute such a default or event of default under any of the foregoing.

(J) The authorization, execution, and delivery by the Authority of the Authority Documents, and compliance by the Authority with the provisions thereof, do not and will not conflict with or constitute a breach of or default by the Authority, in any material respect, under any applicable constitutional provision, law, or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, consent, or other agreement to which it is bound or by which its properties may be affected.

(K) No authorization, consent, or approval of, or filing or registration with, any Governmental Authority (as defined below) or court is, or under existing requirements of law will be, necessary for the valid execution and delivery of, or performance by the Authority of its obligations under, the Authority Documents, other than any authorization, consent, approval, filing, or registration as may be required under the Blue Sky or securities laws of any state in connection with the offering, sale, or issuance of the Series 2017 Bonds (as to which no representation is made). All authorizations, consents, or approvals of, or filings or registrations with, any Governmental Authority or court necessary for the valid issuance of, and performance by the Authority of its obligations under, the Series 2017 Bonds will have been duly obtained or made prior to the issuance of the Series 2017 Bonds (and disclosed to the Underwriter). As used herein, the term “**Governmental Authority**” refers to any legislative body or governmental official, department, commission, board, bureau, agency, instrumentality, body, or public benefit corporation.

(L) The Authority shall furnish such information, execute such instruments, and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the Series 2017 Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and (ii) to determine the eligibility of the Series 2017 Bonds for investment under the laws of such states and other jurisdictions, and shall use its best efforts to continue such qualifications in effect so long as required for the distribution of the Series 2017 Bonds; provided, however, that the Authority shall not be required to execute a general consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction; provided, further, that the Underwriter shall bear all costs in connection with the Authority’s action pursuant to the foregoing.

(M) There is no action, suit, proceeding, inquiry, or investigation, at law or in equity, before or by any court, regulatory agency, or public board or body, pending and notice of which has been served on the Authority or, to the best knowledge of the Authority, threatened (i) in any way questioning the existence of the Authority or the titles of the officers of the Authority to their respective offices; (ii) affecting, contesting, or seeking to prohibit, restrain, or enjoin the issuance of the Series 2017 Bonds or the execution or delivery of any of the Authority Documents, or the payment or collection of any amounts pledged or to be pledged to pay the Loan Installments or the principal of and interest on the Series 2017 Bonds, or in any way contesting or affecting the validity of the Series 2017 Bonds or the Authority Documents or the consummation of the transactions contemplated thereby or any proceeding of the Authority taken with respect to any of the foregoing, or contesting the exclusion of the interest on the Series 2017 Bonds from taxation or contesting the powers of the Authority and its authority to pledge the Loan Installments; (iii) that may result in any material adverse change relating to the Authority that will materially adversely affect the Authority's ability to apply the Loan Installments to pay the Series 2017 Bonds when due; or (iv) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(N) Other than in the ordinary course of its business or as contemplated by the Official Statement, between the date of this Purchase Contract and the Closing Date the Authority will not, without the prior written consent of the Underwriter, offer or issue any certificates, bonds, notes, or other obligations for borrowed money or incur any material liabilities, direct or contingent, payable from or secured by a pledge of the Loan Installments.

(O) Any certificate signed by any official or other representative of the Authority and delivered to the Underwriter pursuant to this Purchase Contract shall be deemed a representation and warranty by the Authority to the Underwriter as to the truth of the statements therein made.

(P) The Underwriter has provided to the Authority prior disclosures under Rule G-17 of the MSRB, which have been received by the Authority.

7. The Cities (but only to the extent applicable to itself, and not the other City) represent, warrant, and covenant to the Underwriter and the Authority that:

(A) The Cities are each municipal corporations of the State duly organized and validly existing under and by virtue of the Constitution and laws of the State and have the legal right and power to execute, deliver, and perform each of their obligations under their respective Loan Agreement, the Continuing Disclosure Certificates, and this Purchase Contract (collectively, the "**Cities' Documents**").

(B) The Cities each have the legal right and power to execute and deliver, and to perform their obligations under the Cities' Documents. The Cities each have duly authorized the execution and delivery of, and the performance of their obligations under, the Cities' Documents and as of the date hereof such authorizations are in full force and effect and have not been amended, modified, or rescinded. When executed and delivered by the respective parties thereto, the Cities' Documents will constitute legal, valid, and binding obligations of each City in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws and the application of equitable principles relating to or affecting creditors' rights generally. The Cities have complied, and will at the Closing be in compliance in all material respects, with their obligations under the Cities' Documents.

(C) The Series 2017 Bonds will be paid from the Loan Installments pursuant to and as defined in the Series 2017 Loan Agreements, which payments are special limited obligations of the Cities and are payable from a pledge of System Revenues (as defined in the Series 2017 Loan Agreements), derived from revenues of each City's respective wastewater system, as applicable, and which payments have been duly and validly authorized pursuant to applicable law.

(D) The information in the Official Statement (excluding any information with respect to DTC, the book-entry only system, the Trustee and the Authority) is true and correct in all material respects, and the information in the Official Statement does not contain any misstatement of any material fact and does not omit any statement necessary to make the statements, in the light of the circumstances in which such statements were made, not misleading.

(E) To assist the Underwriter in complying with the Rule, the Cities will each undertake, pursuant to the Continuing Disclosure Certificates, to provide annual reports and notices of certain events. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement.

(F) Each City covenants with the Underwriter that, during the Delivery Period, if any event occurs that might or would cause the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the applicable City shall notify the Underwriter thereof, and if in the reasonable opinion of the Underwriter such event requires the preparation and publication of a supplement or amendment to the Official Statement, the applicable City will cooperate with the Underwriter and the Authority in the preparation of an amendment or supplement to the Official Statement, at the expense of the Authority and the applicable City, in a form and in a manner approved by the Underwriter.

(G) Each City will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent shall

not be unreasonably withheld. Each City will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise affecting the use of the Official Statement in connection with the offering, sale, or distribution of the Series 2017 Bonds.

(H) If the Official Statement is supplemented or amended, the Official Statement as so supplemented or amended, as of the date of such supplement or amendment, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(I) Each City is not in breach of or in default under, in any material respect, any applicable constitutional provision, law, or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, consent, or other agreement to which such City is a party, and no event has occurred and is continuing that, with the passage of time or the giving of notice, or both, would constitute such a default or event of default under any of the foregoing.

(J) The authorization, execution, and delivery by each City of the Cities' Documents, and compliance by each City with the provisions thereof, do not and will not conflict with or constitute a breach of or default by each City, in any material respect, under any applicable constitutional provision, law, or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, consent, or other agreement to which it is bound or by which its properties may be affected.

(K) No authorization, consent, or approval of, or filing or registration with, any Governmental Authority or court is, or under existing requirements of law will be, necessary for the valid execution and delivery of, or performance by each City of its obligations under, the Cities' Documents, other than any authorization, consent, approval, filing, or registration as may be required under the Blue Sky or securities laws of any state in connection with the offering, sale, or issuance of the Series 2017 Bonds (as to which no representation is made by the Cities).

(L) Each City will furnish such information, execute such instruments, and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the Series 2017 Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and (ii) to determine the eligibility of the Series 2017 Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualifications in effect so long as required for the distribution of the Series 2017 Bonds; provided, however, that neither City shall be required to execute a general consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction; provided, further, that the Underwriter shall bear all costs in connection with each City's action pursuant to the foregoing.

(M) As to each City, there is no action, suit, proceeding, inquiry, or investigation, at law or in equity, before or by any court, regulatory agency, or public board or body, pending and notice of which has been served on the City or, to the best knowledge of each City, threatened (i) in any way questioning the existence of the City or the titles of the officers of the City to its respective offices; (ii) affecting, contesting, or seeking to prohibit, restrain, or enjoin the issuance of the Series 2017 Bonds or the execution or delivery of any of the Cities' Documents, or the payment or collection of any amounts pledged or to be pledged to pay the Loan Installments or the principal of and interest on the Series 2017 Bonds, or in any way contesting or affecting the validity of the Series 2017 Bonds or the Cities' Documents or the consummation of the transactions contemplated thereby or any proceeding of the Cities taken with respect to any of the foregoing, or contesting the exclusion of the interest on the Series 2017 Bonds from taxation or contesting the powers of the Cities and their authority to pledge the System Revenues; (iii) that may result in any material adverse change relating to the City that will materially adversely affect that City's ability to pay the Loan Installments when due; or (iv) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(N) Other than in the ordinary course of its business or as contemplated by the Official Statement or Series 2017 Loan Agreements, between the date of this Purchase Contract and the Closing Date neither City, without the prior written consent of the Underwriter, will offer or issue any certificates, bonds, notes, or other obligations for borrowed money or incur any material liabilities, direct or contingent, payable from or secured by a pledge of the System Revenues.

(O) The financial statements of, and other financial information regarding, each City contained in the Official Statement fairly present the financial position and results of the operations of each City as of the dates and for the periods therein set forth, and, to the best of the Cities' knowledge, (i) the audited financial statements have been prepared in accordance with generally accepted accounting principles consistently applied, (ii) the unaudited financial statements have been prepared on a basis substantially consistent with the audited financial statements included in the Official Statement and reflect all adjustments necessary to that effect, and (iii) the other financial information has been determined on a basis substantially consistent with that of the Cities' audited financial statements included in the Official Statement.

(P) Any certificate signed by any official or other representative of each City and delivered to the Underwriter pursuant to this Purchase Contract shall be deemed a representation and warranty by the applicable City to the Underwriter as to the truth of the statements therein made.

8. The Underwriter has entered into this Purchase Contract in reliance upon the representations, warranties, and covenants of the Authority and the Cities contained herein and in

the Authority Documents and the Cities' Documents to which each of the Authority or each City, as applicable, is a party, and the performance by the Authority and the applicable City of their respective obligations hereunder, both as of the date hereof and as of the Closing Date. The Underwriter's obligations under this Purchase Contract are and shall be subject to the following further conditions:

(A) The representations and warranties of the Authority and the Cities contained herein shall be true, complete, and correct in all material respects on the date hereof and at and as of the Closing, as if made at and as of the Closing, and the statements made in all certificates and other documents delivered to the Underwriter at the Closing pursuant hereto shall be true, complete, and correct in all material respects at the Closing; the Authority and the Cities shall be in compliance with each of the agreements made by it in this Purchase Contract (unless such agreements are waived by the Underwriter); there shall not have occurred an adverse change in the financial position, results of operations, or financial condition of each City that materially adversely affects the ability of the applicable City to pay the Loan Installments when due or otherwise perform any of its obligations under the Cities' Documents; and there shall not have occurred an adverse change in the financial position of the Authority that materially adversely affects the ability of the Authority to make payments of principal of and interest on the Series 2017 Bonds when due or otherwise perform any of its obligations under the Authority Documents.

(B) At the time of the Closing, the Authority Documents and the Cities' Documents shall be in full force and effect, and shall not have been amended, modified, or supplemented (except as may be agreed to in writing by the Underwriter); all actions that, in the opinion of Procopio, Cory, Hargreaves & Savitch LLP, San Diego, California, Bond Counsel ("**Bond Counsel**"), shall be necessary in connection with the transactions contemplated hereby shall have been duly taken and shall be in full force and effect; and the Cities shall perform or shall have performed their obligations required under or specified in the Cities' Documents to be performed at or prior to the Closing and the Authority shall perform or shall have performed its obligations required under or specified in the Authority Documents to be performed at or prior to the Closing.

(C) At the time of the Closing, the Official Statement (as amended and supplemented) shall be true and correct in all material respects, and shall not omit any statement or information necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(D) Except as disclosed in the Official Statement or in a schedule delivered to the Underwriter at the Closing, no decision, ruling, or finding shall have been entered by any court or Governmental Authority since the date of this Purchase Contract (and not reversed on appeal or otherwise set aside) that has any of the effects described in Section 8(F) hereof.

(E) (i) No default by either City or the Authority shall have occurred and be continuing in the payment of the principal of or premium, if any, or interest on any bond,

note, or other evidence of indebtedness issued by either City or the Authority, respectively, and (ii) no bankruptcy, insolvency, or other similar proceeding in respect of either City or the Authority shall be pending or, to the knowledge of either City or the Authority, contemplated.

(F) The Underwriter may terminate this Purchase Contract by written notification to the Authority and the Cities if at any time after the date hereof and prior to the Closing:

(i) legislation shall have been enacted by the United States or the State or shall have been reported out of committee or be pending in committee, or a decision shall have been rendered by a court of the United States or the Tax Court of the United States, or a ruling shall have been made or a regulation, proposed regulation, or a temporary regulation shall have been published in the Federal Register or any other release or announcement shall have been made by the Treasury Department of the United States or the Internal Revenue Service, with respect to Federal or State taxation upon revenues or other income or payments of the general character to be derived by either City or upon interest received on obligations of the general character of the Series 2017 Bonds, which, in the reasonable opinion of the Underwriter (after consultation with, and receipt of advice from, the Cities), materially adversely affects the market for the Series 2017 Bonds; or

(ii) the United States shall have become engaged in hostilities that have resulted in a declaration of war or a national emergency or the President of the United States of America shall have committed the armed forces of the United States of America to combat so as to adversely affect the financial markets in the United States of America and that, in the reasonable opinion of the Underwriter (after consultation with, and receipt of advice from, the Cities), materially adversely affects the market for the Series 2017 Bonds; or

(iii) there shall have occurred a general suspension of trading on the New York Stock Exchange, or a general banking moratorium shall have been declared by Federal, California, or New York authorities having jurisdiction and being in force; or

(iv) there shall have occurred an adverse change in the financial position, results of operations, or financial condition of either City that, in the reasonable opinion of the Underwriter (after consultation with, and receipt of advice from, the Cities), materially adversely affects the market for the Series 2017 Bonds; or

(v) any legislation, ordinance, rule, or regulation shall be introduced in, or be enacted by, any governmental body, department, or agency of the State, or a decision by any court of competent jurisdiction within the State or any court of the United States shall be rendered that, in the reasonable opinion of the

Underwriter, materially adversely affects the market price of the Series 2017 Bonds; or

(vi) legislation shall be enacted by 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 Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering, or sale of obligations of the general character of the Series 2017 Bonds, or the issuance, offering, or sale of the Series 2017 Bonds, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of, or that obligations of the general character of the Series 2017 Bonds, or the Series 2017 Bonds, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Indenture needs to be qualified under the Indenture Act of 1939, as amended and as then in effect; or

(vii) 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 restrictions materially adversely affect the ability of underwriters to trade obligations of the general character of the Series 2017 Bonds; or

(viii) any rating of the Series 2017 Bonds shall have been downgraded, suspended, or withdrawn by a national rating service, which, in the Underwriter's reasonable opinion, materially adversely affects the marketability or market price of the Series 2017 Bonds; or

(ix) the commencement of any action, suit, or proceeding described in Section 6(M) or 7(M) that, in the judgment of the Underwriter, materially adversely affects the market price of the Series 2017 Bonds; or

(x) any event occurring, or information becoming known, that, in the reasonable judgment of the Underwriter, makes any statement or information contained in the Official Statement, as of its date, untrue in any material adverse respect, or has the effect that the Official Statement, as of its date, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(G) At or prior to the Closing, the Underwriter shall receive the following documents:

(1) the opinion of Bond Counsel, dated the Closing Date, in substantially the form included in the Official Statement as Appendix D, addressed to the Authority (and accompanied by reliance letters to the Underwriter, the Cities, and the Trustee);

(2) a supplemental opinion of Bond Counsel, in form and substance satisfactory to the Underwriter, dated the Closing Date, addressed to the Authority and the Underwriter, to the effect that:

(i) the Purchase Contract has been duly authorized, executed, and delivered by the Cities and the Authority and, assuming due authorization, execution, and delivery by the Underwriter, such document constitutes the legal, valid, and binding agreement of each City and the Authority enforceable in accordance with its terms, subject to laws relating to bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought;

(ii) the Series 2017 Bonds are not subject to registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification pursuant to the Indenture Act of 1939, as amended; and

(iii) the statements contained in the Official Statement under the captions "INTRODUCTION," "THE SERIES 2017 BONDS," "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2017 BONDS," "TAX MATTERS – Tax Exemption of Interest on the Series 2017 Bonds," "APPENDIX B – CERTAIN DEFINITIONS AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS," "APPENDIX D – FORM OF BOND COUNSEL OPINION," and "APPENDIX E – FORM OF DISCLOSURE AGREEMENT," insofar as such statements purport to summarize certain provisions of the Indenture, the Series 2017 Loan Agreements, the Continuing Disclosure Certificates, the Series 2017 Bonds, and the opinion of Bond Counsel concerning certain federal tax matters relating to the Series 2017 Bonds, are accurate in all material respects;

(3) an opinion of each City Attorney of each City, in form and substance satisfactory to the Underwriter, dated the Closing Date, addressed to the Authority and the Underwriter, to the effect that:

(i) the City is a municipal corporation and general law city duly organized and validly existing under and by virtue of the laws of the State;

(ii) the resolutions of the City approving and authorizing the execution and delivery of the Cities' Documents and the Official Statement (collectively, the "**City Resolutions**") were duly adopted at meetings of the City Council of the City that were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and the City Resolutions are in full force and effect and have not been modified, amended, or rescinded as of the Closing Date;

(iii) the Cities have full legal power and lawful authority to enter into the Cities' Documents;

(iv) the Cities' Documents have been duly authorized, executed, and delivered by each City and, assuming due authorization, execution, and delivery by the other parties thereto, such documents constitute the legal, valid, and binding agreements of the Cities enforceable in accordance with their terms, subject to laws relating to bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights generally and the application of equitable principles if equitable remedies are sought;

(v) no authorization, approval, consent, or other order of the State or any other governmental authority or agency within the State having jurisdiction over the Cities, the absence of which would materially adversely affect the due performance by the Cities of their obligations under the Cities' Documents, is required for the valid authorization, execution, and delivery by each City of the Cities' Documents provided, however, that we express no opinion as to any approvals, obligations or consents as may be required under any state or federal blue sky or securities laws;

(vi) to the best knowledge of such counsel, the execution and delivery by the City of the Cities' Documents, and compliance by the City with the provisions thereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute a breach of or default under any law, administrative regulation, court decree, resolution, or agreement to which the Cities are subject to or by which they are bound; and

(vii) except as otherwise disclosed in the Official Statement, to the best knowledge of such counsel after reasonable investigation, there is no action, suit, proceeding, inquiry, or investigation, at law or in equity, before or by any court, regulatory agency, or public board or body, pending and notice of which has been served on the City or, to the best knowledge of such counsel, threatened (a) in any way questioning the existence of the City or the titles of the officers of the City to their respective offices; (b) affecting, contesting, or seeking to prohibit, restrain, or enjoin the issuance of the Series 2017 Bonds or the execution or delivery of any of the Cities Documents, or the payment or collection of any amounts pledged or to be pledged to pay the Loan Installments or the principal of and interest on the Series 2017 Bonds, or in any way contesting or affecting the validity of the Series 2017 Bonds or the Cities' Documents or the consummation of the transactions contemplated thereby or any proceeding of the City taken with respect to any of the foregoing, or contesting the exclusion of the interest on the Series 2017 Bonds from taxation or contesting the powers of the City and its authority to pledge the Net Revenues; (c) that may result in any material adverse change relating to the City that will materially adversely affect the City's ability to pay the Loan Installments when due; or (d) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material

fact or omitted to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(4) an opinion of Procopio, Cory, Hargreaves & Savitch LLP, serving as General Counsel to the Authority, in form and substance satisfactory to the Underwriter, dated the Closing Date, addressed to the respective City and the Underwriter, to the effect that:

(i) the Authority is a joint powers authority under Article 1 of Chapter 5 of Division 7 of Title 1 of the California Government Code duly organized and validly existing under and by virtue of the Constitution and the laws of the State;

(ii) the resolutions of the Authority approving and authorizing the execution and delivery of the Authority Documents and approving the Official Statement (collectively, the “**Authority Resolution**”) were duly adopted at meetings of the governing board of the Authority that were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and the Authority Resolution is in full force and effect and has not been modified, amended, or rescinded as of the Closing Date;

(iii) to the best knowledge of such counsel, the execution and delivery by the Authority of the Authority Documents, and compliance by the Authority with the provisions thereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute a breach of or default under any law, administrative regulation, court decree, resolution, or agreement to which the Authority is subject to or by which it is bound;

(iv) the Authority has full legal power and lawful authority to enter into the Authority Documents;

(v) the Authority Documents have been duly authorized, executed, and delivered by the Authority and, assuming due authorization, execution, and delivery by the other parties thereto, such documents constitute the legal, valid, and binding agreements of the Authority enforceable in accordance with their terms, subject to laws relating to bankruptcy, insolvency, or other laws affecting the enforcement of creditors’ rights generally and the application of equitable principles if equitable remedies are sought;

(vi) no authorization, approval, consent, or other order of the State or any other governmental authority or agency within the State having jurisdiction over the Authority, the absence of which would materially adversely affect the due performance by the Authority of its obligations under the Authority Documents, is required for the valid authorization, execution, and delivery by the Authority of the Authority Documents; and

(vii) except as otherwise disclosed in the Official Statement, to the best knowledge of such counsel after reasonable investigation, there is no action, suit, proceeding, inquiry, or investigation at law or in equity, before or by any court, regulatory agency, or public board or body, pending and notice of which has been served on the Authority or, to the best knowledge of such counsel, threatened (a) in any way questioning the existence of the Authority or the titles of the officers of the Authority to their respective offices, (b) affecting, contesting, or seeking to prohibit, restrain, or enjoin the issuance of the Series 2017 Bonds or the execution or delivery of any of the Authority Documents, or the payment or collection of any amounts pledged or to be pledged to pay the Loan Installments or the principal of and interest on the Series 2017 Bonds, or in any way contesting or affecting the validity of the Series 2017 Bonds or the Authority Documents or the consummation of the transactions contemplated thereby or any proceeding of the Authority taken with respect to any of the foregoing, or contesting the exclusion of the interest on the Series 2017 Bonds from taxation or contesting the powers of the Authority and its authority to make the pledges set forth in the Indenture, (c) that may result in any material adverse change relating to the Authority that will materially adversely affect the Authority's ability to apply the Loan Installments to pay the Series 2017 Bonds when due, or (d) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(5) a letter from Procopio, Cory, Hargreaves & Savitch LLP, San Diego, California, disclosure counsel to the Authority ("**Disclosure Counsel**"), dated the Closing Date, addressed to the Underwriter and the Authority, to the effect that, based upon its participation in the preparation of the Official Statement as counsel to the Authority and without having undertaken to determine independently the fairness, accuracy, or completeness of the statements contained in the Official Statement, such counsel has no reason to believe that, as of the date of the Closing, the Official Statement (excluding therefrom (i) the expressions of opinion, the assumptions, the projections, estimates and forecasts, the charts, the financial statements or other financial, numerical, economic, demographic or statistical data, or assessed valuations contained in the Official Statement; (ii) any CUSIP numbers or information relating thereto; (iii) any information with respect to The Depository Trust Company and its book-entry system; (iv) any information contained in the appendices to the Official Statement; (v) any information incorporated by reference into the Official Statement; (vi) compliance by the Authority, the Cities or any related entity with their respective obligations to provide notice of the events described in part (b)(5)(i)(C) of the Rule or to file annual reports described in part (b)(5)(i)(A) of the Rule; (vii) any information with respect to the underwriters or underwriting matters with respect to the Series 2017 Bonds, including but not limited to information under the caption "MISCELLANEOUS—Underwriting"; (viii) information under the captions "CERTAIN LEGAL MATTERS—Absence of Litigation" and "TAX

MATTERS—Tax Exemption of Interest on the Series 2017 Bonds”; and (ix) any information with respect to the ratings on the Series 2017 Bonds and the rating agencies referenced therein, including but not limited to information under the caption “MISCELLANEOUS—Rating”; contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(6) a certificate of each City, in form and substance satisfactory to the Underwriter, dated the Closing Date, to the effect that;

(i) the representations and warranties of the applicable City contained in this Purchase Contract are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date; and

(ii) there has been no material adverse change in the financial condition or results of operations of the applicable City from the date of the Official Statement to the Closing Date;

(7) a certificate of the Authority, in form and substance satisfactory to the Underwriter, dated the Closing Date, to the effect that;

(i) the representations and warranties of the Authority contained in this Purchase Contract are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date; and

(ii) there has been no material adverse change in the financial condition or results of operations of the Authority from the date of the Official Statement to the Closing Date;

(8) a certificate, dated the date of the Preliminary Official Statement, from the Authority and each City addressed to the Underwriter, in the form attached hereto as Exhibit B;

(9) an opinion of counsel to the Trustee, dated the Closing Date, addressed to the Underwriter, the Authority, and each City, to the effect that;

(i) the Trustee is a national banking association and is validly existing, duly qualified to do business and in good standing under the laws of each jurisdiction in which the performance of its duties under the Indenture would require such qualification and has the requisite power and authority to execute, deliver and perform its obligations under the Indenture;

(ii) the Trustee is duly eligible and qualified to act as Trustee under the Indenture;

(iii) the Trustee has all requisite power, authority, and legal right to execute and deliver the Indenture and to perform its obligations under the

Indenture, and has taken all necessary corporate action to authorize the execution and delivery of and the performance of its obligations under the Indenture;

(iv) the Trustee has duly executed and delivered the Indenture. Assuming the due authorization, execution, and delivery thereof by the other parties thereto, the Indenture is the legal, valid, and binding agreement of the Trustee enforceable against the Trustee in accordance with its terms, except to the extent enforceability thereof may be subject to (A) bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, and other similar laws affecting creditors' rights and remedies heretofore or hereafter enacted, and (B) the application of equitable principles and the exercise of judicial discretion in appropriate cases;

(v) the Series 2017 Bonds have been duly authenticated by the Trustee;

(vi) the execution, delivery, and performance of the Indenture by the Trustee and the consummation of the transactions contemplated thereby do not and will not (a) to the knowledge of such counsel, conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement, or other agreement or instrument to which the Trustee is a party or by which the Trustee is bound or to which any of the property or assets of the Trustee or any of its subsidiaries is subject, (b) result in any violation of the provisions of the charter, articles of association, by-laws, or applicable resolutions of the Trustee, or (c) to the knowledge of such counsel, result in any violation of any statute or any order, rule, or regulation of any court or government agency or body having jurisdiction over the Trustee or any of its properties or assets; and

(vii) to the knowledge of such counsel, there are no actions, proceedings, or investigations pending or threatened against the Trustee before any court, administrative agency or tribunal (a) asserting the invalidity of the Indenture, (b) seeking to prevent the consummation of any of the transactions contemplated thereby, or (c) that might materially and adversely affect the performance by the Trustee of its obligations under, or the validity or enforceability of the Indenture;

(10) a certificate, dated the Closing Date, signed by a duly authorized officer of the Trustee, to the effect that:

(i) the Trustee is a national banking association organized and existing under and by virtue of the laws of the United States of America, having the necessary power to enter into, accept, and administer the trusts created under the Indenture and to authenticate the Series 2017 Bonds;

(ii) the Indenture has been duly authorized, executed, and delivered by a duly authorized officer of the Trustee, and the execution, delivery, and

performance of the Indenture have been duly authorized by all necessary action of the Trustee;

(iii) the Indenture constitutes the legal, valid, and binding obligation of the Trustee enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought;

(iv) the Series 2017 Bonds have been duly authenticated by a duly authorized officer of the Trustee;

(v) no consent, approval, authorization, or other action by any governmental or regulatory authority having jurisdiction over the Trustee that has not been obtained is or will be required for the execution and delivery of the Indenture or the performance by the Trustee of its duties and obligations under the Indenture;

(vi) the execution and delivery by the Trustee of the Indenture and compliance with the terms thereof will not conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, indenture, bond, note, resolution, or any other agreement or instrument to which the Trustee is a party or by which it is bound, or any law or any rule, regulation, order, or decree of any court or governmental agency or body having jurisdiction over the Trustee or any of its activities or properties (except that no representation, warranty, or agreement need be made with respect to any federal or State securities or blue sky laws or regulations);

(vii) the Trustee's action in executing and delivering the Indenture will not contravene the articles or bylaws of the Trustee and is in full compliance with, and does not conflict with, any applicable law or governmental regulation currently in effect, and such action does not conflict with or violate any contract to which the Trustee is a party or any administrative or judicial decision by which the Trustee is bound; and

(viii) there is no action, suit, proceeding, or investigation, at law or in equity, before or by any court or governmental agency, public board, or body that has been served on the Trustee, or to the best knowledge of the Trustee, threatened against the Trustee which in the reasonable judgment of the Trustee would affect the existence of the Trustee or in any way contesting or affecting the validity or enforceability of the Indenture or contesting the powers of the Trustee or its authority to enter into and perform its obligations thereunder;

(11) certified copies of the City Resolutions, the Authority Resolution, and incumbency resolution of the Trustee;

(12) copies each of the Authority Documents, the Cities' Documents, and the Official Statement, duly executed and delivered by the respective parties thereto;

(13) a tax certificate of the Authority and each City, in form satisfactory to Bond Counsel, signed by an appropriate officer of each of the Authority and the applicable City;

(14) evidence that the underlying rating on the Series 2017 Bonds of "[]" by Standard & Poor's Ratings Service are in full force and effect on the Closing Date;

(15) copies of the statements with respect to the sale of the Series 2017 Bonds required to be delivered to the California Debt and Investment Advisory Commission pursuant to Sections 8855 and 53583 of the California Government Code;

(16) evidence that the federal tax information form 8038-G has been prepared by Bond Counsel for filing; and

(17) such additional legal opinions, certificates, proceedings, instruments, and other documents as the Underwriter or Bond Counsel may reasonably request to evidence compliance by each City and the Authority with legal requirements, the accuracy, as of the time of Closing, of the Authority and the Cities' representations herein contained, and the due performance or satisfaction by the Cities and the Authority at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the Cities and the Authority.

If a City or the Authority shall be unable to satisfy the conditions to the Underwriter's obligations contained in this Purchase Contract or if the Underwriter's obligations shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the City of Encinitas, the City of Solana Beach, the Authority, nor the Underwriter shall have any further obligation hereunder.

9. The performance the Authority and each of the Cities of their obligations are conditioned upon (i) the performance by the Underwriter of its obligations hereunder and (ii) receipt by the Authority, the Cities, and the Underwriter of opinions and certificates being delivered at the Closing by persons and entities other than Authority and the Cities.

10. Except as indicated in this Section 10 and in Sections 6(L) and 7(L), no expenses and costs of the Cities or the Authority incident to the performance of the Authority's or the Cities' obligations in connection with the authorization, issuance, and sale of the Series 2017 Bonds to the Underwriter, such as the costs of preparation (including word processing, printing, and reproduction), distribution and delivery of the Preliminary Official Statement, the Official Statement, and this Purchase Contract, in reasonable quantities, fees of rating agencies, fees and expenses of any financial advisor to the Cities, and fees and expenses of Bond Counsel or Disclosure Counsel for the Cities, shall be paid by the Underwriter. Except as indicated above, all out-of-pocket expenses of the Underwriter, including the California Debt and Investment Advisory Commission fee, CUSIP Bureau and/or DTC fees, traveling, the cost of preparation of

any Blue Sky and legal investment memoranda and all Blue Sky filing fees, and other expenses and the fees and expenses of the Underwriter, including Underwriter's Counsel, shall be paid by the Underwriter.

11. Any notice or other communication to be given under this Purchase Contract may be given by delivering the same in writing to the City of Encinitas, 505 S. Vulcan Ave. Encinitas, CA 92024, Attention: [Karen Brust] or to the City of Solana Beach, 635 S. HWY 101 Solana Beach, CA 92075 Attention: [Greg Wade] respectively, or to such other person as the Treasurer may designate in writing; any notice or other communication to be given to the Authority under this Purchase Contract may be given by delivering the same in writing to the San Elijo Joint Powers Authority, 2695 Manchester Avenue, Cardiff by the Sea, CA 92007 Attention: General Manager, or to such other person as the Executive Director may designate in writing; and any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to Hilltop Securities Inc., 2533 South Coast Hwy 101, Suite 250, Cardiff, California 92007, Attention: Mike Cavanaugh. The approval of the Underwriter when required hereunder or the determination of their satisfaction as to any document referred to herein shall be in writing signed by the Underwriter and delivered to the Authority.

12. For all purposes of this Purchase Contract, a default shall not be deemed to be continuing if it has been cured, waived, or otherwise remedied. This Purchase Contract shall be governed by and construed in accordance with the laws of the State applicable to contracts made and performed within the State.

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

14. This Purchase Contract when accepted by the Authority and the Cities in writing shall constitute the entire agreement among the Cities, the Authority, and the Underwriter and is made solely for the benefit of the Cities, the Authority, and the Underwriter (including the successors or assigns of the Underwriter). No other person shall acquire or have any right hereunder or by virtue hereof.

HILLTOP SECURITIES INC.

By: _____
Kelly Wine
Director

The foregoing is hereby agreed to and accepted as of the date first above written:

SAN ELIJO JOINT POWERS AUTHORITY

By: _____
Name: [Michael Thornton]
Title: General Manager

CITY OF ENCINITAS

By: _____
Name: [Tim Nash]
Title: Finance Director

Time of Execution: _____

Signature Page of Bond Purchase Contract relating to
San Elijo Joint Powers Authority
2017 Revenue Bonds (Clean Water Projects)

CITY OF SOLANA BEACH

By: _____

Name: [Greg Wade]

Title: City Manager

Time of Execution: _____

Signature Page of Bond Purchase Contract relating to
San Elijo Joint Powers Authority
2017 Revenue Bonds (Clean Water Projects)

EXHIBIT A

**[\$_____]
San Elijo Joint Powers Authority
2017 Revenue Bonds (Clean Water Projects)**

<u>Maturity Date (March 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
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* Yield to first call date of [_____] at par.

EXHIBIT B
FORM OF
S.E.C. RULE 15c2-12 CERTIFICATE

§[_____] *
SAN ELIJO JOINT POWERS AUTHORITY
SERIES 2017 REVENUE BONDS
(CLEAN WATER PROJECTS)

RULE 15c2-12 CERTIFICATE

The undersigned hereby certifies and represents to Hilltop Securities Inc. (the “Underwriter”) that he is (a) the duly appointed and acting Chief Administrative Officer of the San Elijo Joint Powers Authority (the “Authority”) and, as such, is authorized to execute and deliver this Certificate and further hereby certifies and reconfirms on behalf of the Authority and (b) the duly appointed and acting [Finance Director] of the City of [Encinitas] (the “City”), and, as such, is authorized to execute and deliver this Certificate and further hereby certifies and reconfirms on behalf of the City to the Underwriter as follows:

(1) This Certificate is delivered to enable the Underwriter to comply with Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the “Rule”) in connection with the offering and sale of the Authority’s above-captioned bonds (the “Series 2017 Bonds”).

(2) In connection with the offering and sale of the Series 2017 Bonds, there has been prepared a Preliminary Official Statement, dated [_____] , 2017, setting forth information concerning the City, the Authority and the Series 2017 Bonds (the “Preliminary Official Statement”).

(3) As used herein, “Permitted Omissions” shall mean the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the Series 2017 Bonds depending on such matters, all with respect to the Series 2017 Bonds.

(4) The Preliminary Official Statement is and has been, except for the Permitted Omissions, deemed final within the meaning of the Rule, and the information therein is accurate and complete except for the Permitted Omissions.

* Preliminary, subject to change.

(5) If, at any time prior to the execution of the final contract of purchase, any event occurs as a result of which the Preliminary Official Statement might include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the City shall upon receipt of actual knowledge or notice of any such event promptly notify the Underwriter thereof.

IN WITNESS WHEREOF, I have hereunto set my hand this __th day of ____, 2017.

SAN ELIJO JOINT POWERS AUTHORITY

CITY OF [ENCINITAS]

By: _____
[Michael Thornton], General Manager

By: _____
[Tim Nash], [Finance Director]

SAN ELIJO JOINT POWERS AUTHORITY
MEMORANDUM

June 12, 2017

TO: Board of Directors
San Elijo Joint Powers Authority

FROM: General Manager

SUBJECT: PURCHASE OF PROCESS CONTROL EQUIPMENT

RECOMMENDATION

It is recommended that the Board of Directors:

1. Authorize the General Manager to purchase a Hach Nitrification Information System in the amount of \$85,000; and
2. Discuss and take other action as appropriate.

BACKGROUND

The San Elijo Water Reclamation Facility (SEWRF) uses conventional activated sludge treatment as a critical step in achieving State and Federal water quality requirements. The process consists of a bioreactor tank that is designed to use microorganisms within the wastewater, combined with diffused oxygen, to provide biological treatment. The SEWRF bioreactor is currently operated in a non-nitrifying mode since the treatment plant was originally designed to discharge to the ocean, which does not require nutrient removal.

As the SEJPA increases its recycled water pursuits, the quality of feed water to the recycled water treatment system becomes more critical. To improve water quality and treatment reliability, Staff is in the process of evaluating the cost and capital requirements to convert the existing conventional activated sludge bioreactor from non-nitrified to a nitrification and partial denitrification (N/pDN) process. The N/pDN biological process provides more reliable and robust treatment, able to successfully treat a broad range of wastewater strength. This improved quality can increase recycled water production rates, reduce maintenance periods for filter cleaning, and enhance disinfection (likely eliminating coliform break-through which occurs intermittently).

DISCUSSION

SEJPA is currently investigating the necessary capital improvements to implement the N/pDN process into the existing bioreactors. As part of this effort, Staff identified process control equipment that would be beneficial for collecting necessary water quality data and for use in controlling the bioreactor. The manufacturer (Hach Company) is willing to provide their nitrification control system to the SEJPA for a trial period to demonstrate its performance and ability to efficiently monitor and control the N/pDN process. This Hach proprietary equipment is unique and desirable as it combines ammonia analyzers with programmable control to create a system that predicts the microbiologic reaction in the bioreactor tank.

The Hach Company has proposed to provide equipment that will include ammonia probes and the RTC-N nitrification control system to calculate the required oxygen concentration in the bioreactor tank and achieve a desired effluent ammonia concentration. The RTC-N consists of an open-loop control model based on the ammonia concentration at the influent to the bioreactor tank, flow rate to the tank, water temperature and total suspended solids (TSS) concentration in the bioreactor tank. This open-loop control is combined with a closed-loop control based on the ammonia concentration at the outlet of the bioreactor tank to calculate an ideal oxygen concentration in the water to support N/pDN.

The installation of the equipment is anticipated to be performed by SEJPA maintenance staff. A small amount of new conduit work may be required that would be contracted to an electrician. The installation cost is anticipated to be approximately \$5,000.

Staff requests authorization to purchase the Hach nitrification control system, which is a proprietary system, upon successful completion of 60-day trial period.

FINANCIAL IMPACT

The Hach Nitrification Information System costs \$85,000. Funding in the amount \$230,629 is available in the Capital Projects Fund for Wastewater Plant Improvements.

It is therefore recommended that the Board of Directors:

1. Authorize the General Manager to purchase a Hach Nitrification Information System in the amount of \$85,000; and
2. Discuss and take other action as appropriate.

Respectfully submitted,



Michael T. Thornton, P.E.
General Manager