

**PRELIMINARY OFFICIAL STATEMENT DATED \_\_\_\_\_, 2023****NEW ISSUE -- FULL BOOK-ENTRY****RATING: S&P: "\_\_\_"**

See "RATING."

*In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however to certain qualifications described herein, under existing law, the portion of Installment Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. Such interest may be subject to the corporate alternative minimum tax. In the further opinion of Special Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."*

\$ \_\_\_\_\_\*

**CITY OF SANTA CLARA  
WASTEWATER REVENUE CERTIFICATES OF PARTICIPATION,  
SERIES 2023 (GREEN BONDS - CLIMATE BOND CERTIFIED)**

**[Green Bond  
logo(s)]**

**Dated: Date of Delivery****Due: February 1, as shown on inside cover**

**Authority.** The captioned certificates of participation (the "Certificates") are being executed and delivered under a Trust Agreement dated as of October 1, 2023 (the "Trust Agreement"), by and among the City of Santa Clara (the "City"), the City of Santa Clara Public Facilities Financing Corporation, a California nonprofit public benefit corporation (the "Corporation") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), a resolution adopted by the City Council of the City on August 29, 2023, and a resolution adopted by the Board of Directors of the Corporation on August 29, 2023. See "THE CERTIFICATES – Authority for Execution and Delivery."

**Security.** The Certificates evidence direct, undivided fractional interests of the owners thereof in Installment Payments (defined herein) to be made by City under an Installment Sale Agreement dated as of October 1, 2023 (the "Installment Sale Agreement"), between the Corporation, as seller, and the City, as purchaser. The Installment Payments are special obligations of the City and are payable exclusively from Net Revenues (defined herein) of the City's municipal wastewater enterprise (the "Wastewater System") and from amounts on deposit in certain funds and accounts established under the Trust Agreement. The semiannual Installment Payments will comprise the interest and principal represented by the Certificates. Under the Trust Agreement, the Installment Payments will be irrevocably assigned to the Trustee for the benefit of the Owners of the Certificates. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES." See also "RISK FACTORS."

**Parity Obligations.** The Certificates are being executed and delivered on a parity with the obligations of the City to make installment payments (the "Prior Installment Payments") under an Installment Sale Agreement dated November 8, 2016. Under the Installment Sale Agreement, the City may issue additional obligations on a parity with the Installment Payments and the Prior Installment Payments, subject to the conditions set forth in the Installment Sale Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Additional Obligations."

**Purposes.** The Certificates are being executed and delivered to provide funds to (i) finance the City's allocable share of certain improvements to the San José-Santa Clara Regional Wastewater Facility, (ii) prepay in full the installment payments payable by the City under an Installment Sale Agreement dated as of June 1, 2020 (the "2020 Installment Sale Agreement"), by and between the City and the Corporation, and (iii) pay certain costs of executing and delivering the Certificates. See "FINANCING g PLAN."

**Interest.** Interest represented by the Certificates will be payable on February 1 and August 1 of each year, commencing February 1, 2024. See "THE CERTIFICATES."

**Book-Entry Only.** When executed and delivered, the Certificates will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Certificates. Ownership interests in the Certificates may be purchased in book-entry form only. Beneficial owners of Certificates will not receive physical certificates representing the Certificates purchased but will receive a credit balance on the books of the nominees of such purchasers who are participants of DTC. Principal, premium, if any, and interest due with respect to the Certificates will be paid by the Trustee to DTC, which will in turn remit those payments to its participants for subsequent disbursement to the beneficial owners of the Certificates as described in this Official Statement. See "THE CERTIFICATES – Book-Entry Only System" and "APPENDIX F – Book-Entry Only System."

**No Debt Service Reserve.** Neither the City nor the Corporation will create or maintain a debt service reserve account or fund with respect to the Installment Payments or for the Certificates. See "SECURITY FOR THE CERTIFICATES – No Debt Service Reserve."

**Prepayment. The Certificates are subject to optional prepayment and mandatory sinking fund prepayment prior to maturity. See "THE CERTIFICATES – Prepayment."**

**Limited Obligation.** NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE INSTALLMENT PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE CITY, THE CORPORATION, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA OR OTHERWISE, OR AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES."

**MATURITY SCHEDULE**

(See inside cover)

This cover page contains information for quick reference only. It is not a summary of all the provisions of the Certificates. Investors must read the entire official statement to obtain information essential in making an informed investment decision. See "RISK FACTORS" for a discussion of factors that should be considered, in addition to the other matters set forth in this Official Statement, in evaluating the investment quality of the Certificates.

*The Certificates will be sold and awarded pursuant to a competitive bidding process to be held on [September 12], 2023, as set forth in the Official Notice of Sale. The Certificates are offered when, as and if executed and delivered, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel. Certain legal matters will be passed upon for the City by Jones Hall, A Professional Law Corporation, San Francisco, California, as Disclosure Counsel. It is anticipated that the Certificates in book-entry only form will be available for delivery through the facilities of DTC, on or about [October 24], 2023.*

The date of this Official Statement is: \_\_\_\_\_, 2023

\* Preliminary; subject to change.

**MATURITY SCHEDULE\***

**BASE CUSIP†:** \_\_\_\_\_

**\$\_\_\_\_\_ Serial Certificates**

<b>Maturity (February 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>Price</b>	<b>CUSIP†</b>
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\$\_\_\_\_\_ % Term Certificates Due February 1, 20\_\_; Yield: \_\_\_\_%; Price: \_\_\_\_%;  
CUSIP†: \_\_\_\_\_

\$\_\_\_\_\_ % Term Certificates Due February 1, 20\_\_; Yield: \_\_\_\_%; Price: \_\_\_\_%;  
CUSIP†: \_\_\_\_\_

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\* Preliminary; subject to change.

† CUSIP Global Services (CGS) is managed on behalf of American Bankers Association by FactSet Research Systems Inc. Copyright© 2023 CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. Neither the City nor the Underwriter or their agents or counsel assume responsibility for the accuracy of such numbers.

## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

**Use of Official Statement.** This Official Statement is submitted in connection with the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract between any Certificate owner and the City, the Corporation or the Underwriter.

**No Offering Except by This Official Statement.** No dealer, broker, salesperson or other person has been authorized by the City, the Corporation or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the City, the Corporation or the Underwriter.

**No Unlawful Offers or Solicitations.** This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the Certificates by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

**Information in Official Statement.** The information set forth in this Official Statement has been furnished by the City and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

**Estimates and Forecasts.** When used in this Official Statement and in any continuing disclosure by the City in any press release and in any oral statement made with the approval of an authorized officer of the City or any other entity described or referenced herein, the words or phrases “will likely result,” “are expected to”, “will continue”, “is anticipated”, “estimate”, “project,” “forecast”, “expect”, “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the City or any other entity described or referenced herein since the date hereof.

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

**Document Summaries.** All summaries of the Trust Agreement, the Installment Sale Agreement, or other documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

**No Securities Laws Registration.** The Certificates have not been registered under the Securities Act of 1933, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The Certificates have not been registered or qualified under the securities laws of any state.

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

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

# **CITY OF SANTA CLARA, CALIFORNIA**

**SANTA CLARA COUNTY  
STATE OF CALIFORNIA**

## **CITY COUNCIL MEMBERS**

Lisa M. Gillmor, *Mayor*  
Kathy Watanabe, *Councilmember, District 1*  
Raj Chahal, *Councilmember, District 2*  
Karen Hardy, *Councilmember, District 3*  
Kevin Park, *Councilmember, District 4*  
Sudhanshu Jain, *Vice Mayor, District 5*  
Anthony J. Becker, *Councilmember, District 6*

## **CITY STAFF**

Jovan D. Grogan, *City Manager*  
Kenn Lee, *Director of Finance*  
Gary Welling, *Director of Water & Sewer Utilities*  
Hosam Haggag, *City Clerk*  
Glen R. Googins, *City Attorney*

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## **MUNICIPAL ADVISOR**

KNN Public Finance, LLC  
*Berkeley, California*

## **SPECIAL COUNSEL and DISCLOSURE COUNSEL**

Jones Hall, A Professional Law Corporation  
*San Francisco, California*

## **TRUSTEE**

The Bank of New York Mellon Trust Company, N.A.  
*San Francisco, California*

## TABLE OF CONTENTS

<u>Page</u>	<u>Page</u>
INTRODUCTION.....	1
FINANCING PLAN .....	4
Project Financing Plan .....	4
Refinancing Plan .....	4
Estimated Sources and Uses of Funds.....	5
THE CERTIFICATES .....	6
Authority for Execution and Delivery .....	6
Certificate Terms.....	6
Prepayment.....	7
Book-Entry Only System .....	9
Registration, Transfer and Exchange of Certificates .....	9
DESIGNATION OF THE CERTIFICATES AS GREEN BONDS – CLIMATE BOND CERTIFIED .....	11
ESTIMATED PAYMENT SCHEDULE .....	13
SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES .....	14
Nature of the Certificates .....	14
Security for Installment Payments.....	14
Limited Obligation.....	16
Installment Payment Fund .....	16
No Debt Service Reserve.....	18
Rate Stabilization Fund .....	18
Rates and Charges .....	18
Issuance of Additional Parity Debt .....	19
Senior and Subordinate Obligations .....	20
Insurance.....	20
Sale, Encumbrance or Eminent Domain of Wastewater System .....	20
THE CORPORATION .....	21
SANTA CLARA CITY GOVERNMENT .....	21
THE PROJECT .....	22
CITY OF SANTA CLARA WASTEWATER SYSTEM.....	23
Organization and Administration .....	23
Management .....	23
History of the Wastewater System.....	24
Service Area and Customer Base.....	25
Wastewater System Physical Assets.....	27
Historical Wastewater Flow.....	28
WASTEWATER RATES .....	29
Authority .....	29
Billing and Delinquencies .....	29
Rate Setting Process .....	30
Sewer Service Rate Structure.....	31
Connection Fees .....	35
SAN JOSE-SANTA CLARA REGIONAL WASTEWATER FACILITY AND AGREEMENTS .....	36
General.....	36
Service Area and Tributary Agencies .....	37
Treatment Plant Litigation.....	39
Operation and Maintenance Costs; Capital Costs.....	39
Treatment Plant Capacity .....	41
Treatment Plant Capital Improvement Plan.....	41
WASTEWATER SYSTEM FINANCIAL INFORMATION.....	44
Wastewater System Capital Improvement Program .....	44
Wastewater System Funds.....	44
Wastewater System Reserves.....	45
Historical Revenues and Expenses .....	47
Statement of Net Assets .....	48
Outstanding Wastewater System Obligations .....	49
Historical Revenues, Expenses and Debt Service Coverage .....	50
Pro Forma Projection of Revenues, Expenses and Debt Service Coverage....	51
REGULATORY REQUIREMENTS .....	53
Treatment Plant .....	53
Wastewater Regulations under Consideration or Development .....	55
Wastewater System Regulatory Requirements .....	60
RISK FACTORS .....	61
Limited Liability .....	61
Gross Revenues; Rate Covenant .....	61
Wastewater System Expenses .....	62
Environmental Regulation.....	62
No Reserve Fund.....	62
Insurance .....	62
Limitations on Remedies Available to Owners of the Certificates .....	62
Parity Debt .....	63
Natural Disasters .....	63
Articles XIIC and XIID of the California Constitution .....	64
Cybersecurity .....	67
Secondary Market for Certificates .....	68
LEGAL OPINION .....	69
TAX MATTERS.....	69
NO LITIGATION.....	71
RATING .....	71
CONTINUING DISCLOSURE.....	71
MUNICIPAL ADVISOR .....	72
COMPETITIVE SALE OF CERTIFICATES .....	72
PROFESSIONAL FEES .....	72
EXECUTION.....	73

- APPENDIX A - SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS
- APPENDIX B - GENERAL INFORMATION ABOUT THE CITY OF SANTA CLARA AND SANTA CLARA COUNTY
- APPENDIX C - COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR FISCAL YEAR ENDED JUNE 30, 2022
- APPENDIX D - FORM OF PROPOSED OPINION OF SPECIAL COUNSEL
- APPENDIX E - FORM OF CONTINUING DISCLOSURE CERTIFICATE
- APPENDIX F - BOOK-ENTRY ONLY SYSTEM
- APPENDIX G - CLIMATE BOND VERIFIER'S REPORT

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# OFFICIAL STATEMENT

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**CITY OF SANTA CLARA  
WASTEWATER REVENUE CERTIFICATES OF PARTICIPATION,  
SERIES 2023 (GREEN BONDS - CLIMATE BOND CERTIFIED)**

This Official Statement (which includes the cover page and Appendices hereto) (the “**Official Statement**”) provides certain information concerning the execution, sale and delivery of the certificates of participation captioned above (the “**Certificates**”).

## INTRODUCTION

*This Introduction contains a brief summary of certain information contained in this Official Statement. It is not intended to be complete and is qualified by the more detailed information contained elsewhere in this Official Statement. Definitions of certain capitalized terms used in this Official Statement are set forth in APPENDIX A.*

**Issuance of Certificates.** The Certificates will be executed and delivered pursuant to a Trust Agreement dated as of October 1, 2023 (the “**Trust Agreement**”), by and among the City of Santa Clara (the “**City**”), the City of Santa Clara Public Facilities Financing Corporation (the “**Corporation**”), and The Bank of New York Mellon Trust Company, N.A., as trustee (the “**Trustee**”).

**Use of Proceeds.** The net proceeds of the sale of the Certificates will be used:

(i) to provide for the financing of the City’s allocable share of certain improvements to the San José-Santa Clara Regional Wastewater Facility (as further described herein, the “**Treatment Plant**”) which is co-owned by the City and the city of San José;

(ii) to prepay in full the installment payments payable by the City under an Installment Sale Agreement dated as of June 1, 2020 (the “**2020 Installment Sale Agreement**”), by and between the City and the Corporation; and

(iii) to pay certain costs incurred in connection with the execution and delivery of the Certificates.

See “FINANCING PLAN.”

**Security and Sources of Payment.** The Certificates evidence direct, undivided fractional interests of the owners thereof in the Installment Payments to be made by City under an Installment Sale Agreement dated as of October 1, 2023 (the “**Installment Sale Agreement**”),

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\* Preliminary; subject to change.

between the Corporation, as seller, and the City, as purchaser. The Installment Payments are special obligations of the City and are payable exclusively from Net Revenues (defined herein) of the City's Wastewater System and from amounts on deposit in certain funds and accounts established under the Trust Agreement. The semiannual Installment Payments will comprise the interest and principal represented by the Certificates. Under the Trust Agreement, the Installment Payments will be irrevocably assigned to the Trustee for the benefit of the Owners of the Certificates. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES."

The "**Wastewater System**" is defined in the Trust Agreement to mean the entire system of the City for the collection and transmission of wastewater, including but not limited to all facilities, properties and improvements at any time owned, controlled or operated by the City for the collection and transmission of wastewater within the service area of the City, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the City. The Wastewater System does not include the Treatment Plant.

**No Debt Service Reserve Fund.** No debt service reserve fund will be established for the Installment Payments or the Certificates.

**Parity Obligations.** The Certificates are being executed and delivered on a parity with the obligations of the City under an Installment Sale Agreement dated November 8, 2016 (the "**Trimble Road ISA**"), for the purpose of providing financing for the rehabilitation and replacement of the Trimble Road trunk sanitary sewer pipelines, under which the City is obligated to pay semiannual installment payments in the aggregate principal amount of \$12,000,000 and which there are outstanding \$6,859,162 as of July 1, 2023 (the "**Prior Installment Payments**").

Under the Installment Sale Agreement, the City may issue additional obligations on a parity with the Installment Payments and the Prior Installment Payments, subject to the conditions set forth in the Installment Sale Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Additional Obligations."

**LIMITED OBLIGATION.** NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE INSTALLMENT PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE CITY, THE CORPORATION, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA OR OTHERWISE, OR AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

**Legal Matters.** The execution and delivery of the Certificates is subject to the approving opinion of Jones Hall, A Professional Law Corporation, San Francisco, California ("**Special Counsel**"), to be delivered in substantially the form attached hereto as Appendix D. Jones Hall, A Professional Law Corporation, San Francisco, California, is also serving as Disclosure Counsel to the City ("**Disclosure Counsel**").

**Tax Matters.** In the opinion of Special Counsel, subject, however to certain qualifications described herein, under existing law, the portion of Installment Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. Such interest may be subject to the corporate alternative

minimum tax. In the further opinion of Special Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" and APPENDIX D.

**Continuing Disclosure.** The City has covenanted and agreed that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate, dated the date of the Certificates and executed by the City (the "**Continuing Disclosure Certificate**"). The form of the Continuing Disclosure Certificate is attached as APPENDIX E. See "CONTINUING DISCLOSURE."

**Risk Factors.** Investment in the Certificates has certain risks arising from circumstances which could have an adverse impact on the ability of the City to pay the Installment Payments. See "RISK FACTORS."

## FINANCING PLAN

### Project Financing Plan

Wastewater collected by the City's Wastewater System is transmitted to the Treatment Plant, which is co-owned by the City and the city of San José. The City is obligated to contribute its share of capital costs for improvements to the Treatment Plant, and overall it is estimated the City will be obligated to contribute a total amount of \$350 million to the capital costs of improving the Treatment Plant (the "**Project**") through 2040. The City intends to expend a portion of the proceeds of the Certificates to finance a portion of the Project.

See "THE PROJECT" and "CITY OF SANTA CLARA WASTEWATER SYSTEM – History of the Wastewater System."

### Refinancing Plan

The City and the Corporation entered into the 2020 Installment Sale Agreement in June 2020 for the purpose of providing financing for the City's share of certain capital costs of improvements to the Treatment Plant. The Corporation's right to receive installment payments under the 2020 Installment Sale Agreement was assigned to JPMorgan Chase Bank, N.A. (the "**2020 Assignee**"). The maximum principal amount of the installment payments under the 2020 Installment Sale Agreement was \$50,000,000, of which \$20,000,000 is currently outstanding. The City has previously drawn down amounts, and repaid a portion of the total amount drawn down, under the 2020 Installment Sale Agreement for the purpose of financing various capital improvements at the Treatment Plant.

A portion of the net proceeds of the Certificates will be deposited in the Refunding Fund established under the Trust Agreement and will be used to prepay the City's obligations under the 2020 Installment Sale Agreement on or about \_\_\_\_\_, 2023. As a result of this deposit into the Refunding Fund, the 2020 Installment Sale Agreement will be discharged as of the Closing Date.

*Amounts on deposit in the Refunding Fund are not available to pay principal of or interest with respect to the Certificates.*

## Estimated Sources and Uses of Funds

The estimated sources and uses of funds with respect to the Certificates are as follows:

### Sources of Funds

Principal Amount of Certificates	\$
Plus/Less Original Issue Premium/Discount	_____
<b>Total Sources</b>	<b>\$</b>

### Uses of Funds

Project Fund	\$
Refunding Fund <sup>(1)</sup>	
Delivery Costs <sup>(2)</sup>	_____
<b>Total Uses</b>	<b>\$</b>

(1) To be used to prepay in full the obligations of the City under the 2020 Installment Sale Agreement. See “– Refinancing Plan” above.

(2) Represents Underwriter’s discount, printing costs, the fees and expenses of Special Counsel, Disclosure Counsel, Municipal Advisor, Trustee and the rating agency, and certain other costs of executing and delivering the Certificates.

## THE CERTIFICATES

### Authority for Execution and Delivery

The Certificates are being executed and delivered under the Trust Agreement, a resolution adopted by the City Council of the City on August 29, 2023, and a resolution adopted by the Board of Directors of the Corporation on August 29, 2023. Under these resolutions, the Certificates may be executed and delivered in a maximum principal amount of \$50,000,000.

### Certificate Terms

**General Certificate Terms.** The Certificates will be dated as of the Closing Date. Principal represented by the Certificates is payable on February 1 in each of the respective years and in the respective amounts, and interest represented thereby will be computed at the respective rates, as set forth on the inside front cover page of this Official Statement.

The Certificates will be delivered in the form of fully registered Certificates without coupons in the authorized denominations of \$5,000 or any integral multiple thereof, except that no Certificate will represent principal payable in more than one year.

**Calculation of Interest.** The interest components evidenced by the Certificates will be due and payable semiannually on February 1 and August 1 of each year (each, an “**Interest Payment Date**”), commencing February 1, 2024.

Interest represented by a Certificate is payable from the Interest Payment Date next preceding the date of execution thereof, unless:

- (a) it is executed after a Record Date and on or before the following Interest Payment Date, in which event interest represented thereby is payable from such Interest Payment Date; or
- (b) it is executed on or before the first Record Date, in which event interest represented thereby is payable from the Closing Date; or
- (c) interest represented by such Certificate is in default as of the date of its execution, in which event interest represented thereby is payable from the Interest Payment Date to which interest represented thereby has previously been paid or made available for payment.

Under the Trust Agreement, “**Record Date**” is defined as the close of business on the 15<sup>th</sup> day of the month preceding each Interest Payment Date, whether or not such 15<sup>th</sup> day is a Business Day.

Interest represented by the Certificates will be payable on each Interest Payment Date to and including the date of maturity or prepayment, whichever is earlier. Said interest represents the portion of Installment Payments designated as interest and coming due on each of the respective Interest Payment Dates. The share of the portion of Installment Payments designated as interest with respect to any Certificate will be computed by multiplying the portion of Installment Payments designated as principal represented by such Certificate by the rate of interest represented by such Certificate (calculated on the basis of a 360-day year comprised of twelve 30-day months).

**Payments of Interest and Principal.** For so long as DTC is used as depository for the Certificates, principal of, premium, if any, and interest payments with respect to the Certificates will be made solely to DTC or its nominee, Cede & Co., as registered owner of the Certificates, for distribution to the beneficial owners of the Certificates in accordance with the procedures adopted by DTC.

The Trustee will pay interest represented by the Certificates on each Interest Payment Date, to the person appearing on the Registration Books as the Owner thereof as of the close of business on the Record Date immediately preceding such Interest Payment Date, by check mailed to the Owner by first class mail at the Owner's address appearing on the Registration Books. At the written request of the Owner of Certificates in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Trustee as of the Record Date preceding any Interest Payment Date, the Trustee will pay interest represented by the Certificates by wire transfer in immediately available funds to such account in the United States as is specified in the written request.

The principal and prepayment price represented by any Certificate at maturity or upon prior prepayment is payable in lawful money of the United States of America upon surrender of such Certificate at the Office of the Trustee.

#### **Prepayment\***

**Optional Prepayment.** The Certificates maturing on or before February 1, 20\_\_, are not subject to optional prepayment before their respective stated maturities. The Certificates maturing on or after February 1, 20\_\_, are subject to prepayment prior to their stated maturity, at the option of the City, in whole, or in part by lot, on February 1, 20\_\_, or on any date thereafter, from prepayments of the Installment Payments made under the Installment Sale Agreement from any legally available source of funds of the City, upon payment of a prepayment price equal to 100% of the principal amount to be prepaid, together with accrued interest to the date fixed for prepayment, without premium.

**Mandatory Sinking Fund Prepayment.** The Term Certificates are subject to mandatory prepayment in part by lot, at a prepayment price equal to 100% of the principal amount thereof to be prepaid, without premium, in the aggregate respective principal amounts and on February 1 in the respective years as set forth in the following table; *provided, however*, that if some but not all of the Term Certificates have been prepaid through optional prepayment, the total amount of all future sinking fund payments will be reduced by the aggregate principal amount of the Term Certificates so prepaid, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000 (as set forth in a schedule provided by the City to the Trustee).

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\* Preliminary; subject to change.

**Term Certificates Maturing  
February 1, 20\_\_**

Sinking Fund  
Prepayment Date  
(February 1)

Principal Amount  
To Be Prepaid

***Selection of Certificates for Partial Prepayment.*** Whenever provision is made in the Trust Agreement for the prepayment of Certificates and less than all Outstanding Certificates of any maturity are called for prepayment, the Trustee will select Certificates of such maturity for prepayment from such maturities as are designated by the City (or if the City fails to designate such maturities, by lot within a maturity). For the purposes of such selection, Certificates will be deemed to be composed of \$5,000 portions, and any such portion may be separately prepaid.

***Purchase In Lieu of Prepayment.*** In lieu of prepayment of Certificates as provided in the Trust Agreement, amounts held by the Trustee for such prepayment may, at the written request of the City Representative received by the Trustee at least 75 days prior to the selection of Certificates for prepayment, be applied by the Trustee to the purchase of Certificates at public or private sale as and when and at such prices (including brokerage, accrued interest and other charges) as the City may in its discretion direct, but not to exceed the prepayment price which would be payable if such Certificates were prepaid.

***Notice of Prepayment.*** The Trustee will give notice of prepayment to the Owners of Certificates designated for prepayment at their respective addresses appearing on the Registration Books, and will cause a notice of prepayment to be posted on the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board, at least 20 days but not more than 60 days prior to the prepayment date. Neither the failure to receive any such notice nor any defect in any notice so mailed will affect the sufficiency of the proceedings for the prepayment of such Certificates or the cessation of accrual of interest represented thereby from and after the date fixed for prepayment.

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

***Rescission of Prepayment.*** The City may rescind any optional prepayment of the Certificates, and notice thereof, for any reason on any date prior to the date fixed for such optional prepayment by causing written notice of the rescission to be given to the Owners of the Certificates so called for prepayment. Notice of rescission of optional prepayment will be given in the same manner in which the notice of prepayment was originally given. The actual receipt of notice of such rescission is not a condition precedent to rescission and failure to receive such notice or any defect in such notice will not affect the validity of the rescission. None of the City,

the Corporation, or the Trustee will have any liability to the Owners of any Certificates, or any other party, as a result of the City's decision to rescind an optional prepayment of the Certificates.

**Effect of Prepayment.** Moneys for the prepayment (including the interest to the applicable date of prepayment) of Certificates having been set aside in the Installment Payment Fund, the Certificates will become due and payable on the date of such prepayment, and, upon presentation and surrender thereof at the Office of the Trustee, those Certificates will be paid at the unpaid principal amount (or applicable portion thereof) represented thereby plus interest accrued and unpaid to said date of prepayment.

If, on said date of prepayment, moneys for the prepayment of all the Certificates to be prepaid, together with interest represented thereby to said date of prepayment, is held by the Trustee so as to be available therefor on such date of prepayment, then, from and after said date of prepayment, interest represented by the Certificates will cease to accrue and become payable. All moneys held by the Trustee for the prepayment of Certificates will be held in trust for the account of the Owners of the Certificates so to be prepaid, and will be held by the Trustee in cash uninvested.

### **Book-Entry Only System**

The Certificates will be executed and delivered as fully registered certificates, registered in the name of Cede & Co. as nominee of DTC, and will be available to actual purchasers of the Certificates (the "**Beneficial Owners**") in the denominations set forth above, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants (as defined in this Official Statement) as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Certificates. See "APPENDIX F – Book-Entry Only System." If the book-entry-only system is no longer used with respect to the Certificates, the Certificates will be registered and transferred in accordance with the Trust Agreement. See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS."

### **Registration, Transfer and Exchange of Certificates**

**Registration of Certificates.** The Trustee will keep or cause to be kept sufficient records for the registration and registration of transfer of the Certificates, which will at all reasonable times upon prior notice be open to inspection by the City and the Corporation during regular business hours; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on the Registration Books, Certificates as provided in the Trust Agreement.

**Transfer of Certificates.** The registration of any Certificate may, in accordance with its terms, be transferred upon the Registration Books by the person in whose name it is registered, in person or by a duly authorized attorney, upon surrender of such Certificate for cancellation at the Office of the Trustee, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever any Certificate is or Certificates are surrendered for registration of transfer, the Trustee will execute and deliver a new Certificate or Certificates representing the same maturity, interest rate and aggregate principal amount, in any authorized denominations. The City will pay all costs of the Trustee incurred in connection with any such transfer, except that the Trustee may require the payment by the Certificate Owner of any tax or other governmental charge required to be paid with respect to such transfer.

***Exchange of Certificates.*** Certificates may be exchanged at the Office of the Trustee, for a like aggregate principal amount of Certificates representing other authorized denominations of the same interest rate and maturity. The City will pay all costs of the Trustee incurred in connection with any such exchange, except that the Trustee may require the payment by the Certificate Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

***Limitations on Transfer or Exchange.*** The Trustee may refuse to transfer or exchange either (i) any Certificate during the period established by the Trustee for the selection of Certificates for prepayment, or (ii) the portion of any Certificate which the Trustee has selected for prepayment under the Trust Agreement.

## **DESIGNATION OF THE CERTIFICATES AS GREEN BONDS – CLIMATE BOND CERTIFIED**

### **Designation**

The information set forth below concerning (i) the Climate Bonds Initiative (“CBI”) and the process for obtaining certification from CBI, and (ii) Kestrel Verifiers in its role as a verifier with respect to the certification of the Certificates as Climate Bond Certified, all as more fully described below, has been extracted from materials provided by CBI and Kestrel Verifiers. Additional information relating to CBI and the certification process can be found at [www.climatebonds.net](http://www.climatebonds.net). The CBI website is included for reference only and the information contained therein is not incorporated by reference in this Official Statement. No representation is made by the City regarding the applicability of or suitability of the certification of the Certificates as Climate Bond Certified.

In connection with the Certificates and the Project, the City applied to the CBI for designation of the Certificates as “Climate Bond Certified.” CBI is an independent not-for-profit organization that works solely on mobilizing the bond market for climate change solutions. CBI has established a certification program that provides criteria for eligible projects to be considered a Certified Climate Bond. Rigorous scientific criteria ensure that financed activities are consistent with the 1.5 degrees Celsius warming target declared in the 2015 Paris Agreement which exists within the United Nations Framework Convention on Climate Change, to address greenhouse-gas-emissions mitigation, adaptation, and finance. The CBI certification program is used globally by bond issuers, governments, investors and the financial markets to prioritize investments which genuinely contribute to addressing climate change.

The CBI standards use credible, science-based, widely supported guidelines about what should and should not be considered a qualifying climate-aligned investment to assist investors in making informed decisions about the environmental credentials of a bond. In order to receive the CBI certification, the City engaged Kestrel Verifiers, a third-party CBI Approved Verifier, to provide verification to the CBI Certification Board that the Certificates meet the CBI standards and relevant sector criteria. Kestrel Verifiers reviewed and provided verification to CBI, and CBI certified the Certificates as Climate Bonds on \_\_\_\_\_, 2023. Kestrel Verifiers will also provide a Post-Issuance Report to CBI as to whether the proceeds of the Certificates have been allocated properly.

The terms “Climate Bond Certified” and “Green Bonds” are solely for identification purposes and are not intended to provide or imply that the owners of the Certificates are entitled to any security other than that described under the heading “SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES.”

The certification of the Certificates as Climate Bonds by the Climate Bonds Initiative is based solely on the Climate Bond Standard and does not, and is not intended to, make any representation or give any assurance with respect to any other matter relating to the Certificates or the Project, including but not limited to the Official Statement, the transaction documents, the City, or the City’s management.

The certification of the Certificates as Climate Bonds by the Climate Bonds Initiative was addressed solely to the City and is not a recommendation to any person to purchase, hold or sell the Certificates and such certification does not address the market price or suitability of the Certificates for a particular investor. The certification also does not address the merits of the

decision by the City or any third party to participate in any nominated project and does not express and should not be deemed to be an expression of an opinion as to the City or any aspect of the Project (including but not limited to the financial viability of the Project) other than with respect to conformance with CBI's standards for Certified Climate Bonds.

In issuing or monitoring, as applicable, the certification, CBI and Kestrel Verifiers have assumed and relied upon and will assume and rely upon the accuracy and completeness in all material respects of the information supplied or otherwise made available to CBI and Kestrel Verifiers. CBI does not assume or accept any responsibility to any person for independently verifying (and it has not verified) such information or to undertake (and it has not undertaken) any independent evaluation of any nominated project or the City.

In addition, CBI does not assume any obligation to conduct (and it has not conducted) any physical inspection of any nominated project. The certification may only be used with the Certificates and may not be used for any other purpose without CBI's prior written consent. The certification does not and is not in any way intended to address the likelihood of timely payment of interest when due on the Certificates and/or the payment of principal at maturity or any other date. The certification may be withdrawn at any time in the Climate Bonds Initiative's sole and absolute discretion and there can be no assurance that such certification will not be withdrawn. Any such withdrawal could affect the market price of the Certificates.

#### **Approved Verifier for Third Party Verification of Climate Bond**

The City has engaged Kestrel Verifiers to provide a Verification on the Certificates' conformance with the Climate Bond Standard V3.0. Kestrel Verifiers has determined that the projects and activities to be financed with the proceeds of the Certificates satisfy the Climate Bond Standard V3.0 and the Water Infrastructure Sector Criteria (Version 3.2). Accredited as an "Approved Verifier" by the Climate Bonds Initiative, Kestrel Verifiers evaluates bonds against the Climate Bonds Initiative Standards and Criteria in all sectors worldwide. Kestrel's Climate Bond Verifier's Report is attached to this Official Statement as APPENDIX G – "CLIMATE BOND VERIFIER'S REPORT."

The Verification Report of Kestrel Verifiers reflects only the views of Kestrel Verifiers. Any explanation of the significance of the Verification Report may be obtained from Kestrel Verifiers. The City will not be required to file additional information regarding the Project with the EMMA system in the future.

## ESTIMATED PAYMENT SCHEDULE

The Installment Sale Agreement requires Installment Payments by the City to the Corporation in an amount equal to the principal of and interest on the Certificates, which have been assigned to the Trustee. Under the Installment Sale Agreement, Installment Payments are due to the Trustee no later than the 5th Business Day preceding each Payment Date. Set forth below is a schedule of estimated annual Installment Payments required under the Installment Sale Agreement with respect to the Certificates, as well as Prior Installment Payments:

Payment Date	Certificates Principal*	Certificates Interest*	Certificates Total*	Prior Installment Payments	Total Payments on Payment Date	Total Annual Fiscal Year Payments*
February 1, 2024	\$	\$	\$	\$468,724.63	\$	\$
August 1, 2024				468,724.63		--
February 1, 2025				468,724.62		--
August 1, 2025				468,724.62		--
February 1, 2026				468,724.62		--
August 1, 2026				468,724.62		--
February 1, 2027				468,724.62		--
August 1, 2027				468,724.62		--
February 1, 2028				468,724.63		--
August 1, 2028				468,724.62		--
February 1, 2029				468,724.62		--
August 1, 2029				468,724.62		--
February 1, 2030				468,724.63		--
August 1, 2030				468,724.62		--
February 1, 2031				468,724.63		--
August 1, 2031						--
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February 1, 2047						--
August 1, 2047						--
February 1, 2048						--
August 1, 2048						--
February 1, 2049						--
Totals	\$	\$	\$	\$7,499,593.97	\$	\$

\*Preliminary; subject to change.

## SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

### Nature of the Certificates

**General.** Each Certificate evidences and represents a direct, undivided fractional interest in the principal component of the Installment Payments due under the Installment Sale Agreement, and the interest component of all Installment Payments (based on the stated interest rate with respect to such Certificate) to accrue from the date of delivery to its principal payment date or prepayment date, as the case may be.

**Assignment of Installment Payments to Trustee.** Under the Trust Agreement, the Corporation will assign to the Trustee for the benefit of the Certificate Owners substantially all of the Corporation's right, title and interest in and to the Installment Sale Agreement, including, without limitation, its right to receive Installment Payments to be paid by the City. The City will pay Installment Payments directly to the Trustee, as assignee of the Corporation.

### Security for Installment Payments

**Pledge of Net Revenues of the Wastewater System.** Under the Installment Sale Agreement, all Net Revenues and all moneys on deposit in any of the funds and accounts established and held by the Trustee under the Trust Agreement, other than the Costs of Issuance Fund, the Refunding Fund and the Project Fund, are irrevocably pledged, charged and assigned to the punctual payment of the Installment Payments. Such pledge, charge and assignment constitutes a lien on the Net Revenues and such moneys on deposit in such funds and accounts for the payment of the Installment Payments in accordance with the terms of the Installment Sale Agreement, which will be on a parity with the pledge and lien which secures the Prior Installment Payments and any Additional Parity Debt.

The Trust Agreement contains the following definitions related to Net Revenues:

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

**"Gross Revenues"** means all gross charges received for, and all other gross income and receipts derived by the City from, the ownership and operation of the Wastewater System or otherwise arising from the Wastewater System, including but not limited to investment earnings thereon and including Connection Charges; but *excluding* (a) the proceeds of any *ad valorem* property taxes levied for the purpose of paying general obligation bonds of the City relating to the Wastewater System, (b) the proceeds of any special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Wastewater System; and (c) customers' deposits or any other deposits subject to refund until such deposits have become the property of the City, or contributions in aid of construction.

**"Operation and Maintenance Costs"** means the reasonable and necessary costs paid or incurred by the City for maintaining and operating the Wastewater System, determined in accordance with generally accepted accounting principles, including but not limited to the following:

(a) all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order;

(b) all administrative costs of the City that are charged directly or apportioned to the operation of the Wastewater System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums; and

(c) amounts paid by the City under the Joint Powers Agreement as operation and maintenance costs of the Treatment Plant.

“Operation and Maintenance Costs” do not include (i) payments of debt service on any Wastewater System Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, (iii) non-cash items, including non-realized gains and losses reported on investments, non-realized gains and losses reported on pension liabilities and other post-employment retirement benefits, realized gain or loss or other bookkeeping entries of a similar nature, (iv) amortization of intangibles or other bookkeeping entries of a similar nature; and (v) amounts paid by the City under the Joint Powers Agreement as capital costs of the Treatment Plant.

**Wastewater Fund.** The City has previously established the Wastewater Fund, which the City will continue to hold and maintain for the purposes and uses set forth in the Installment Sale Agreement. The City will deposit all Gross Revenues in the Wastewater Fund immediately on receipt. The City will apply amounts in the Wastewater Fund as set forth in the Installment Sale Agreement, the Trimble Road ISA and any Additional Parity Debt Documents. The City will apply amounts on deposit in the Wastewater Fund to pay when due the following amounts in the following order of priority:

(i) all Operation and Maintenance Costs;

(ii) the Installment Payments, the Prior Installment Payments and all payments of principal of and interest on any Additional Parity Debt;

(iii) any deficiency in any reserve fund established for Additional Parity Debt, the notice of which deficiency has been sent to the City in accordance with the related Additional Parity Debt Documents;

(iv) any other payments required to comply with the provisions of the Installment Sale Agreement, the Joint Powers Agreement, the Trimble Road ISA and any Additional Parity Debt Documents; and

(v) any other purposes described below.

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

**Other Uses of Net Revenues Permitted.** The City will manage, conserve and apply the Net Revenues on deposit in the Wastewater Fund in such a manner that all deposits required to be made under the Installment Sale Agreement as described above will be made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default has occurred and is continuing, the City may use and apply moneys in the Wastewater Fund for (i) the payment of any subordinate obligations or any unsecured obligations, (ii) the acquisition and construction of improvements to the Wastewater System, (iii) the prepayment of any other obligations of the City relating to the Wastewater System, or (iv) any other lawful purposes of the City.

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

### **Limited Obligation**

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

### **Installment Payment Fund**

**Establishment.** Under the Trust Agreement, the Trustee will establish and maintain a special fund designated as the "Installment Payment Fund," into which the Trustee will deposit all amounts paid to the Trustee for such purpose under the Installment Sale Agreement. Within the Installment Payment Fund, the Trustee will establish separate accounts designated as the "Interest Account," "Principal Account" and "Redemption Account."

All moneys at any time deposited by the Trustee in the Installment Payment Fund will be held by the Trustee in trust for the benefit of the City and the Owners of the Certificates and are pledged to secure the payment of the principal of and interest and premium (if any) represented by the Certificates. This pledge constitutes a lien on and security interest in the Installment Payment Fund and will attach, be perfected and be valid and binding from and after the Closing Date, without the need for any physical delivery thereof or further act. So long as any Certificates are Outstanding, neither the City nor the Corporation have any beneficial right or interest in the Installment Payment Fund or the moneys deposited therein, except only as provided in the Installment Sale Agreement or the Trust Agreement, and such moneys will be used and applied by the Trustee as described below.

**Application of Moneys.** Except as provided in the sections of the Trust Agreement concerning surplus funds and application of funds following an Event of Default, the Trustee will

apply amounts in the Installment Payment Fund solely for the purpose of paying the principal, interest and prepayment premiums (if any) represented by the Certificates as they become due and payable, in accordance with the provisions of the Trust Agreement, and in the following manner and order of priority:

*Interest Account.* The Trustee will deposit to the Interest Account on or before the last Business Day of each January and July an amount equal to the amount of interest to be paid on Outstanding Certificates on the next Interest Payment Date. Moneys in the Interest Account will be used to pay interest on the Certificates as it becomes due.

*Principal Account.* The Trustee will deposit to the Principal Account on or before the last Business Day of each January (in each Bond Year ending on a date on which Certificates mature), an amount equal to the principal amount at maturity plus an amount equal to any mandatory sinking fund redemption requirement of Certificates Outstanding that will mature or be subject to mandatory redemption on the last day of such Bond Year. Moneys in the Principal Account will be used to retire Certificates by payment at their scheduled maturity or to redeem Certificates on their mandatory sinking fund prepayment dates.

*Redemption Account.* If the City makes an optional prepayment of any installment of principal which is to be applied to prepay Certificates in accordance with the Trust Agreement, and specifying the amount and maturities of Certificates to be redeemed and the optional redemption date, the amount so paid will be credited to the Redemption Account and applied promptly by the Trustee, first, to cause the amounts credited to the Interest Account or the Principal Account of the Installment Payment Fund, in that order, to be not less than the amounts then required to be credited thereto, and, second, to retire Certificates by purchase, redemption or both purchase and redemption in accordance with the City's directions.

**Surplus.** At the written request of the City any surplus remaining in the Installment Payment Fund, after prepayment and payment of all Certificates, including all premiums and accrued interest (if any) and payment of any applicable fees and expenses to the Trustee, will be withdrawn by the Trustee and remitted to the City to be used for any lawful purpose of the City.

## **No Debt Service Reserve**

No debt service reserve fund will be established for the Installment Payments or the Certificates.

## **Rate Stabilization Fund**

**Establishment.** Under the Trust Agreement, the City has the right at any time to establish a fund to be held by it and administered in accordance with the Trust Agreement for the purpose of stabilizing the rates and charges imposed by the City with respect to the Wastewater System. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues released from the pledge and lien that secures the Installment Payments, the Prior Installment Payments and any Additional Parity Debt, as the City may determine.

**Application.** The City may, but is not required to, withdraw amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Wastewater Fund in any Fiscal Year for the purpose of paying the Installment Payments, the Prior Installment Payments or the principal of and interest on any Additional Parity Debt coming due and payable in such Fiscal Year. Amounts so transferred from the Rate Stabilization Fund to the Wastewater Fund in any Fiscal Year constitute Gross Revenues for that Fiscal Year (except for purposes of the issuance of Additional Parity Debt), and will be applied for the purposes of the Wastewater Fund. Amounts on deposit in the Rate Stabilization Fund are not pledged to and do not secure the Installment Payments, the Prior Installment Payments or any Additional Parity Debt. All interest or other earnings on deposits in the Rate Stabilization Fund will be retained therein or, at the option of the City, be applied for any other lawful purposes. The City has the right at any time to withdraw any or all amounts on deposit in the Rate Stabilization Fund and apply such amounts for any other lawful purposes of the City.

**Current Funding.** The City has established a Rate Stabilization Fund for the Wastewater System in Fiscal Year 2022-23, which has a current balance of \$2,395,030.

## **Rates and Charges**

Under the Installment Sale Agreement, the City will make the following covenants:

**Gross Revenues Covenant.** The City will fix, prescribe, and revise rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year, which are at least sufficient, together with amounts transferred from a Rate Stabilization Fund, and taking into account allowances for contingencies, to yield Gross Revenues sufficient to pay the following amounts in the following order of priority:

(i) All Operation and Maintenance Costs estimated by the City to become due and payable in the Fiscal Year.

(ii) All Installment Payments, Prior Installment Payments and payments of principal of and interest on any Additional Parity Debt as they become due and payable during the Fiscal Year, without preference or priority.

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

**Net Revenues Covenant.** In addition, the City will fix, prescribe, and revise rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year which (together with amounts transferred from a Rate Stabilization Fund, and taking into account allowances for contingencies), are sufficient to yield Net Revenues which are at least equal to 125% of the aggregate amount of the Installment Payments, the Prior Installment Payments and all payments of principal of and interest on any Additional Parity Debt coming due and payable during the Fiscal Year.

So long as the City has complied with its obligations as described in the above paragraph, the failure of Net Revenues to meet the threshold described in the above paragraph at the end of a Fiscal Year will not constitute a default or an Event of Default so long as the City has complied with the provisions that are described in the above paragraph at the commencement of the succeeding Fiscal Year.

### **Issuance of Additional Parity Debt**

The City may issue or incur any Additional Parity Debt during the Term of the Installment Sale Agreement upon satisfaction of all of the following conditions:

(a) No Event of Default (or no event with respect to which notice has been given and which, once all notice of grace periods have passed, would constitute an Event of Default) has occurred and is continuing.

(b) The Net Revenues (excluding any amounts derived from a Rate Stabilization Fund), calculated in accordance with generally accepted accounting principles, as shown by the books of the City for the most recent completed Fiscal Year for which audited financial statements of the City are available, or for any more recent consecutive 12-month period selected by the City, in either case verified by an Independent Accountant or a Financial Consultant or shown in the audited financial statements of the City, plus (at the option of the City) any Additional Revenues, are at least equal to 125% of Maximum Annual Debt Service (taking into account the Additional Parity Debt then proposed to be issued).

(c) The City will deliver to the Trustee a written certificate of a City Representative certifying that the conditions precedent to the issuance of such Additional Parity Debt set forth above have been satisfied.

The Trust Agreement defines “**Additional Revenues**” as any or all of the following amounts:

(a) An allowance for Net Revenues from any additions or improvements to or extensions of the Wastewater System to be financed from the proceeds of such Additional Parity Debt or from any other source but in any case which, during all or any part of the most recent completed Fiscal Year for which audited financial statements are available or for any other 12-month period selected by the City, were not in service, all in an amount equal to 100% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which

each addition, improvement or extension is to be in operation, all as shown by the certificate or opinion of a Financial Consultant.

(b) An allowance for Net Revenues arising from any increase in the charges made for service from the Wastewater System which has been adopted prior to the incurring of such Additional Parity Debt but which, during all or any part of such Fiscal Year or such 12-month period, was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such 12-month period, all as shown by the certificate or opinion of a Financial Consultant.

### **Senior and Subordinate Obligations**

The City may not issue or incur any additional bonds or other obligations during the Term of the Installment Sale Agreement having any priority in payment of principal or interest out of the Gross Revenues or the Net Revenues over the Installment Payments.

Nothing in the Installment Sale Agreement limits or affects the ability of the City to issue or incur (a) Additional Parity Debt as described above, or (b) obligations which are either unsecured or which are secured by an interest in the Net Revenues which is junior and subordinate to the pledge of and lien upon the Net Revenues established under the Installment Sale Agreement.

### **Insurance**

Under the Installment Sale Agreement, the City will at all times maintain with responsible insurers all such insurance on the Wastewater System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Wastewater System. All amounts collected from insurance against accident to or destruction of any portion of the Wastewater System will be used, at the option of the City, either (a) to repair or rebuild such damaged or destroyed portion of the Wastewater System, or (b) to prepay on a pro rata basis the Installment Payments, the Prior Installment Payments and any Additional Parity Debt on the next available prepayment date.

The City will also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the City, the Corporation, the Trustee and the Owners of the Certificates.

Any policy of insurance required under this provision of the Installment Sale Agreement may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance.

### **Sale, Encumbrance or Eminent Domain of Wastewater System**

Under the Installment Sale Agreement, the City covenants that the Wastewater System will not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole if such encumbrance, sale, lease, pledge, charge or other disposition would materially impair the ability of the City to pay the Installment Payments, the Prior Installment Payments or the principal of or interest on any Additional Parity Debt, or

would materially adversely affect its ability to comply with the terms of the Installment Sale Agreement, the Trimble Road ISA or any Additional Parity Debt Documents.

The City may not enter into any agreement that impairs the operation of the Wastewater System or any part of it necessary to secure adequate Net Revenues to pay the Installment Payments, the Trimble Road Installment Payments or any Additional Parity Debt, or which otherwise would impair the rights of the Certificate Owners or the Trustee with respect to the Net Revenues.

If any substantial part of the Wastewater System is sold, the payment therefor must either (a) be used for the acquisition or construction of improvements and extensions or replacement facilities or (b) be applied on a pro rata basis to prepay the Installment Payments, the Prior Installment Payments and any Additional Parity Debt on the next available prepayment date.

Any amounts received as awards as a result of the taking of all or any part of the Wastewater System by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the City, will either (a) be used for the acquisition or construction of improvements and extension of the Wastewater System, or (b) be applied to prepay on a pro rata basis the Installment Payments, the Prior Installment Payments and any Additional Parity Debt on the next available prepayment date.

## **THE CORPORATION**

The Corporation was incorporated on May 16, 1997, under the Nonprofit Public Benefit Corporation Law of the State of California (California Corporations Code Section 5110 et seq.) to assist the City in financing capital improvement projects. The Corporation is governed by a Board of Directors consisting of members of the City Council. Management of the Corporation is facilitated by City staff.

## **SANTA CLARA CITY GOVERNMENT**

Santa Clara operates under a Council/Manager form of government as provided by its Charter, which was adopted in 1951. The Santa Clara City Council consists of a Mayor and six Council members. Elected from the City at-large, the Mayor serves a four-year term. City Councilmembers are elected by district for numbered seats and serve staggered four-year terms. The City Charter limits the Mayor and all Councilmembers to serving two consecutive terms. The City Council, as the legislative body, represents the citizens of Santa Clara and is empowered by the City's Charter to formulate City-wide policy. All powers of the City are vested in the Council except those prohibited by the Constitution of the State of California and the provisions of the City Charter.

The Council is responsible for policy making. It appoints advisory boards, commissions and committees and also appoints the City Manager and City Attorney.

The City Manager is responsible for executing City Council policies and administering City operations.

The City provides a full range of services. These services include police, fire protection and emergency dispatch; electric, water, and sanitary sewer services; the construction and

maintenance of streets and infrastructure; parks and recreational activities and cultural events; planning and zoning; library; cemetery; and general administrative and support services.

## THE PROJECT

The City expects to expend proceeds of the Bonds to finance the Project, consisting of the City's share of capital improvements to the Treatment Plant, which is jointly owned and operated by the City and the city of San José ("**San José**"), as further described below. See "CITY OF SANTA CLARA WASTEWATER SYSTEM – History of the Wastewater System."

A portion of the net proceeds of the Certificates will be deposited in the Refunding Fund established under the Trust Agreement and will be used to prepay the City's obligations under the 2020 Installment Sale Agreement, the proceeds of which were used to finance the City's share of prior improvements to the Treatment Plant. See "FINANCING PLAN – Refinancing Plan."

The San José and Santa Clara City Councils adopted a master plan for the Treatment Plant (the "**Plant Master Plan**") in November 2013 and December 2013, respectively. The Plant Master Plan identified more than 100 capital improvement projects totaling over \$2.1 billion to be implemented at the Treatment Plant through 2040, the City's share of which is approximately \$350 million.

Over the next 10 years from Fiscal Year 2023-24 to Fiscal Year 2032-33, proposed projects in the Plant Master Plan total \$752 million, with the City's share being \$121 million. The projects identified in the Plant Master Plan are expected to be completed by 2040.

## CITY OF SANTA CLARA WASTEWATER SYSTEM

### Organization and Administration

The City's Wastewater System is operated as a financially self-supporting municipal utility service. It is organized as a functional division of the City's Department of Water & Sewer Utilities (the "**Department**"). Within the Department, the Sewer Utility operates and maintains the sewer collection system and sewer pump stations (the "**Sewer Utility**"). The Sewer Utility also assists the Street Department in the operation and maintenance of storm pump stations.

The Department also contains the City's water operations, one of the country's only municipal solar energy utilities, and the recycled water system as separate functional divisions that act as completely self-supporting utility services.

The Department's authority and responsibility is derived from the City Charter and City Council ordinances and resolutions. The Department is required to prepare and submit an annual budget for the water, sewer, solar energy and recycled water divisions to the City Council prior to the beginning of each fiscal year and the City Council is required to hold a public hearing on the proposed budget. The City Council adopts the budgets, establishes water and wastewater rate structures, and sets overall policy for the Department. The Director of Water & Sewer Utilities reports to the City Manager.

### Management

*Gary Welling, Director of Water & Sewer Utilities*, has over 30 years of experience working in the water and wastewater fields and has been employed with the City of Santa Clara since July 2016. He was appointed Director of the Water and Wastewater Utilities Department in March of 2018 after serving as the Acting Director beginning in March 2017 and Assistant Director from July 2016 until March 2017.

Mr. Welling manages the activities of the Water, Wastewater, Recycled Water Utilities that includes: 335 miles of water distribution pipelines, 19 active wells, 7 storage tanks, 34 miles of recycled water pipeline, 288 miles of sanitary sewer lines and 8 sewer lift stations. Mr. Welling oversees the preparation of the \$70 million operating budget and \$49 million capital budgets for Water, Wastewater, and Recycled Water Utilities.

Mr. Welling is responsible for the overall management of the Department of Water and Sewer Utilities and guides the Utilities so that their mission statements are fulfilled. including ensuring compliance with federal and state regulations related to water, recycled water, wastewater, worker safety, labor relations, public contracting rate setting and related matters. He coordinates departmental activities with other City departments and other governmental entities, contractors, developers, wholesale water suppliers, wastewater treatment facilities, joint powers authorities, and the utilities' customers.

He also coordinates and communicates with regional partners regarding policies, including the Santa Clara Valley Water District, San Francisco Public Utilities Commission, South Bay Water Recycling, Bay Area Water Supply and Conservation Agency and the city of San José. Mr. Welling also coordinates with the city of San José on the capital program for the Treatment Plant.

Prior to joining the City, Mr. Welling worked at the city of Santa Monica for over 25 years in various capacities that managed water, wastewater, and storm water utilities including

environmental programs that managed Federal and State hazardous waste and wastewater regulatory programs. Mr. Welling's last eight years with Santa Monica were in the capacity of Assistant Manager of the Water, Wastewater, and Storm Water Utilities.

Mr. Welling has a Bachelor of Science Degree in Business Administration from the University of New Brunswick, and a Master's Degree in Public Administration from California State Northridge. In addition, Mr. Welling has a California Department of Public Health D-5 Distribution Certification, T-2 Water Treatment Certification, State Water Resources Control Board Wastewater Treatment II with a California Water Environment Association Grade IV Environmental Inspector Certification.

*Shilpa Mehta, Assistant Director of Water and Sewer Utilities*, has over 28 years of experience in the water and wastewater field, with over 22 years with the City of Santa Clara Water and Sewer Utilities, two years with the city of Mountain View, and one year each at the cities of Los Gatos and Milpitas. Ms. Mehta oversees day-to-day management of water, wastewater, recycled water, and solar operations. Ms. Mehta leads and manages engineering functions, capital improvement projects, plan review, and contractors performing work for the Department. She assists with development and oversight of the rate setting process and oversees the biannual Capital Improvement Program (CIP) and Operating budgets. She represents the Department on large CIP projects, including CIP coordination of the capital improvement program for the Treatment Plant.

Ms. Mehta has a Bachelor of Science degree in Civil Engineering and a Master's Degree in Public Administration from San José State University. In addition, Ms. Mehta has a Professional Engineering (PE) license in the State of California, California Department of Public Health D-5 Distribution Certification, T-2 Water Treatment Certification, and CWEA Grade 4 Wastewater Collection System Maintenance Certification.

## **History of the Wastewater System**

Until 1931, the City's sewage was treated in a septic tank and trickling filter plant located within the City. In 1931, the City purchased 236 acres known as Laurelwood Farm for the purpose of constructing a 1.5 million gallon per day ("**mgd**") primary sewage treatment facility, including 160 acres of drying beds. The plant was completed in 1936.

By 1947, the City's sewage load had begun to exceed the capacity of its treatment plant. The City eventually negotiated an agreement to connect to San José's out-fall line (the "**Out-fall Line**"). Under that agreement the City could utilize up to 6.0 mgd of the Out-fall Line's capacity. An engineering study conducted by the City in 1952 determined that unless the City was able to secure additional capacity in the Out-fall Line, an alternative sewage treatment process would be required to keep pace with the City's growth.

The Out-fall Line was modified several times, but continued to be the only method of sewage disposal until San José completed construction of the Treatment Plant as a new 36 mgd primary treatment facility in 1956, which was originally known as the San José Sewage Treatment Plant and subsequently renamed the San José/Santa Clara Regional Wastewater Facility. In 1957-58, the City constructed a force main that connected the City's sewer system to the Treatment Plant.

In 1959 the Treatment Plant was expanded to 54 mgd and the City and San José formed a partnership to own and operate the Treatment Plant by executing an agreement entitled

“Agreement Between San José and Santa Clara Respecting Sewage Treatment,” dated May 6, 1959 (the “**1959 Master Agreement**”). The 1959 Master Agreement established the governance of ownership and operation of the Treatment Plant as well as related fiscal and legal issues.

The Treatment Plant has been expanded several times since 1959 and has a current capacity of 167 mgd. (See “– San José/Santa Clara Regional Wastewater Facility and Agreements”).

**Service Area and Customer Base**

The Wastewater System serves the entire area within the City’s borders and contains approximately 26,000 service connections. In addition, the City receives wastewater flow from the Cupertino Sanitary District pursuant to a 1985 agreement that currently establishes a 13.8 mgd maximum flow.

**Historic Customer Base and Revenues by Customer Class.** The following table shows the number of sewer customers by customer class for the last five fiscal years.

**Table 1A**  
**CITY OF SANTA CLARA WASTEWATER SYSTEM**  
**Historical Number of Sewer Accounts by Customer Class**  
**Fiscal Years 2017-18 through 2021-22**

Fiscal Year	Single Family Residential	Multifamily Residential	Commercial	Industrial	Institutional	Municipal	Total
2017-18	17,893	5,294	2,438	367	147	97	26,236
2018-19	17,452	5,125	2,326	337	140	101	25,481
2019-20	17,350	5,111	2,386	361	140	101	25,359
2020-21	17,666	5,263	2,420	357	143	99	25,948
2021-22	17,469	5,250	2,367	353	144	99	25,682

Source: City of Santa Clara.

In fiscal year 2021-22, single family and multi-family accounts comprised approximately 57% of Wastewater System rate revenue, with the remaining 43% coming from commercial, industrial, municipal, and institutional customer classes. The following table shows revenues by customer class for the last five fiscal years.

**Table 1B**  
**CITY OF SANTA CLARA WASTEWATER SYSTEM**  
**Historical Revenues by Customer Class**  
**Fiscal Years 2017-18 through 2021-22**  
**(Non-GAAP Cash Basis)**

Fiscal Year	Single Family	Multifamily	Commercial	Industrial	Institutional	Municipal	Misc.	Total
2017-18	\$8,633,769	\$11,650,308	\$10,648,966	\$3,723,773	\$761,986	\$353,568	\$295,723	\$36,068,094
2018-19	8,858,388	15,459,978	7,506,406	2,948,260	953,754	368,180	36,709	36,131,676
2019-20	9,129,882	16,147,939	7,766,505	3,325,330	1,000,849	364,851	81,909	37,817,267
2020-21	9,239,736	16,762,814	6,787,003	2,993,169	929,020	405,791	58,766	37,176,300
2021-22	9,221,417	17,671,630	8,384,175	2,897,757	1,002,907	322,994	68,310	39,569,189

Source: City of Santa Clara.

**Top Ten Customers.** The following table lists the City’s top ten customers based on revenue. The top ten customers accounted for [7.0]% of total Wastewater System revenue in fiscal year 2021-22.

**Table 2**  
**CITY OF SANTA CLARA WASTEWATER SYSTEM**  
**Top Ten Customers**  
**Fiscal Year 2021-22**

<b>Name</b>	<b>Customer Class</b>	<b>% of Total Revenue</b>
California Paperboard	Manufacturing	1.7%
City of Santa Clara	Municipal	1.2
Prometheus Real Estate MS #2	Residential	1.0
Coresite Coronado Stender, LLC	Commercial	0.6
Kaiser Permanente	Health Care	0.5
The Irvine Company, LLC	Real Estate	0.5
Santa Clara University	Education	0.5
Great America	Entertainment	0.5
Santa Clara Square, LLC	Residential	0.5
[_____]	[_____]	[_____]
<b>TOTAL</b>		<b>[7.0]%</b>

Source: City of Santa Clara.

**Wastewater System Physical Assets**

Physical assets of the Wastewater System include:

- The Treatment Plant, which is jointly owned by the City and San José. The City’s portion is currently approximately 19% and is based on the ratio of assessed value of all property in the two respective cities.
- 288 miles of sewer line ranging in size from 4 to 48 inches in diameter.

## Historical Wastewater Flow

The following table sets forth the volume of wastewater collected by the Wastewater System and pumped to the Treatment Plant in the prior ten fiscal years. The State of California and the City have been experiencing more frequent and extended periods of drought. Combined with the advent of increased water conservation, water demand per capita continues to decline. Also, high water efficiency developments such as high-density housing are replacing manufacturing businesses in the City. These more water-efficient developments have contributed to the decline in daily sewer flows.

**Table 3**  
**CITY OF SANTA CLARA WASTEWATER SYSTEM**  
**Average Daily Flow**  
**(mgd)**

<b>Fiscal Year</b>	<b>Average Daily Flow <sup>(1)</sup></b>
2012-13	15.3
2013-14	15.1
2014-15	14.5
2015-16	13.8
2016-17	13.2
2017-18	14.1
2018-19	13.7
2019-20	13.7
2020-21	13.0
2021-22	13.2

(1) Average daily flow is calculated using State Water Resources Control Board's methodology for Revenue Programs.

Source: City of Santa Clara.

## WASTEWATER RATES

Financial planning and wastewater rate setting are provided by the Department in coordination with the Department of Finance. In addition, the Department establishes financial policies and recommends rates and fees. Wastewater rates are set to recover the direct and indirect costs of service.

### Authority

The City Municipal Code authorizes the City Council, by resolution, to establish and amend the monthly sewer service charges. Certain limitations mandated by Proposition 218 have been imposed on the City in connection with increases in monthly sewer service charges. Proposition 218 was passed in November 1996 and limits the fees and charges that the City may impose as a cost of providing service. See “RISK FACTORS – Articles XIIC and XIID of the California Constitution.”

### Billing and Delinquencies

*Billing.* The sewer service charges (the “**Sewer Service Charges**”) are billed monthly to users on a combined utility bill. The Municipal Services Division of the Department of Finance is responsible for the combined municipal services bill for water, sanitary sewer, and electric services. Payment of a regular bill is due 21 days after the bill issuance date. If payment is not received within three days after the due date, a late payment charge may be assessed to the outstanding account balance. The late payment charge is equal to the greater of \$10.00 or 1.5% of the outstanding balance. A second bill/turnoff notice is sent 30 days from the issuance date of the original bill. If payment is not received within twelve days from the issuance date of the second bill/turnoff notice, a 48- hour turnoff notice is sent to the customer. If payment is not received within seven days following the date of the 48-hour turnoff notice, the City may install a water trickler, which reduces the flow of water to the residence, and discontinue electric service. The City may also discontinue water service to the premises and assess a water reconnection fee of \$168.00. The total amount of the bill, including all fees, is collected before any discontinued services are restored.

During the COVID-19 pandemic, the City relaxed its collection activities, stopping the distribution of 48-hour turnoff notices and not sending past due accounts to collections. As of April 2023, the collections activities mentioned above have restarted. During Fiscal Year 2021-22, the City applied for and received \$349,927 from the State Water Resources Control Board - California Water and Wastewater Arrearages Program: Wastewater Arrearages Program. These monies were used to assist wastewater customers with past due accounts.

*Historical Delinquency Rates.* The following table shows historical uncollectible and delinquency percentages for the City’s residential Sewer Service Charges for the past eight fiscal years. Residential accounts represent 57% of Wastewater System rate revenue.

**Table 4**  
**CITY OF SANTA CLARA WASTEWATER SYSTEM**  
**Historical Residential Delinquencies**

<b>Fiscal Year</b>	<b>Fiscal Year Total Billings</b>	<b>Fiscal Year Delinquencies</b>	<b>Fiscal Year Delinquency Percentage</b>
2014-15	\$32,556,761	\$4,068	0.01%
2015-16	36,156,312	1,400	0.00%
2016-17	38,726,015	15,403	0.04%
2017-18	37,426,639	14,826	0.04%
2018-19	39,050,201	12,434	0.03%
2019-20 (1)	39,664,614	4,596	0.01%
2020-21 (1)	38,974,905	10,679	0.03%
2021-22 (1)	40,867,934	56,989	0.14%

(1) Delays in collection and enforcement activities were realized during the COVID-19 pandemic.

Source: City of Santa Clara.

### **Rate Setting Process**

The City currently recovers the cost of operating, maintaining, repairing, replacing and expanding the Wastewater System through user fees and interest earnings. The City charges the following fees related to the Wastewater System:

- Monthly Sewer Service Charges (see “– Sewer Service Rate Structure”)
- Various connection fees (see “– Connection Fees”)

The City’s practice is to evaluate its rate structure and take appropriate action [every year]. The City’s current rate structure for Fiscal Year 2023-24 was adopted by the City Council on June 6, 2023, pursuant to Resolution No. 22-9110, in compliance with Proposition 218. See “RISK FACTORS – Articles XIIC and XIID of the California Constitution.”

The City is in the process of reviewing its rate structure and anticipates rate increases in each of the subsequent fiscal year. See “WASTEWATER SYSTEM FINANCIAL INFORMATION – Pro Forma Projection of Revenues, Expenses and Debt Service Coverage.”

## Sewer Service Rate Structure

The City's current sewer service rates are shown in the tables below.

*Residential.* Residential charges are assessed a flat rate per dwelling unit.

**Table 5**  
**CITY OF SANTA CLARA WASTEWATER SYSTEM**  
**Monthly Sewer Service Charge**  
**Residential**  
**(as of July 1, 2023)**

<b>Category</b>	<b>Monthly Charge</b>
Single Family per Dwelling Unit (including mobile homes)	\$48.28
Multiple Dwelling Structures per Dwelling Unit (without master meters)	45.88

Source: City of Santa Clara.

*Commercial, Industrial and Miscellaneous.* For all users in the City other than Residential and Major Commercial and Industrial Users (as defined herein), monthly service charges are determined by classification, according to the North American Industrial Classification System, but will not be less than a minimum of \$48.28.

**Table 6**  
**CITY OF SANTA CLARA WASTEWATER SYSTEM**  
**Monthly Sewer Service Charge**  
**Commercial, Industrial and Miscellaneous**  
**(as of July 1, 2023)**

<b>Description of Use</b>	<b>Service Charge (\$/HCF) <sup>(1)</sup></b>	<b>Sewage Volume as a Percentage of Metered Water Use <sup>(2)</sup></b>
Food and Kindred Products	\$13.45	70%
Paper	13.82	80
Industrial Chemical	10.02	90
Metal Plating	4.50	90
Machinery Manufacturers	8.16	90
Electric & Electronic Equip.	5.55	90
Auto Dealers & Service Station	6.76	90
Restaurants	13.70	90
Motels & Hotels	7.09	90
Laundries	6.02	90
Repair Shops & Car Washes	5.15	90
Amusement Parks	6.15	90
Hospitals & Convalescent Homes	6.72	90
Schools & Colleges	6.54	24
Churches	5.55	35
All Other	5.87	90

(1) HCF is the volume of sewage measured in hundred cubic feet, equal to 748 gallons.

(2) The volume of sewage usage is based upon a fixed percentage of water usage as noted or based on standard methods acceptable to the City's Director of Water & Sewer Utilities.

Source: City of Santa Clara.

It should be noted that, for these non-residential users, declines in water usage could lead to declines in wastewater revenues.

*Major Commercial and Industrial Users.* Major Commercial and Industrial Users are those having (1) a sewage discharge of at least 25,000 gallons per day, or (2) having a daily discharge which is intermittent or irregular in strength, amount, or nature.

**Table 7**  
**CITY OF SANTA CLARA WASTEWATER SYSTEM**  
**Monthly Sewer Service Charge**  
**Major Commercial and Industrial**  
**(as of July 1, 2023)**

<b>Type of Charge</b>	<b>Annual Capital Cost Recovery</b>	<b>Operating and Maintenance Cost Recovery</b>
Volume	\$ 1,147,617 per mgd of flow capacity	\$3,315 per million gallons
Biochemical Oxygen Demand <sup>(1)</sup>	\$ 85,145 per 1,000 lbs. per day of removal capacity	\$502 per 1,000 lbs.
Suspended Solids <sup>(2)</sup>	\$ 77,042 per 1,000 lbs. per day of removal capacity	\$625 per 1,000 lbs.
NH3 (Ammonia) <sup>(3)</sup>	\$466,740 per 1,000 lbs. per day of removal capacity	\$5,125 per 1,000 lbs.

(1) Biochemical Oxygen Demand (“**BOD**”) is the quantity of oxygen utilized in the biological oxidation of organic matter under standard laboratory conditions for 5 days at a temperature of 20 degrees Centigrade. The determination of the charge for BOD is as follows: BOD in parts per million x 8.34 x volume in million gallons = pounds of BOD.

(2) Suspended Solids either float on the surface or is in suspension in sewage, as determined by laboratory filtering. The determination of the charge for Suspended Solids is as follows: Suspended Solids in parts per million x 8.34 x volume in million gallons = pounds of Suspended Solids.

(3) NH3 (Ammonia) is that form of nitrogen in the tri-negative oxidation state, which is chemically definable as the compound NH3. The determination of the charge for Ammonia is as follows: NH3 in parts per million x 8.34 x volume in million gallons = pounds of Ammonia.

Source: City of Santa Clara.

*Historical Single-Family and Multi-Family Residential Sewer Service Charges.* The following table shows historical residential Sewer Service Charges for the last ten fiscal years:

**Table 8**  
**CITY OF SANTA CLARA WASTEWATER SYSTEM**  
**Historical Residential Sewer Service Charges**

<b>Fiscal Year</b>	<b>Charge per Month Single Family Residential</b>	<b>% Change</b>	<b>Charge per Month Multi-Family Residential</b>	<b>% Change</b>
2013-14	\$33.00	13.0%	\$33.00	13.0%
2014-15	34.65	5.0	34.65	5.0
2015-16	37.94	9.5	37.94	9.5
2016-17	41.65	9.7	41.65	9.7
2017-18	41.65	0.0	41.65	0.0
2018-19	42.91	3.0	42.91	3.0
2019-20	44.07	2.7	44.07	2.7
2020-21	44.53	1.0	44.53	1.0
2021-22	44.53	0.0	44.53	0.0
2022-23	46.82	5.1	44.69	0.3
2023-24	48.28	3.1	45.88	2.7

Source: City of Santa Clara.

*Comparative Residential Sewer Service Charges.* The following table includes the City's monthly Sewer Service Charges for fiscal year 2021-22 and a comparison to surrounding communities.

**Table 9**  
**CITY OF SANTA CLARA WASTEWATER SYSTEM**  
**Fiscal Year 2021-22 Comparative Monthly Charges**  
**(Single-Family Residential)**

<b>Agency</b>	<b>Sewer Service Charge</b>
Union Sanitary District	\$44.18
City of Palo Alto	\$44.62
City of San José	\$45.49
Cupertino Sanitary District	\$58.29
City of Mountain View	\$50.10
<b>City of Santa Clara</b>	<b>\$46.82</b>
City of Milpitas	\$62.07
West Valley Sanitation District	\$57.65
City of Sunnyvale	\$57.19
Redwood City	\$89.28
Foster City	\$127.06
City of San Carlos	\$116.77

Source: City of Santa Clara.

## Connection Fees

The City charges connection fees pursuant to the City Municipal Code. These fees are considered development impact fees and are subject to the limitations of California Government Code Sections 66000-66003 (“**AB1600**”). Among the requirements of AB1600 are that the city establish a “nexus” or connection between a development project or class of project and the public improvement being financed with the fee, and properly account for the fees so that they are used for the intended purpose. The various fees listed below (collectively, the “**Connection Fees**”) are included within the definition of gross revenues and are pledged to the payment of the Installment Payments to the extent permitted by law.

**Sanitary Sewer Outlet Fee.** Developers pay the City a sanitary sewer outlet charge (“**Sanitary Sewer Outlet Fee**”). The revenue from the Sanitary Sewer Outlet Fee is used for the acquisition, construction, reconstruction, maintenance, and operation of off-site sewerage facilities, and to repay principal and interest on bonds issued for the construction and reconstruction of such sewerage facilities.

**Sanitary Sewer Connection Fee.** The sanitary sewer connection fee is applied whenever a property is either (1) initially connected to the Wastewater System or (2) requires a new connection to the Wastewater System or (3) involves a change in land use or development on the real property that results in an increase of sewage to the Wastewater System.

In addition, for nonresidential and industrial customers, if the actual daily average wastewater discharge volume exceeds the assigned sewer capacity, the payment of an excess use fee will be required. The purpose of the sanitary sewer connection fee is to pay capital and debt retirement costs associated with the sewage treatment facilities that are allocated to unused or future capacity.

**Sanitary Sewer Conveyance Fee.** The City’s sanitary sewer conveyance fee is intended to capture the cost of sewer flow rate generated by new development. This fee is based directly on the potential sewer discharge volumes of the proposed land uses. Because the purpose of this fee is to finance conveyance capacity within the City, and the proceeds of the Certificates will be used to fund the City’s contribution to the Treatment Plant, it is not clear whether these revenues would be available to pay debt service on the Certificates. As a result, in an abundance of caution, these revenues are excluded from Revenues in the analysis contained in this Official Statement.

**Historical Connection Fees.** The City’s revenue from these connection fees is shown on the following table.

**Table 10**  
**CITY OF SANTA CLARA WASTEWATER SYSTEM**  
**Historical Connection Fee Revenues**

	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>
Sanitary Sewer Outlet Fee	\$ 244,593	\$ 242,488	\$ 299,980	\$ 199,286	\$ 420,456
Sanitary Sewer Connection Fee	1,625,820	2,303,752	1,124,123	1,007,031	1,389,253
Sanitary Sewer Conveyance Fee	4,136,935	6,916,161	4,079,586	3,126,854	5,214,338
<b>Total</b>	<b>\$6,007,348</b>	<b>\$9,462,401</b>	<b>\$5,503,689</b>	<b>\$4,333,171</b>	<b>\$7,024,047</b>

Source: City of Santa Clara.

## SAN JOSÉ-SANTA CLARA REGIONAL WASTEWATER FACILITY AND AGREEMENTS

### General

**Description and Location.** The Treatment Plant is a regional advanced wastewater treatment plant that serves eight cities and four sanitation districts. The Treatment Plant is located on a 2,600-acre site in the Alviso area of San José, approximately six miles from downtown San José and five-and-a-half miles from downtown Santa Clara. Within a two-mile radius, the plant is surrounded by rural-agricultural development.

The 2,600-acre Treatment Plant site includes a 175-acre wastewater processing area, a 750-acre sludge-drying area, and an 850-acre former salt production pond. The remaining 825 acres consist of open land that buffers adjacent communities from odors and hazardous operations. The “bufferlands” were purchased over the past 50 years to provide a buffer that limits the community’s exposure to odors emanating from the Treatment Plant’s treatment processes, limit risk in the event of an accidental chemical release, support compliance with the NDPES Permit (as hereinafter defined), and protect existing biological resources.

In 2023, San José and the City approved a conservation easement in favor of the Santa Clara Habitat Agency for 201 acres to protect habitat for the Western Burrowing owl in the coming months. The Western Burrowing owl is federally protected by the Migratory Bird Treaty Act in the U.S. and Mexico, and is listed as endangered, threatened, or as a Species of Concern in nine states, including California, where it is considered a Species of Special Concern by the California Department of Fish and Game. Under the Santa Clara Valley Habitat Plan, the City may dedicate a conservation easement over land within a target conservation area in lieu of paying development fees that would otherwise be required for certain construction projects.

Approximately 80% of the treated water from the Treatment Plant is piped to an outfall channel in the vicinity of the Treatment Plant. From there, it flows to Artesian Slough, through Coyote Creek, and eventually into the South San Francisco Bay. The remaining 20% of the treated water flows to the South Bay Water Recycling Program System. The Treatment Plant operates pursuant to a National Pollutant Discharge Elimination System (“**NPDES**”) permit issued by the State of California Water Quality Control Board (the “**NPDES Permit**”).

**Capacity and Average Flow.** The Treatment Plant has an average five-day dry weather flow design capacity of 167 million of gallons per day (“**mgd**”) and a peak wet weather flow design capacity of 261 mgd. For 2021, the average dry weather influent flow and average dry weather effluent flow were 97 mgd and 75 mgd, respectively.

**History.** Initially completed in 1956 as a primary treatment plant with a capacity of 36 mgd, the Treatment Plant served San José when it was a relatively small agricultural community known mostly for its farms and orchards. In 1959, capacity of the Treatment Plant was expanded to 54 mgd.

San José and the City formed a joint operating entity in 1959 and share ownership through their membership in that entity. Under the terms of the 1959 Agreement, San José acts as the administering agency for the Treatment Plant, with authority and responsibility for operating the facility and determining annual operating and capital costs. San José’s Environmental Services Department (“**ESD**”) is responsible for planning, designing and constructing new wastewater treatment and water reuse facilities.

A secondary treatment plant was completed in 1964, and minor additions were made in 1965, 1966 and 1968. The next major expansion in 1970 provided additional primary, secondary and chlorination facilities. In early 1979, the advanced wastewater treatment facilities, including nitrification and filtration processes, were completed. In December 1986, the present 167 mgd advanced wastewater treatment plant was placed in operation.

### **Service Area and Tributary Agencies**

The Treatment Plant currently receives and treats wastewater from a service area covering approximately 300 square miles, including the entire City, with a population of approximately 1.4 million.

***Tributary Agencies.*** The Treatment Plant provides wastewater treatment services to other agencies in the service area (the “**Tributary Agencies**” and together with the Owners, the “**Member Agencies**”), under long-term contracts expiring in 2031. The Tributary Agencies are the city of Milpitas, West Valley Sanitation District, Cupertino Sanitary District, Burbank Sanitary District and County Sanitation District No. 2-3. West Valley Sanitation District provides wastewater services within the cities of Campbell, Los Gatos, Monte Sereno, and Saratoga. Cupertino Sanitary District serves the city of Cupertino and portions of the cities of Saratoga, Sunnyvale and Los Altos and the Burbank Sanitary District provides wastewater services within the greater San José unincorporated metropolitan area. County Sanitation District No. 2-3 is a county sanitation district in the metropolitan area of San José that provides wastewater services to the unincorporated county areas of the Alum Rock and County Fairgrounds neighborhoods. Tributary Agencies represent approximately 21.5% of flow to the Treatment Plant, 21.5% of contributions to operation and maintenance costs, and 16% of contributions to capital costs.

Of the Treatment Plant’s total five-day average dry weather flow design capacity of 167 mgd of influent, the Tributary Agencies collectively hold rights to 35.211 mgd (or approximately 21% of total dry weather flow design capacity) and the remainder is shared by San José and the City on a pro rata basis determined on an annual basis by the ratio of each city’s annual assessed valuation to the sum of both cities’ assessed valuations. As of June 30, 2022, the City and the City of Santa Clara held dry weather flow design capacity rights in the Treatment Plant of 106.141 mgd (or approximately 64% of total dry weather flow design capacity) and 25.648 mgd (or approximately 15% of total dry weather flow design capacity), respectively.

***Treatment Plant Agreements.*** The 1959 Master Agreement was the original agreement that grants the City co-ownership rights to the Treatment Plant, including a share of the capacity of the Treatment Plant. On March 1, 1983, the 1959 Master Agreement was superseded through the simultaneous execution of three separate master agreements between San José and the City and three separate outside member agencies including the city of Milpitas, the Cupertino Sanitary District and the County Sanitation District No. 2-3 (collectively, the “**1983 Master Agreements**”) The Burbank Sanitary District and West Valley Sanitation District are also party to similar, separate agreements governing their rights and responsibilities with respect to the Treatment Plant but do not have voting rights. The primary purpose of executing the 1983 Master Agreements was to codify existing arrangements between the parties to the 1983 Master Agreements for treatment services and establishing treatment capacities of each party. As a result of the 1983 Master Agreements, the Treatment Plant (i) developed a method for cost sharing with each party of the 1983 Master Agreements (ii) developed a method of sharing ownership of Treatment Plant lands between San José and the City, (iii) added additional members to the San

José/Santa Clara Treatment Plant Advisory Committee and (iv) extended the expiration of the relationship established by the 1959 Master Agreement until 2031.

In addition, the 1983 Master Agreements:

- terminate in 2031, but provide that if, for any reason, the 1983 Master Agreements are not renewed in 2031, the City will have the right to continue discharging to the Treatment Plant, provided that all payments of the City's share of Treatment Plant costs are made, but all other rights of the City under the 1983 Master Agreements will cease. Negotiations are beginning that would extend the 1983 Master Agreements to 2065 or beyond and in addition, clarify the responsibilities of the member agencies to contribute to revenues and repay any debt incurred in connection with the Treatment Plant.
- obligate the City to adopt and enforce ordinances, resolutions, rules, and regulations to conform to the industrial waste ordinance of San José concerning the type and condition of discharge that would be detrimental to the Treatment Plant;
- set up a mechanism for the City to acquire or dispose of "excess pooled capacity" and to acquire additional capacity rights if the Treatment Plant expands;
- specify that the City may sell, grant, assign or otherwise transfer the 1983 Master Agreements to any corporation, district or governmental organization; and
- obligate the City to make payments associated with future improvements at the Treatment Plant, including related debt service costs.

**1983 Master Agreements Amendments.** Since 1983, the Master Agreements have been amended four times. The first amendment occurred in 1985 to address the First Stage Expansion and Intermediate Term Expansion of the Treatment Plant from 143 mgd to 167 mgd. The Amendment was called the "First Amendment to the Master Agreement for Wastewater Treatment between the City of San José, the City of Santa Clara, and the City of Milpitas." Only the city of Milpitas increased its participation in the additional Treatment Plant capacity, with the remaining additional capacity split between San José and the City. The other Tributary Agencies did not increase their capacity in the expanded 167 mgd plant.

In November 1995, a second amendment to the Master Agreements was made that incorporated minor restatements to the First Amendment or the "First Amended Master Agreement", including revisions to the First Stage Expansion, the Intermediate Term Expansion, and incorporated a new \$140 million Water Recycling Program.

In August 2006, the Master Agreements were amended for a third time and is called the "Third Amendment to the Master Agreement for Wastewater Treatment." This amendment incorporated the sale of 1 mgd of treatment capacity by the West Valley Sanitation District to the city of Milpitas.

In August 2009, the Master Agreements were amended for a fourth time and is known as the "Fourth Amendment to the Master Agreement." This amendment incorporated the sale of 0.75 mgd of treatment capacity by the Cupertino Sanitary District to the city of Milpitas.

**Treatment Plant Capacity Rights.** The following table shows the respective capacity rights of San José, the City and the Tributary Agencies under the Master Agreements as of June 30, 2022.

**Table 11  
TREATMENT PLANT  
Capacity Rights  
Fiscal Year 2021-22**

Entity	Allocated Percentages <sup>(1)</sup>	Treatment Plant Flow <sup>(2)</sup>	
		MGD	% of Total MGD
City of San José	80.539%	106.141	63.557%
City of Santa Clara	19.461	25.648	15.358
Subtotal:	100.000%	131.789	78.915%
West Valley Sanitation District		11.697	7.004%
Cupertino Sanitary District		7.850	4.701
City of Milpitas		14.250	8.533
County Sanitation District 2-3		1.014	0.607
Burbank Sanitary District		0.400	0.240
Subtotal:		35.211	21.085%
Grand Total:		167.000	100.000%

(1) Represents percentage of capacity rights held by San José and the City in excess of capacity rights of the Tributary Agencies.

(2) Represents dry weather flow.

Source: City of San José.

### **Treatment Plant Litigation**

The Tributary Agencies filed suit in 2018 against San José and the City, alleging that the Tributary Agencies had been subject to overcharges over the course of many years for operating and maintenance expenses, as well as overcharges relating to capital projects. San José and the City deny the allegations. Potential exposure could include refund or credits in the amount of the disputed operation and maintenance expenses, as well as increased capital project expense for San José and the City. The jury trial began on April 10, 2023 and ended on June 6, 2023 with a defense verdict in favor of the City. The Parties are currently engaged in post-trial tasks.

### **Operation and Maintenance Costs; Capital Costs**

Operation and maintenance costs and capital expenditures of the Treatment Plant are estimated annually by the San José ESD. These estimates are reviewed, adjusted, and recommended as a proposed budget for the Treatment Plant by the San José/Santa Clara Treatment Plant Advisory Committee (“TPAC”) to the City Council of San José, as the administering agency. TPAC is comprised of elected or appointed officials from San José, the City and the Tributary Agencies, who meet monthly to review and approve these estimates.

TPAC advises both the cities of San José and Santa Clara on operation, maintenance, repair, and improvement of the Treatment Plant, and the development and administration of

related programs and policies. In addition, TPAC advises on administrative matters including amendments to contracts and agreements, selling interests in the Treatment Plant to entities other than San José and the City, entering into contracts with entities desiring to use the Treatment Plant on a rental or other basis, the type and amount of insurance to be purchased, and rental rates to be charged to Tributary Agencies for use of the Treatment Plant. The City Council of San José reviews and adopts the proposed Treatment Plant budget during its annual budget deliberations.

Operations and Maintenance costs are allocated to Tributary Agencies proportionally based on each agency’s reported flow and strength which includes data from residential, commercial, institutional, and industrial properties. The City and San José also report their flow and strength data from the same type of properties.

Costs for capital improvements to the Treatment Plant are allocated to the Tributary Agencies based on each Tributary Agency’s contractual capacity in the Treatment Plant. The remainder of the costs for capital improvements and costs for operations and maintenance of the Treatment Plant are shared between the City and San José based on their respective annual assessed property value relative to the total annual assessed value in their jurisdictions. The Tributary Agencies are required to make payments to San José for their share of Operations and Maintenance costs and capital costs of the Treatment Plant on a quarterly basis. All of the Tributary Agencies are current on their payment obligations to San José.

Operations and Maintenance costs are allocated according to the following percentages for Fiscal Year 2021-22 (which in the experience of San Jose have not been subject to material fluctuation). The percentages below may not correspond directly to capacity rights in Table 11 because capacity rights are just one factor in the determination of allocations of Operation and Maintenance Costs.

**Table 12**  
**TREATMENT PLANT**  
**Allocations of Estimated Operations and Maintenance Costs**  
**(Fiscal Year 2021-22)**

<b>Entity</b>	<b>Allocated Percentage</b>
San José	63.18%
<b>Santa Clara</b>	<b>15.27</b>
<i>Subtotal</i>	78.45%
West Valley Sanitation District	9.20%
Cupertino Sanitary District	5.57
City of Milpitas	5.58
County Sanitation District No. 2-3	0.97
Burbank Sanitary District	0.23
<i>Subtotal</i>	21.55%
<i>Total</i>	100.00%

Source: City of San José.

As shown in the table above, the City’s share of operations and maintenance costs was approximately 15.27% of the total cost in fiscal year 2021-22. During the fiscal years 2018-19 through 2022-23, the City paid operation and maintenance costs related to the Treatment Plant of \$15,803,283, \$17,008,916, \$17,142,900, \$19,009,444, and \$19,567,920, respectively.

**Treatment Plant Capacity**

The Treatment Plant’s treatment capacity is allocated to each agency based on peak five-day dry weather flow, also referred to as the “peak week flow.” To determine peak week flow, San José reviews influent data to determine the five-day period of interest during the months of June through October and requests the City and the Tributary Agencies provide their average flow for the identified peak week. Based on this calculation, San José’s calculated peak week flow may not match the City’s highest dry weather flows.

For fiscal year 2021-22, the average flow of the Treatment Plant was 84.1 mgd and the peak flow was 92.080 mgd.

The City’s current entitlement for flow and wastewater strength parameters is set forth as follows:

Flow (mgd)	Biochemical Oxygen Demand (k lbs/day)	Suspended Solids (k lbs/day)	NH3 (Ammonia) (k lbs/day)
25.656	90.680	80.521	7.995

**Treatment Plant Capital Improvement Plan**

**Estimated Capital Improvement Plan Costs.** Based on information provided by San Jose, a five-year capital improvement plan is updated annually for the Treatment Plant (the “**Treatment Plant CIP**”). The current Treatment Plant CIP totals approximately \$607 million for Fiscal Year 2023-24 through Fiscal Year 2027-28. The City’s share of the Treatment Plant CIP is approximately \$98 million, or 16.15%, for the five-year period from Fiscal Year 2023-24 through Fiscal Year 2027-28.

**Table 13**  
**Historical and Projected**  
**City Share of Treatment Plant**  
**Capital Improvement Program**

Fiscal Year	City Share Percentage	City Share Amount	Total Treatment Plant Expenditures
2018-19	16.06%	\$15,665,135	\$98,896,054
2019-20	15.71	49,832,221	317,200,643
2020-21	15.38	9,952,101	64,708,069
2021-22	15.97	37,645,683	236,319,416
2022-23	15.74	13,815,517	88,170,000
2023-24*	15.92	12,426,484	78,046,000
2024-25*	15.91	14,297,703	89,851,000
2025-26*	16.04	10,016,045	62,444,000
2026-27*	16.61	25,771,132	155,173,000
2027-28*	16.03	35,502,701	221,486,000

\*Fiscal years 2023-24 through 2027-28 are projected and subject to change.

Source: City of San José.

**Capital Improvement Plan Projects.** The capital improvement projects in the Treatment Plant CIP will repair, replace, and upgrade the facilities and treatment processes at the Treatment Plant. The capital projects generally include replacing and upgrading the Treatment Plant’s electrical system, digester rehabilitation, digester gas line replacement, aeration tank and blower improvements, new headworks, filter rehabilitation, yard piping, outfall channel and instrumentation improvements, energy generation improvements, digested sludge dewatering facility, nitrification clarifiers rehabilitation, storm drain system improvements and other plant infrastructure improvements.

Specific future projects included in the early years of the Treatment Plant CIP are further described below.

*Nitrification Clarifier Rehabilitation Phase 1.* This project includes phased rehabilitation of the 16 nitrification clarifiers at the Treatment Plant and is anticipated to be substantially completed by September 2023.

*New Headworks.* This project consists of the construction of a new headworks facility to serve as the Treatment Plant’s long-term duty headworks, where large screens remove debris such as sticks, rocks, trash, and rags, after which wastewater then flows to grit chambers that remove heavier objects like sand and gravel. This project is anticipated to be substantially completed in September 2023.

*Yard Piping Improvements.* Phase 2 of this project consists of rehabilitating six high priority pipes by utilizing concrete crown repair, epoxy coating, cured-in-place pipe, and carbon fiber-reinforced polymer, including construction of containment walls at three structures to prevent overflow due to future sea level rise. Phase 2 is anticipated to be completed by October 2023.

*Storm Drain System Improvements.* This project consists of improving the existing storm drain system by rehabilitating storm water pump stations, pipes, manholes, catch basins, and

other components. The upgrades will protect the Plant's critical infrastructure and equipment during a 10-year through 100-year storm events. The project is anticipated to be completed by December 2023.

*Filter Rehabilitation.* This project includes rehabilitation of structural, mechanical, electrical, and instrumental elements of the filtration system at the Treatment Plant. This project is anticipated to be completed in the July of 2024.

*Digested Sludge Dewatering Facility.* This project consists of the construction of a new mechanical dewatering facility and support systems to replace the existing open-air sludge lagoons and open air solar drying beds at the Treatment Plant. This project is anticipated to provide the Treatment Plant with the flexibility to respond to regulatory changes governing the allowable disposal of treated biosolids. The project is anticipated to be completed by October 2025.

## WASTEWATER SYSTEM FINANCIAL INFORMATION

### Wastewater System Capital Improvement Program

The Capital Improvement Program Budget for the Wastewater System (the “**Wastewater CIP**”), the 5-year financial plan and associated sewer rates are updated on an annual basis through a coordinated process between the Department of Water & Sewer Utilities and the Department of Finance. The Departments of Water & Sewer Utilities and Finance have a long-standing practice of recommending rates necessary to maintain the Wastewater System and Treatment Plant in a fiscally responsible manner. The financial forecast and associated sewer rates are reviewed each year by City staff and recommendations are made to the City Council. Wastewater System rates are set by the City Council in accordance with Article XIII D of the California Constitution and other applicable law.

The Fiscal Years 2023-24 through 2027-28 Wastewater CIP totals approximately \$120 million. In general, the Wastewater CIP includes projects for system studies, modifications and expansions at the Treatment Plant, odor control facilities, new sewer mains, lift stations, rehabilitation and replacement, condition assessment, and capacity improvements of sewer mains throughout the Wastewater System.

The total Wastewater CIP, including the City’s contributions to the Treatment Plant, for the most recently completed fiscal year and the following four fiscal years is shown on the following table.

**Table 14**  
**CITY OF SANTA CLARA WASTEWATER SYSTEM**  
**Annual Budgeted CIP**

<b>Fiscal Year</b>	<b>Amount</b>
2022-23	\$43,362,258
2023-24	15,255,973
2024-25	17,127,192
2025-26	12,525,534
2026-27	29,000,621

The current 5-year Wastewater CIP is expected to be funded with current cash, a portion of the proceeds of the Certificates, and future revenues of the Wastewater System.

### Wastewater System Funds

The City maintains the following funds for the Wastewater System, which together are reported as the Sewer Utility Enterprise Fund in the City’s Annual Comprehensive Financial Report:

**Operating Fund.** The Department's operating fund receives monthly revenue from user fees and other charges and is utilized to pay the day-to-day operating and maintenance expenses of the Wastewater System. Wastewater revenues do incur some seasonal variation, but in general are relatively stable.

1. Offset any variability of wastewater revenues;
2. Pay emergency maintenance and repairs; and
3. Pay expenses resulting from a natural disaster.

Fund levels may be drawn down to a level below the target level for a limited period to offset an unexpected loss of revenue or increase in operating expenses due to an economic downturn, unforeseen increased costs, emergency repairs, major equipment replacement, or a natural disaster. The use of reserves to cover operating budget shortfalls should be limited to no greater than three consecutive fiscal years.

After a period where reserves are utilized, reserves are to be replenished within three to five years. Reserves are replenished by controlling costs and/or increasing user rates and fees by a sufficient amount to rebuild reserves within the specified period.

**Construction Fund.** The construction cash account is used to pay for capital projects. Revenue credited to the construction cash account generally consists of grants, fees, reimbursements, and transfers from the operating cash account. The target level for the construction cash account is dependent on the level of anticipated funding requirements for the Wastewater CIP. The construction cash account must have funds at least equal to the budgeted projects to date for which money has been allocated but not spent.

The City maintains a separate account within the Construction Fund to track its revenues from its Sanitary Sewer Outlet Fee, Sanitary Sewer Connection Fee, and Sanitary Sewer Conveyance Fee.

### **Wastewater System Reserves**

The City maintains various reserves to cover shortfalls in operating revenues, address unforeseen operating and capital expenditures, cover day-to-day operating costs during emergency situations, and ease the burden on ratepayers associated with large rate increases. These policies are included as part of the City's annual budget. Key reserves relating to the Wastewater System are summarized below.

**Operation & Maintenance (O&M) Reserve.** This account is used to help cover fluctuations in day-to-day expenses. The scheduled target is 90 days of O&M expenses.

**Construction Fund Reserve.** This account is used to help maintain enough funds on hand to help mitigate unexpected capital costs. The scheduled target is 12-months of the following year's CIP.

**Rate Stabilization Fund Reserve.** This account is used to help mitigate future increases in drought-stricken years. The scheduled target is 10% of the prior year's rate revenues.

**Pension Fund Reserve.** This account is used to pay for the unfunded pension liabilities and the increase in the City's share of pension costs due to factors such as higher CalPERS rates and negotiated pay increases.

The following table shows the balance in these reserves as of June 30, 2023.

<u>Reserve</u>	<u>Balance (as of June 30, 2023)</u>
O&M Reserves	[1,835,079]
Construction Fund Reserves	[1,596,928]
Rate Stabilization Fund Reserve	[2,395,030]
Pension Stabilization Reserve	[_____]
TOTAL	[\$98,806,194]

## Historical Revenues and Expenses

The following table presents the audited Revenues and Expenses and Changes in Net Assets of the Wastewater System for fiscal years 2017-18 through 2021-22, as reported in its Annual Comprehensive Financial Report.

**Table 15**  
**CITY OF SANTA CLARA WASTEWATER SYSTEM**  
**Historical Revenues and Expenses and Change in Net Assets**

	2017-18	2018-19	2019-20	2020-21	2021-22
<b>Operating Revenues:</b>					
Charges for Services <sup>(1)</sup>	\$47,272,871	\$49,196,697	\$46,395,908	\$43,459,867	\$59,098,239
Total Operating Revenues	<u>47,272,871</u>	<u>49,196,697</u>	<u>46,395,908</u>	<u>43,459,867</u>	<u>59,098,239</u>
<b>Operating Expenses:</b>					
Salaries and Benefits	3,429,270	3,777,748	4,188,703	3,659,882	2,970,148
Materials, Supplies and Services	20,833,744	24,324,861	22,776,734	24,605,534	26,035,549
Depreciation	1,058,960	1,149,218	1,231,127	1,311,937	1,337,408
Total Operating Expenses	<u>25,321,974</u>	<u>29,251,827</u>	<u>28,196,564</u>	<u>29,577,353</u>	<u>30,343,105</u>
<b>Operating Income/(Loss)</b>	<u>21,950,897</u>	<u>19,944,870</u>	<u>18,199,344</u>	<u>13,882,514</u>	<u>28,755,134</u>
<b>Non-operating Revenues (Expenses):</b>					
Interest Revenue	1,042,502	1,356,021	1,393,124	1,307,329	1,013,248
Net Increase/(Decrease) in Fair Value of Investments	(682,832)	1,859,978	1,646,102	(972,548)	(3,832,473)
Rents and Royalties	51,462	52,066	52,694	53,711	61,724
Other Revenue	2,520,239	2,485,698	1,219,446	1,335,075	1,977,267
Interest Expense	(231,624)	(216,438)	(214,152)	(509,387)	(511,834)
Other Expense	--	--	(190,500)	--	--
Equity in Income/(Loss) of Joint Ventures	1,096,969	(6,971,901)	23,372,916	(28,461,416)	55,306,283
Total Nonoperating Revenues (Expenses)	<u>3,796,716</u>	<u>(1,434,576)</u>	<u>27,279,630</u>	<u>(27,247,236)</u>	<u>54,014,215</u>
Income/(Loss) Before Operating Transfers	<u>25,747,613</u>	<u>18,510,294</u>	<u>45,478,974</u>	<u>(13,364,722)</u>	<u>82,769,349</u>
Contributions	--	--	--	200,000	--
Operating Transfers In	--	--	148,599	10,642	229,616
Operating Transfers Out	(640,917)	(995,678)	(977,367)	(803,905)	(613,118)
Change in Net Position	25,106,696	17,514,616	44,650,206	(13,957,985)	82,769,349
<b>Total Net Position - Beginning</b>	<b>212,748,369</b>	<b>236,445,466</b>	<b>253,960,082</b>	<b>298,610,288</b>	<b>284,652,303</b>
<b>GASB 75 implementation</b>	(1,409,599)	--	--	--	--
Total Net Position - Beginning As Adjusted	211,338,770	236,445,466	253,960,082	298,610,288	284,652,303
<b>Total Net Assets - Ending</b>	<b><u>\$236,445,466</u></b>	<b><u>\$253,960,082</u></b>	<b><u>\$298,610,288</u></b>	<b><u>\$284,652,303</u></b>	<b><u>\$367,038,150</u></b>

(1) Connection fee revenues are included in Charges for Services.

Source: City of Santa Clara.

## Statement of Net Assets

The following table presents the audited Statement of Net Assets of the Wastewater System for fiscal years 2017-18 through 2021-22.

**Table 16**  
**CITY OF SANTA CLARA WASTEWATER SYSTEM**  
**Statement of Net Assets**

	2017-18	2018-19	2019-20	2020-21	2021-22
<b>ASSETS</b>					
Current Assets:					
Pooled Cash and Investments	\$78,227,526	\$85,541,695	\$81,402,850	\$92,786,154	\$74,308,645
Accounts Receivable	3,735,911	5,394,313	6,859,074	5,986,993	6,788,031
Interest Receivable	297,032	357,139	291,173	306,287	273,817
Leases Receivable	-	-	-	-	27,429
Materials, Supplies and Prepays	-	-	-	-	139,442
Due From Other Funds	440,065	557,636	760,190	625,795	750,234
Total Current Assets	82,700,534	91,850,783	89,313,287	99,705,229	82,287,598
Noncurrent Assets:					
Restricted Cash	2,261,731	2,323,808	1,176,351	1,313,128	1,350,785
Leases Receivable, Noncurrent	-	-	-	-	938,046
Capital Assets:					
Land	725,328	725,328	725,328	725,328	725,328
Buildings, Infrastructure and Improvements	48,951,904	52,680,692	57,879,505	60,913,492	62,150,752
Equipment	4,889,771	4,919,251	5,017,482	5,005,789	5,005,789
Construction In Progress	412,596	1,079,337	697,969	914,583	78,715
Total Capital Assets	54,979,599	59,404,608	64,320,284	67,559,192	67,960,584
Accumulated Depreciation	22,844,254	23,993,472	25,224,599	26,524,843	27,862,251
Net Capital Assets	32,135,345	35,411,136	39,095,685	41,034,349	40,098,333
Investment in Joint Ventures	137,991,502	143,922,301	208,345,512	181,568,804	280,257,540
Total Noncurrent Assets	172,388,578	181,657,245	248,617,548	223,916,281	322,644,704
<b>TOTAL ASSETS</b>	<b>\$255,089,112</b>	<b>\$273,508,028</b>	<b>\$337,930,835</b>	<b>\$323,621,510</b>	<b>\$404,932,302</b>
DEFERRED OUTFLOWS OF RESOURCES:					
Deferred Outflows - OPEB-Related Items	8,437	-	-	44,272	116,059
Deferred Outflows-Pension-Related Items	1,635,349	1,289,779	1,222,536	1,425,264	1,241,282
Total Deferred Outflow	1,643,786	1,289,779	1,222,536	1,469,536	1,357,341
<b>LIABILITIES</b>					
Current Liabilities:					
Accrued Liabilities	\$120,831	\$1,246,055	\$849,534	\$988,767	\$198,722
Interest Payable	94,423	88,050	94,766	74,892	207,541
Accrued Compensated Absences	19,423	19,458	22,928	31,876	20,184
Current Portion of Long-Term Debt	714,638	730,013	745,719	761,763	778,152
Total Current Liabilities	949,315	2,083,576	1,712,947	1,857,298	1,204,599
Noncurrent Liabilities:					
Long-Term Compensated Absences	202,957	221,459	186,690	246,793	156,196
Long-Term Debt	9,874,809	9,144,796	28,399,077	27,637,314	26,859,162
Net OPEB Liability	1,373,845	1,125,307	1,151,211	1,130,664	1,244,769
Net Pension Liability	7,822,968	7,949,753	8,770,720	9,379,784	7,009,690
Total Noncurrent Liabilities	19,274,579	18,441,315	38,507,698	38,394,555	36,474,416
<b>TOTAL LIABILITIES</b>	<b>\$20,223,894</b>	<b>\$20,524,891</b>	<b>\$40,220,645</b>	<b>\$40,251,853</b>	<b>\$36,474,416</b>

<b>DEFERRED INFLOWS OF RESOURCES:</b>					
Leases-Related	-	-	-	-	939,890
Deferred Inflows - OPEB-Related Items	-	187,237	163,016	172,700	88,588
Deferred Inflows - Pension-Related Items	63,538	125,597	159,422	14,190	1,748,599
<b>Total Deferred Inflow</b>	<b>63,538</b>	<b>312,834</b>	<b>322,438</b>	<b>186,890</b>	<b>2,777,077</b>
<b>NET ASSETS</b>					
Invested in Capital Assets	\$ 21,545,898	\$ 25,536,327	\$ 29,950,889	\$ 49,433,426	\$ 32,461,019
Restricted for Capital Projects and Other Agreements	137,991,502	143,983,426	208,766,732	182,323,934	280,853,194
Unreserved	76,908,066	84,440,329	59,892,667	52,894,943	53,723,937
<b>NET ASSETS</b>	<b>\$236,445,466</b>	<b>\$253,960,082</b>	<b>\$298,610,288</b>	<b>\$284,652,303</b>	<b>\$367,038,150</b>

Source: City of Santa Clara.

### Outstanding Wastewater System Obligations

Existing obligations of the Wastewater System consist of the Trimble Road ISA, which is payable on a parity with the Installment Payments and the Certificates, and the 2020 Installment Sale Agreement, which will be prepaid in full with a portion of the proceeds of the Certificates.

#### Trimble Road ISA and 2020 Installment Sale Agreement

Issue Date	Original Issuance	Maturity Dates	Average Interest Rate	Balance Outstanding as of July 1, 2023
03/08/2016	\$12,000,000	8/1/ 2016–2031	2.14%	\$ 6,859,162.13
06/11/2020	20,000,000	07/01/2024	Variable	20,000,000.00 <sup>(1)</sup>
<b>Total</b>				<b>\$26,859,162.13</b>

(1) To be paid in full with a portion of the proceeds of the Certificates.

#### Schedule of Annual Trimble Road ISA Requirements

Fiscal Year	Principal	Interest	Total
2023-24	\$ 794,893.23	\$142,556.02	\$ 937,449.25
2024-25	811,994.95	125,454.30	937,449.25
2025-26	829,464.60	107,984.64	937,449.24
2026-27	847,310.11	90,139.13	937,449.24
2027-28	865,539.56	71,909.69	937,449.25
2028-29	884,161.19	53,288.05	937,449.24
2029-30	903,183.48	34,265.77	937,449.25
2030-31	922,615.01	14,834.24	937,449.25
	<u>\$6,859,162.13</u>	<u>\$640,431.84</u>	<u>\$7,499,593.97</u>

## Historical Revenues, Expenses and Debt Service Coverage

The following table presents historical Net Revenues and debt service coverage for Fiscal Years 2018-19 through 2022-23. Net Revenues were calculated in accordance with the Installment Sale Agreement, which differs from the presentation of revenues and expenditures in the financial statements of the Wastewater System:

**Table 17**  
**CITY OF SANTA CLARA WASTEWATER SYSTEM**  
**Historical Financial Operations and Debt Service Coverage**

	Actual 2018-19	Actual 2019-20	Actual 2020-21	Actual 2021-22	Estimated 2022-23
<b>Revenues</b>					
Operating Revenues:					
Charges for Services <sup>(1)</sup>	\$37,409,504	\$39,042,115	\$39,659,826	\$38,966,618	\$40,517,221
Other Fees	320,995	340,244	460,762	310,722	516,659
Refunds from San Jose <sup>(2)</sup>	5,405,438	2,898,177	2,195,734	1,055,673	12,850,020
Subtotal Operating Revenues	\$43,135,937	\$42,280,536	\$42,316,322	\$40,333,013	\$53,883,900
Non-Operating Revenues:					
Interest Revenue	\$1,042,502	\$1,356,021	\$1,393,124	\$1,307,329	\$1,013,248
Rents and Royalties	51,462	52,066	52,694	53,711	61,724
Other Revenue	2,520,239	2,485,698	1,219,446	1,335,075	1,977,267
Operating Transfers In	-	-	148,599	10,642	229,616
Subtotal Non-Operating Revenues	\$3,614,203	\$3,893,785	\$2,813,863	\$2,706,757	\$3,281,855
<b>Total Gross Revenues</b>	\$46,750,140	\$46,174,321	\$45,130,185	\$43,039,770	\$57,165,755
<b>Operation and Maintenance Expenses:</b>					
Salaries and Benefits	\$3,429,270	\$3,777,748	\$4,188,703	\$3,659,882	\$2,970,148
Materials, Supplies and Services <sup>(3)</sup>	20,833,744	24,324,861	22,776,734	24,605,534	26,035,549
Operating Transfers Out	640,917	995,678	977,367	803,905	613,118
Total O&M Expenses	\$24,903,931	\$29,098,287	\$27,942,804	\$29,069,321	\$29,618,815
<b>Net Revenues</b>	\$21,846,209	\$17,076,034	\$17,187,381	\$13,970,449	\$27,546,940
<b>Debt Service Payments</b>					
2016 Installment Sale Agreement	\$937,449	\$937,449	\$937,449	\$937,449	\$937,449
2020 Installment Sale Agreement	-	177,216	307,642	594,401	542,144
Total Debt Service	\$937,449	\$1,114,665	\$1,245,091	\$1,531,850	\$1,479,593
<b>Debt Service Coverage</b>	23.3x	15.3x	13.8x	9.1x	18.6x

(1) Excludes Sewer Conveyance Fees, which may not be available for debt service. See "WASTEWATER RATES – Connection Fees."

(2) The large increase in Fiscal Year 2021-22 was due to a one-time true up of \$10.4M for five previous fiscal years' amount.

(3) Includes payments to San Jose for treatment costs.

Source: City of Santa Clara.

## Pro Forma Projection of Revenues, Expenses and Debt Service Coverage

The following forecast of operations has been prepared by the City. The forecast includes a number of assumptions including the following:

*Sewer Rates.* The pro forma includes rates approved by the Council on June 6, 2023 and effective July 1, 2023. Rate increases for FY 2023, averaged 6.25%, 3.1% for single-family and 2.7% for multi-family units and from 6.7% to 9.5% in commercial commodity charges, among other adjustments. Average increases in the subsequent years are projected to be 9.00%, 9.00%, and 7.00%, respectively.

*Growth.* The number of residential accounts is assumed to grow by 0.1% annually, while commercial flows are assumed to grow by 0.5% annually.

*Expenses.* Administration expenses, including salaries and benefits [**confirm description**], of the City's Wastewater System are estimated to increase [19.2% in FY 23, decline 8.5% in FY 24] and increase thereafter by about 4% annually. Costs of the Treatment Plant are forecast to increase 2.9% annually in fiscal years 2023-24 through 2026-27.

Capital costs are not included in Operation and Maintenance Costs and do not affect the availability of Net Revenues.

*The following forecast is subject to uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.*

**Table 18**  
**CITY OF SANTA CLARA WASTEWATER SYSTEM**  
**Pro Forma Statement of Financial Operations and Debt Service Coverage\***

	Estimated 2022-23	Projected 2023-24	Projected 2024-25	Projected 2025-26	Projected 2026-27
<b>Revenues<sup>(1)</sup>:</b>					
Sewer Service Charge	\$39,789,500	\$42,480,700	\$46,419,300	\$50,722,800	\$54,154,600
Reimbursements	5,458,100	--	--	--	--
Interest	565,000	576,300	587,800	599,600	611,600
Other	494,300	494,300	494,300	494,300	494,300
Total [Pledged] Revenue	\$46,306,900	\$43,551,300	\$47,501,400	\$51,816,700	\$55,260,500
<b>Operation and Maintenance Expenses:</b>					
Administration	\$3,788,900	\$2,889,300	\$2,989,800	\$3,093,100	\$3,191,600
Right-of-Way Fee	1,805,100	2,230,300	2,347,500	2,470,900	2,600,700
Treatment Plant	18,795,600	19,359,500	19,940,300	20,538,500	21,154,700
Other	6,771,800	7,012,400	7,259,900	7,506,800	7,745,000
Total O&M Expenses	\$31,161,400	\$31,491,500	\$32,537,500	\$33,609,300	\$34,692,000
<b>Net Revenues</b>	\$15,145,500	\$12,059,800	\$14,963,900	\$18,207,400	\$20,568,500
<b>Debt Service Payments</b>					
2016 Installment Sale Agreement	\$ 937,449	\$ 937,449	\$ 937,449	\$ 937,449	\$ 937,449
The Certificates	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000
Total Debt Service	\$3,237,449	\$3,237,449	\$3,237,449	\$3,237,449	\$3,237,449
<b>Debt Service Coverage</b>	4.68x	3.73x	4.62x	5.62x	6.35x

\* Preliminary; subject to change.

(1) For the purpose of this pro forma statement, Sewer Connection Fees are assumed to be zero and Sewer Conveyance Fees are assumed to be unavailable for debt service. See "WASTEWATER RATES – Connection Fees."

Source: City of Santa Clara.

## REGULATORY REQUIREMENTS

### Treatment Plant

**Treatment Plant Regulatory Requirements.** Since the City discharges wastewater to the Treatment Plant for treatment and disposal, the City’s wastewater operations are subject to many of the same regulatory requirements as the Treatment Plant. In addition, the City is responsible for paying a share of any related operation, maintenance and capital costs arising from regulation of the Treatment Plant.

The applicable regulatory requirements are primarily contained in the Federal Water Pollution Control Act, as amended, (the “**Clean Water Act**”), and in the State of California Porter-Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations are administered through the California Water Quality Control Board for the San Francisco Bay Region (the “**Regional Water Board**”), and generally deal with the quality of effluent discharged from the Treatment Plant, the disposal of biosolids from the Treatment Plant, the discharge of pollutants into the groundwater and the nature of waste material (particularly industrial waste) discharged into the collection system. The Treatment Plant is also subject to regulation by the United States Environmental Protection Agency (“**EPA**”).

The Treatment Plant is regulated under two principal operating permits:

- A NPDES permit under the Clean Water Act (the “**NPDES Permit**”) is administered by the California State Water Resources Control Board (the “**Water Board**”). After nearly a year of negotiation with the Water Board, a new NPDES Permit was issued in November 2019 and after some additional revisions, was approved by the Water Board on February 12, 2020. The new permit, Order Number R2-2020-0001 became effective April 1, 2020 and will be effective for approximately five years.
- A “Permit to Operate” under Title V of the Clean Air Act (the “**Title V Permit**”) is administered by the Bay Area Air Quality Management District (“**BAAQMD**”). The Title V Permit was issued in March 2017. A renewal application was submitted in 2021 and the Title V Permit was reissued in May 2022 with an expiration date of May 2027.

#### *NPDES Permits*

The Treatment Plant’s wastewater is currently regulated under the following three separate NPDES Permits that are typically revised and reissued at five-year intervals:

<u>NPDES Permit</u>	<u>Current Permit Effective</u>	<u>Expected Reissuance</u>
Individual Permit	April 2020	April 2025
Nutrients for POTWs	July 2019	July 2024
Mercury and PCBs for POTWs	December 2022	January 2028

The NPDES Permits mandate water quality monitoring requirements for the Treatment Plant’s effluent discharge to the Bay and set specific concentration limits for several conventional wastewater pollutants, metals, and organic compounds. The Treatment Plant’s individual NPDES Permit further requires that Treatment Plant effluent discharge may not cause or contribute to

impairment of any beneficial uses designated for the Lower South Bay. The designated beneficial uses of the Lower South Bay where the Treatment Plant discharges are:

- Estuarine Habitat
- Preservation of Rare and Endangered Species
- Wildlife Habitat
- Contact Recreation
- Non-contact Recreation.

The Treatment Plant continues to be recognized in its individual NPDES Permit as supporting all these beneficial uses and providing additional environmental enhancement to the Lower South Bay estuarine habitat. The environmental enhancements are due to the elevated oxygen content in the effluent and the consistent flow of highly treated freshwater into an otherwise mostly stagnant system.

Over the last two decades, the United States Environmental Protection Agency (EPA) and the Water Board have developed water quality regulations related to a variety of pollutants. Regulatory focus through the late-1980s and early-1990s was on copper, nickel, and freshwater flows. In the late-1990s, this focus shifted to cyanide, legacy mercury, and polychlorinated biphenyls (PCBs).

The Treatment Plant submits monthly and annual compliance reports in accordance with its multiple NPDES Permits.

The Treatment Plant is exempt from all stormwater requirements as described in its individual NPDES Permit. All onsite stormwater is captured by the onsite stormwater system that flows to the headworks of the Treatment Plant for full treatment. The Treatment Plant is not subject to the MS4 Permits or the Statewide Industrial General Stormwater Permit.

#### *Title V Permit*

The Title V program is designed to standardize air quality permits for major sources of emissions across the country and is required for facilities that emit more than the Major Source Thresholds of criteria pollutants. The criteria pollutants include carbon monoxide, ozone, lead, nitrogen oxides, particulate matter, and sulfur dioxide. The Title V permit incorporates the Treatment Plant's Permit to Operate, also issued by the BAAQMD, and all other applicable local, state, and federal air quality regulations.

The Treatment Plant tracks emissions from its engine generators through a combination of fuel consumption, source testing, and monitoring of pollutant levels in the digester gas fuel supply. These parameters are reported to the BAAQMD on an annual basis. In addition, the Treatment Plant submits Title V compliance reports semi-annually.

Wastewater regulations typically evolve over multiple five-year NPDES and Air permit cycles but can have significant impacts to operational and capital costs that affect rate payers, so Treatment Plant staff proactively engage with their regulators to advocate for the most cost-effective approaches. Staff is proactive in identifying issues on the horizon, collecting data, and building case studies to inform common sense, science-based solutions for the Bay and the Treatment Plant.

There is no regulatory litigation currently pending against the Treatment Plant. The EPA routinely audits the compliance of pretreatment facilities with applicable regulations. Some audits result in the issuance of administrative orders to facilitate compliance. The pretreatment program is the mechanism by which the Treatment Plant regulates businesses that discharge industrial wastewater into the sanitary sewer systems that flow into the Treatment Plant.

## **Wastewater Regulations under Consideration or Development**

***San Francisco Bay Nutrient Watershed Permit.*** In addition to discharging a variety of chemical constituents within the range allowed under each Publicly Owned Treatment Works (POTWs) NPDES permit, POTWs are also large dischargers of nutrient compounds to the Bay, specifically nitrogen and phosphorus. Nitrogen levels in San Francisco Bay are elevated compared to other urban water bodies. However, the elevated nitrogen is not currently causing impairment of the Bay, which would manifest through effects like harmful algal blooms and low dissolved oxygen levels. Despite no currently observed impairment, regulators have considered a hard limit, or cap, on nutrient loads discharged to the Bay and not allowing any future increases, disregarding inherent long-term increases due to expected population growth.

Through continued participation in the research and investigations into the impact of nutrients in the Bay and ongoing negotiation with Water Board staff, the Treatment Plant, in collaboration with partner wastewater agencies, successfully worked with regulators on the adoption of a Nutrient Watershed Permit, which took effect in July 2019. The new Permit delays load caps in any form until 2024, at the earliest; and factors in projected population growth and inherent load variability into any future load caps or regulatory requirements. While the 2019 Nutrient Watershed Permit does not require load caps, it instead includes:

- Increased funding from dischargers, based proportionally on nutrient discharge loads from each facility, to support regional studies to further evaluate nutrient impacts on the Bay,
- Continued monitoring of nutrient discharges from wastewater treatment plants, and
- Regional evaluations of potential nutrient reduction strategies utilizing natural treatment systems (wetlands and horizontal levees) and increased recycled water.

It is anticipated that the Water Board will impose nitrogen limits that account for growth and variability in the 2024 Nutrient Watershed Permit in the form of a collective effluent load cap or regulatory limit for all discharges to the Bay and trigger levels for individual agencies. The trigger levels are expected not to impose an immediate regulatory penalty or violation but would require the agency take actions to reduce nitrogen loads below the trigger. Similar requirements for phosphorus are not expected because phosphorus does not appear to pose a potential threat to Bay water quality. The load cap envisioned for the 2024 nutrient permit will likely need to be achieved by 2029, which is the end of the next permit term. Additional treatment modifications to remain below the trigger for the Treatment Plant will be necessary due to increased nitrogen loads from projected population growth and due to changes in solids dewatering that will generate a return stream of high strength nitrogen. The Treatment Plant will need to develop the capacity to fully treat this high strength nitrogen return stream. If no further action is taken by 2029 to reduce nitrogen loads discharged from the Treatment Plant, the Treatment Plant is expected to exceed the anticipated future nitrogen trigger at some point between 2024 and 2029.

***Constituents of Emerging Concern.*** Constituents of Emerging Concern (“CECs”) is a term used to describe a broad range of unregulated chemical components found at trace levels

in many of our water supplies that may have an impact on aquatic life. Examples of these components include chemicals commonly found in pharmaceuticals and personal care products, which are increasingly being detected at low levels in surface water. The number of CECs that have raised concern in the environmental and scientific communities has steadily and rapidly grown over the past five years.

Of the list of CECs that are of elevated concern, Poly- and per-fluoroalkyl compounds (PFAS) and the flea and tick treatment pesticides fipronil and imidacloprid are the most likely to result in effluent limits or regulatory control programs in near term.

***Poly- and per-fluoroalkyl Compounds.*** PFAS compounds are a large class of chemicals with a diverse number of applications that have received increasing regulatory attention over the past years. Used in textiles, carpet treatments, metal plating, cookware coatings, food packaging, and fire-fighting foams, PFAS are ubiquitous in homes and in the environment. Because of their broad applications, PFAS are entering the wastewater stream through residential, commercial, and industrial pathways and are persistent in the environment with some forms accumulating in wildlife, potentially causing harm.

The Water Board issued requirements to evaluate various pathways through which PFAS are entering the environment. In response, wastewater agencies in the San Francisco Bay Region initiated a study in late 2020 to characterize the levels of PFAS entering and leaving POTWs as well as gain a better understanding of the source of PFAS in wastewater. The study, which is unique in California, is underway and is being conducted in collaboration with scientific experts from the San Francisco Estuary Institute (SFEI) and the Water Board. The study characterized PFAS in influent, effluent, and biosolids from over a dozen POTWs in the region and is currently collecting samples from targeted industrial and commercial facilities as well as flows that are predominantly residential in nature. This information will help identify whether wastewater PFAS is coming from specific industries or is predominantly from residential sources.

***Flea and tick pet treatment.*** Flea and tick treatments for household pets have received considerable attention and potentially pose a future regulatory threat due to their impact on the environment. Many of the most popular and lower cost products on the market today are applied topically to a dog's or cat's skin between their shoulders. Studies conducted in the San Francisco Bay Area have demonstrated that the topical application causes the product and chemicals to spread rapidly throughout a household, onto furniture, clothes, bedding, hands, and faces. As these items are washed, the chemicals are sent into the collection system and to the Treatment Plant. Many of the popular topical flea and tick treatments in wide use today contain one of the two most problematic pesticides, fipronil and imidacloprid. Studies conducted at the Treatment Plant and other POTWs have shown that these two compounds are not removed or reduced by treatment at even advanced wastewater treatment facilities like the Treatment Plant and are thus discharged to the environment. These compounds are highly toxic to aquatic life, especially insect-like aquatic invertebrates. In addition, imidacloprid is a class of pesticide known as a neonicotinoid, which are pesticides that have been implicated in honeybee colony collapses.

Since there is not an identified treatment technology to remove these compounds from wastewater, Treatment Plant staff initiated a proactive pollution prevention (P2) effort to educate the public and San José staff on the environmental risks posed by fipronil and imidacloprid. Outreach messaging encourages residents to consider using chewable flea and tick treatments for their pets after speaking to their veterinarian, to practice integrated pest management (less toxic alternatives) for flea and tick control and treatment, and to research alternative products that do not contain fipronil and imidacloprid.

**Microplastics.** Microplastics are tiny particles of plastic, smaller than five millimeters, that are found in the form of microbeads, fragments, fibers, tiny plastic pellets called nurdles, foamed plastic particles from packaging, cigarette filters and other items. These particles originate from human use and are entering the environment because of human activities. Wastewater treatment plants are not designed to remove such tiny particles from the waste stream, and technology to remove them at wastewater treatment plants is incredibly expensive due to the sheer volume of water that is treated at a centralized facility. Detections of these microplastics in Bay water and in some fish is cause for concern since these particles are not food and could potentially contain chemicals that are toxic to aquatic organisms. The toxicity and environmental impact of microplastic particles are still poorly understood and are a priority focus of future research at the state level and a priority for the California Ocean Protection Council (OPC).

Bay Area wastewater treatment plant effluent, including the Treatment Plant effluent, has been analyzed for microplastics and results indicate that at least a portion of the microplastics in the sanitary waste stream pass through wastewater treatment plants, including those with advanced treatment technology and filtration like the Treatment Plant. The majority of microplastics in treated wastewater at the Treatment Plant were in the form of microfibers, which are present from laundering garments made with synthetic plastic fibers.

A broad group of stakeholders agree that plastics use reduction, product stewardship, and true source control are the best strategies to reduce the amount of microplastics entering the environment. To address these strategies, scientific focus has shifted away from simply documenting environmental presence. Rather, resources for local studies are focused on gaining a better understanding of the sources and pathways of microplastics to the environment and the localized effects of plastics based on the chemistry of the most abundant particles. Staff continues to monitor this issue for any further developments and advocate for scientific studies to focus on environmental effects.

**State Toxicity Plan.** Monthly chronic toxicity testing is required under the NPDES Permit, but testing is for diagnostic purposes and results have not been evaluated against numeric effluent limits, but instead against measured effects on a test species. A State Toxicity Plan that includes adoption of numeric toxicity limits for all POTWs, was adopted by the State Water Resources Control Board on December 1, 2020. Numeric toxicity limits will now be included in all NPDES Permits as they are reissued.

The Treatment Plant has a nationally accredited environmental laboratory and has recognized expertise in chronic toxicity testing. Even with this expertise and experience, it is important to note that the causes of chronic toxicity intermittently detected at the Treatment Plant have never been successfully identified. This problem is not unique to the Treatment Plant, with other wastewater facilities also unable to successfully identify the precise causes of toxicity in their discharges. Consequently, any response to future non-compliance events for chronic toxicity, because of the new limits, would be exceptionally difficult to design without knowing the cause of any observed toxicity.

### ***Air Quality Regulations under Consideration or Development.***

**Toxic Air Contaminants / AB617 Implementation.** Assembly Bill 617, passed in 2017, gave the California Air Resources Board (“CARB”) a mandate to reduce exposure to toxic air contaminants in communities most impacted by existing air pollution sources. Compliance with new reporting provisions associated with AB617 will require additional source testing from

wastewater treatment operations. The California Association of Sanitation Agencies is coordinating an industry-wide effort to conduct testing to develop emission factors that can be used to evaluate and report emissions to CARB and BAAQMD under the new AB617 program. This effort will be conducted over the new 4 to 5 years with annual cost sharing assessments assigned to each participating facility. The results of the study will also be used for compliance with the local BAAQMD air toxic rules including Rule 11-18 and Rule 2-5.

*Toxic Air Contaminants / Rule 11-18.* BAAQMD is implementing a new rule, Regulation 11, Rule 18 (Rule 11-18), to assess and reduce human health risks associated with toxic air contaminant emissions from facilities throughout the Bay Area. The Treatment Plant will be subject to Rule 11-18 and will be required to fund a human Health Risk Assessment (“HRA”) for the entire Treatment Plant under the guidance of BAAQMD. Implementation of Rule 11-18 has been delayed and the BAAQMD has not provided a definitive timeline for implementation. The Treatment Plant recently completed HRAs conducted as part of the permitting process for certain new equipment.

*Toxic Air Contaminants / Rule 2-5.* BAAQMD adopted a revised Rule 2-5, *New Source Review for Toxic Air Contaminants* in 2021 that sets stricter standards for new or modified facilities in and near communities that are deemed to be disproportionately affected by air pollution. The Treatment Plant is not located in a target area for the rule and will not be subject to the more stringent standards. The revised rule also includes review times for processing permit applications and includes a definition of essential public services that does not include wastewater treatment.

*Greenhouse Gas Emissions / Cap and Trade.* California has created statewide programs, including a Cap-and-Trade program to track and promote reduction of greenhouse gas (“GHG”) emissions. The current program authorized by Assembly Bill (AB) 32 in 2006 was set to expire in 2020 but was extended through 2030 with the adoption of Senate Bill (SB) 32 in 2017.

The Treatment Plant had been subject to the Cap-and-Trade program due to its use of pipeline natural gas (a fossil fuel) to supplement digester gas in generating electricity to power operational equipment. The Treatment Plant was able to exit the program in 2018 by purchasing electrical power from the utility grid rather than using additional natural gas, decreasing GHG emissions generated onsite to less than the Cap-and-Trade threshold. In 2020, the on-site power generation system transitioned to a new Cogeneration Facility to better balance overall GHG emissions with reliable and economical power.

*Greenhouse Gas Emissions / BAAQMD Methane Rules.* Methane is a potent GHG (21 times as potent as carbon dioxide) that is generated through the anaerobic decomposition of organic matter in processes such as in the anaerobic digesters at the Treatment Plant. The high potency of methane has made reduction of methane emissions a high priority for BAAQMD. Nearly all biogas currently produced at the Treatment Plant is captured on-site and used to generate energy for operations. The remaining methane is burned in flares or escapes as fugitive emissions. As part of the Treatment Plant capital improvement program, all biogas piping in the Treatment Plant is being replaced and updated, reducing potential leak sources, and improving overall safety.

BAAQMD has announced plans to develop Rule 13-4, targeting wastewater treatment facilities and anaerobic digesters for methane and nitrous oxide emission reductions. The intent of the rule will be to limit fugitive methane emissions and minimize the formation of nitrous oxide in the treatment process. Formal rulemaking for this was expected by the end of 2019 but has been delayed due to lack of BAAQMD staff resources and effects of COVID-19.

### ***Air Permit Changes.***

*Digester Permit to Operate.* BAAQMD issues a renewed Permit to Operate (PTO) annually for all permitted sources at the Treatment Plant after the payment of annual emissions fees. The boilers from the new Cogeneration Plant were added to the PTO in 2022. The new headworks and associated biopower are expected to be added to the PTO when it is reissued in 2023.

*Title V Renewal.* BAAQMD issued a new Title V permit in May 2022 with an expiration in May 2027. Applications to update the Title V permit will be submitted as new sources are commissioned.

*Regional Odor Attribution Study.* BAAQMD conducted hired two consulting firms to conduct an odor attribution study for the Treatment Plant, Newby Island Landfill, and Zero Waste Energy Development Company. Milpitas residents complain that all three facilities contribute to odor. The odor attribution study characterized odors from each of the three facilities so that odors observed in the community could be traced to their source. The results of the study will be used by BAAQMD to develop a plan for reducing odors from any of those facilities that are found to contribute to odors observed in the community.

BAAQMD distributed a draft report of the results in October 2022. The draft report identified activities at the Newby Island Landfill as the primary source of odors that generate complaints in Milpitas. The Treatment Plant was identified as a source of identifiable odors but was not shown to be a source of odor complaints.

Recent and planned changes at the Treatment Plant are expected to reduce potential emissions of odors. A new Headworks Process, currently undergoing initial start-up, will replace the current open headworks with an enclosed process equipped to collect and treat air with a biofilter to reduce potential odors. In addition, the Treatment Plant completed start-up of new odor control measures for undigested sludge handling systems in 2022. The Digested Sludge Dewatering Facility, currently under construction, will allow the eventual decommissioning of the lagoons and drying beds which have been alleged as odor sources by the BAAQMD. These enhanced odor control measures are intended to prevent objectional odors beyond the Treatment Plant fence line.

### ***Other Wastewater-related Regulations.***

*Implementation of SB 1383.* With the adoption of Senate Bill (SB) 1383 in 2016, the California Department of Resources Recycling and Recovery (CalRecycle) developed new regulations to reduce organic waste in landfills and short-lived climate pollutants, such as methane. The targets set by SB 1383 are a 50% reduction in the statewide disposal of organic waste from the 2014 level by 2020, and a 75% in the statewide disposal of organic waste from the 2014 level by 2025. CalRecycle's regulations were finalized in November 2020 and went into effect on January 1, 2022. The final regulations maintained biosolids in the definition of organic waste and, from a reporting perspective, deem the use of organic material ADC as landfill disposal. While the final regulations do not ban landfill disposal of biosolids, the regulations do encourage wastewater agencies to divert biosolids from landfills for wastewater agencies to be eligible for procurement credits toward the annual per-capita-based procurement target established should they co-digest sludge with other diverted organics.

To better align the Treatment Plant's operations with the intent of the SB 1383 regulations, San José is proceeding with the construction of the Digested Sludge Dewatering Facility (approved in March 2022), which is consistent with the Biosolids Transition Strategy (approved in June 2015) and Dewatered Biosolids Management Strategy (approved in June 2021). Upon completion of the Digested Sludge Dewatering Facility, anticipated to be in 2025, the emptying and decommissioning of the Treatment Plant's active lagoons and drying beds can begin. During this multi-year process, the Treatment Plant's sundried biosolids will continue to be sent to Newby Island Landfill while the Treatment Plant's mechanically dewatered biosolid are transported off-site for beneficial use.

## **Wastewater System Regulatory Requirements**

Applicable discharge limits are included in the City Municipal Code and are listed in the industrial wastewater permits issued to industries within the Wastewater System's service area. There have been no violations of the Treatment Plant's effluent limitation in the past three years. The City is also issued a permit from the State Water Resources Control Board that governs the City's sewer collection system. The City complies with the Water Board permit requirements under newly revised General Order WQ 2022-0103-DWQ for sanitary sewer systems that became effective June 5, 2023 (the "**General Order**"). The General Order serves as statewide waste discharge requirements.

The collection system agency has recently updated and implemented a Spill Emergency Response Plan ("**SERP**"), effective June 5, 2023 that identifies measures to protect public health and the environment. The SERP must include up-to-date procedures to ensure prompt detection and response to spills to reduce spill volumes and collect information for prevention of future spills.

The General Order requires the City to have an approved Sanitary Sewer Management Plan ("**SSMP**"). The City Council approved the City's most recent version of the SSMP in 2020. The City plans to update the SSMP in 2024 as required by the General Order. The SSMP is intended to:

- Provide sufficient planning, description of resources and direction for staff to maintain, manage and repair the City's sanitary sewer collection and conveyance system such that all sewer flows delivered to the City's system are conveyed safely to the Treatment Plant without sanitary sewer overflows ("**SSOs**").
- Minimize the number and severity of SSOs and to help mitigate the impact of SSOs on the environment.

The SSMP supports and supplements the City's existing operations and maintenance program and goals by providing consolidated guidelines and procedures for the City's sewer system management. The SSMP also contributes to the proper management of the collection system by memorializing these activities.

## **RISK FACTORS**

*The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating the Certificates. The discussion does not purport to be, nor should it be construed to be, complete nor a summary of all factors that may affect the financial condition of the Wastewater System or the City's ability to make Installment Payments.*

### **Limited Liability**

THE CERTIFICATES ARE SPECIAL LIMITED OBLIGATIONS PAYABLE SOLELY FROM THE INSTALLMENT PAYMENTS AND OTHER AMOUNTS HELD BY THE TRUSTEE AS SPECIFIED IN THE TRUST AGREEMENT. THE OBLIGATION OF THE CITY TO PAY INSTALLMENT PAYMENTS IS A SPECIAL LIMITED OBLIGATION OF THE CITY PAYABLE SOLELY FROM THE NET REVENUES OF THE WASTEWATER SYSTEM AND OTHER AMOUNTS IN THE WASTEWATER FUND AS SPECIFIED IN THE INSTALLMENT SALE AGREEMENT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CORPORATION, THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS OR THE CERTIFICATES.

The City is not required to advance any moneys derived from any source of income other than the Net Revenues and other sources specifically identified in the Installment Sale Agreement for the payment of amounts due thereunder or for the performance of any agreements or covenants required to be performed by it contained therein.

The Installment Payments under the Installment Sale Agreement are not secured by, and the Certificate Owners have no security interest in or mortgage on, the Project, the Wastewater System or any other assets of the City. Default by the City will not result in loss of the Project, the Wastewater System or any other assets of the City. Should the City default, the Trustee, as assignee of the Corporation, may by mandamus or other action or proceeding or suit at law or in equity enforce its rights against the City, compel the City to perform and carry out its duties under the Government Code of the State of California and all laws amendatory thereof or supplemental thereto, and the agreements and covenants required to be performed by it contained in the Installment Sale Agreement or by suit in equity enjoin any acts or things which are unlawful or violate the rights of the Corporation.

### **Gross Revenues; Rate Covenant**

The receipt of Gross Revenues by the City are dependent upon the demand for wastewater services, which can be affected by population factors, more stringent wastewater standards, wastewater regulations, water conservation, water shortages, or problems with the City's wastewater collection facilities. There can be no assurance that wastewater service demand will be consistent with the levels contemplated in this Official Statement. A decrease in the demand for wastewater services could require an increase in rates or charges in order to comply with the rate covenant. The City's ability to meet its rate covenants is dependent upon its capacity to increase rates without driving down demand. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Rates and Charges".

## **Wastewater System Expenses**

There can be no assurance that expenses of the City will be consistent with the levels contemplated in this Official Statement. Changes in technology, changes in quality standards, increases in the cost of operation or other expenses and changes in regulations could require substantial increases in rates or charges in order to comply with the City covenant regarding rates and charges contained in the Installment Sale Agreement. Such increases in rates or charges could increase delinquencies by Wastewater System customers and increase the possibility of nonpayment of the Certificates. See also “– Environmental Regulation” below.

## **Environmental Regulation**

The kind and degree of wastewater service which is provided through the Wastewater System is regulated, to a large extent, by the federal government and the State of California. See “REGULATORY REQUIREMENTS.” If the federal government, acting through the Environmental Protection Agency or additional legislation, or the State should impose stricter wastewater quality standards upon the Wastewater System, the City’s Operation and Maintenance Costs could increase accordingly and rates and charges would have to be increased to offset those expenses (although there is no guarantee rates and charges could be so increased). See “– Articles XIII C and XIII D of the California Constitution.” If insufficient Net Revenues remained following such increases in costs, there is a possibility of non-payment of debt service on the Certificates. It is not possible to predict the direction that federal or State regulation will take with respect to wastewater treatment standards.

## **No Reserve Fund**

No reserve fund will be established with respect to the Certificates or the Installment Payments. If the City fails to make an Installment Payment in full for any reason, no reserve fund or reserve insurance policy will be available to make up the resulting insufficiency.

## **Insurance**

The Installment Sale Agreement obligates the City to obtain and keep in force various forms of insurance or self-insurance for repair or replacement of a portion of the Wastewater System in the event of damage or destruction to such portion of the Wastewater System. No assurance can be given as to the adequacy of any such self-insurance or any additional insurance to fund necessary repair or replacement of any portion of the Wastewater System. Significant damage to the Wastewater System could cause the City to be unable to generate sufficient Net Revenues to pay the Installment Payments.

## **Limitations on Remedies Available to Owners of the Certificates**

If the City defaults on its obligation to pay Installment Payments when due, the Trustee does not have the right to declare all principal components of the unpaid Installment Payments to be immediately due and payable. Any suit for money damages would be subject to the legal limitations on remedies against cities and counties in the State of California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

The ability of the City to comply with its covenants under the Installment Sale Agreement and to generate Net Revenues sufficient to pay the Installment Payments (and, accordingly the debt service with respect to the Certificates) may be adversely affected by actions and events

outside of the control of the City, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “– Articles XIII C and XIII D of the California Constitution” below. Furthermore, any remedies available to the Owners of the Certificates upon the occurrence of an event of default under the Trust Agreement are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Trust Agreement, the rights and obligations under the Certificates, the Trust Agreement and the Installment Sale Agreement may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Certificates 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.

### **Parity Debt**

The City currently has outstanding other obligations payable from a pledge of Net Revenues of the Wastewater System on a parity with the pledge of the Installment Payments securing the Certificates. In addition, the Installment Sale Agreement permits the City, subject to certain conditions, to issue additional obligations secured by a pledge of Net Revenues that is on a parity basis to the pledge of Net Revenues to the Installment Payments. See “SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Issuance of Additional Parity Debt.”

The coverage tests for the issuance of additional Parity Debt involve, to some extent, projections of Net Revenues. If such indebtedness is issued, the debt service coverage for the Installment Payments could be diluted below what it otherwise would be. Moreover, there is no assurance that the assumptions that form the basis of such projections, if any, will be realized after the date of such projections. If such assumptions are not realized, the amount of future Net Revenues may be less than projected.

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

### **Natural Disasters**

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

**Seismic.** Like many areas of California, the City is subject to seismic activity. According to the safety element of the City’s General Plan, although the City is not within an Alquist-Priolo

Special Study Zone and no active faults are known to occur directly under the City, there are known fault splays beneath the City, and the City and the Wastewater System could be at risk from strong ground motion from a number of nearby seismically active faults. The City does not maintain earthquake insurance on the assets of the Wastewater System.

***Flooding and Sea Level Rise.*** Numerous scientific studies on global climate change show that, among other effects on the global ecosystem, sea levels will rise, and extreme temperatures and extreme weather events will become more frequent as a result of increasing global temperatures attributable to atmospheric pollution.

The Fourth National Climate Assessment, published by the United States Global Change Research Program in November 2018 (“**NCA4**”), finds that more frequent and intense extreme weather and climate-related events, as well as changes in average climate conditions, are expected to continue to damage infrastructure, ecosystems and social systems over the next 25 to 100 years. NCA4 states that rising temperatures, sea level rise, and changes in extreme events are expected to increasingly disrupt and damage critical infrastructure and property and regional economies and industries that depend on natural resources and favorable climate conditions. Disruptions could include more frequent and longer-lasting power outages, fuel shortages and service disruptions. NCA4 states that the continued increase in the frequency and extent of high-tide flooding due to sea level rise threatens coastal public infrastructure. NCA4 also states that expected increases in the severity and frequency of heavy precipitation events will affect inland infrastructure, including access to roads, the viability of bridges and the safety of pipelines.

Sea levels will continue to rise in the future due to the increasing temperature of the oceans causing thermal expansion and growing ocean volume from glaciers and ice caps melting into the ocean. Between 1854 and 2016, sea level rose about nine inches according to the tidal gauge at Fort Point, a location underneath the Golden Gate Bridge. Weather and tidal patterns, including 100-year or more storms and king tides, may exacerbate the effects of climate related sea level rise. Coastal areas like the Bay Area, where the City is located, are at risk of substantial flood damage over time, affecting private development and public infrastructure, including roads, utilities, emergency services, schools, and parks. As a result, the City could lose considerable tax revenues and many residents, businesses, and governmental operations along the waterfront could be displaced, and the City could be required to mitigate these effects at a potentially material cost.

### **Articles XIII C and XIII D of the California Constitution**

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

On November 2, 2010, California voters approved Proposition 26, entitled the “Supermajority Vote to Pass New Taxes and Fees Act.” Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as

“fees.” Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. Proposition 26’s amendments to Article XIII C broadly define “tax,” but specifically exclude, among other things:

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

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

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

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

**Judicial Interpretation of Articles XIII C and XIID.** After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General’s opinion initially indicated that fees and charges for water and wastewater services, which are based on the amount of services consumed, would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIID. However, three recent cases have held that certain types of water and wastewater charges could be subject to the requirements of Article XIID under certain circumstances.

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

In *Howard Jarvis Taxpayers Association v. City of Fresno*, 127 Cal.App.4th 914 (Cal. App.5th 2005), the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and a municipality must comply with Article XIID before imposing or increasing such fees. The California Supreme Court denied the City of Fresno's petition for review of the Court of Appeal's decision on June 15, 2005.

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

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

**Articles XIIC and XIID and the City's Wastewater Rates and Charges.** The City's current wastewater rates were adopted following notice to property owners and a public hearing held at least 45 days after the notice had been mailed, in compliance with the *Bighorn* decision.

**Conclusion.** It is not possible to predict how courts will further interpret Article XIIC and Article XIID in future judicial decisions, and what, if any, further implementing legislation will be enacted. Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the City's rates and charges, though it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness, as is the case with respect to the Certificates. There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIIC and Article XIID to limit the ability of

local agencies to impose, levy, charge and collect increased fees and charges for wastewater service, or to call into question previously adopted wastewater rate increases.

**Initiative Measure Qualified for November 2024 Ballot - Taxpayer Protection and Government Accountability Act.** On February 1, 2023, the California Secretary of State announced that a ballot initiative known as the “Taxpayer Protection and Government Accountability Act,” (“**Initiative 1935**”) has received the required number of signatures to appear on the November 5, 2024 ballot. If approved by a majority of voters casting a ballot at the November 5, 2024 Statewide election, Initiative 1935 would make numerous significant changes to Articles XIII, XIII A, XIII C and XIII D of the California Constitution to further limit the authority of local governments, and electors via the initiative process, to adopt and impose taxes and fees. The full text of Initiative 1935 may be viewed at the website of the California Attorney General.

Among other things, Initiative 1935 would amend the definition of “tax” in Article XIII C to include “every levy, charge, or exaction of any kind imposed by a local law that is not an exempt charge.” Initiative 1935 defines “exempt charge” to mean a “reasonable charge for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the *actual costs* (as opposed to the reasonable costs) of providing the service or product to the payor.” “Exempt charges” also encompass existing exceptions from the definition of “tax” added to Article XIII C by Proposition 26, including property-related fees imposed in accordance with Article XIII D (see “–Property-Related Fees and Costs,” above. “Actual costs” is defined as “the minimum amount necessary to reimburse the government for the cost of providing the service or product ... less all other sources of revenue including, but not limited to taxes, other exempt charges, grants, and state or federal funds received to provide such service or product.” Initiative 1935 further provides that the local government adopting an exempt charge would bear the burden of proving by *clear and convincing evidence* (as opposed to a preponderance of the evidence) that: (a) a levy, charge or exaction is an exempt charge and not a tax; and (b) the amount of the exempt charge is reasonable and that the amount charged does not exceed the actual cost of providing the service or product to the payor.

Initiative 1935 is retroactive, and provides that any tax or exempt charge adopted after January 1, 2022 but prior to the effective date of Initiative 1935, which was not adopted in compliance with the requirements thereof, would be void 12 months after the effective date of Initiative 1935, unless the tax or exempt charge is reenacted in compliance with the provisions of Initiative 1935.

The City cannot predict whether Initiative 1935 will be approved at the November 5, 2024 Statewide election. If Initiative 1935 is approved, the City cannot provide any assurances that it will not have a material adverse effect on the City’s ability to adopt or increase rates, fees, and charges in the amounts required by the Installment Sale Agreement.

## **Cybersecurity**

The City, including the Wastewater System, like many other public and private entities, relies on computer and other digital networks and systems to conduct its operations. As a recipient and provider of personal, private or other sensitive electronic information, the City is potentially subject to multiple cyber threats, including without limitation hacking, viruses, ransomware, malware and other attacks. United States government agencies have in the past issued warnings indicating that critical infrastructure sectors such as electric systems may be specific targets of cybersecurity threats.

The City has implemented industry best practices, engineering and procedures and has made the necessary investment to protect against and mitigate the adverse effects of cyberattacks, including steps to harden its cybersecurity and provide training for employees in cyber awareness and the use of the City's digital networks and systems. The City also maintains a policy of cybersecurity insurance. No assurance can be given that the City's efforts to manage cyber threats and attacks will be successful in all cases, or that any such attack will not materially impact the operations or finances of the City or disrupt the operation of the Wastewater System. There have been no detected cyberattacks that have affected the Wastewater System.

### **Secondary Market for Certificates**

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

## LEGAL OPINION

The proceedings in connection with the authorization, sale, execution and delivery of the Certificates are subject to the approval as to their legality of Jones Hall, A Professional Law Corporation, San Francisco, California (“**Special Counsel**”). A copy of the proposed form of opinion of Special Counsel is attached hereto as Appendix D. Jones Hall, A Professional Law Corporation, San Francisco, California, is acting as Disclosure Counsel to the City (“**Disclosure Counsel**”).

## TAX MATTERS

**Federal Tax Status.** In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however to the qualifications set forth below, under existing law, the portion of Installment Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. Such interest may be subject to the corporate alternative minimum tax.

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

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

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

to the public at the first price at which a substantial amount of such Certificates is sold to the public.

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

**California Tax Status.** In the further opinion of Special Counsel, the portion of Installment Payments designated as and comprising interest and received by the owners of the Certificates is exempt from California personal income taxes.

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

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

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

## NO LITIGATION

There is no action, suit or proceeding known to be pending, or threatened, restraining or enjoining the execution or delivery of the Certificates, the Trust Agreement, the Installment Sale Agreement, or any other document relating to the Certificates or in any way contesting or affecting the validity of the foregoing.

There are a number of lawsuits and claims pending against the City which have arisen in the regular course of administering the affairs of the City. In the opinion of the City, such suits and claims as are presently pending will not have a material adverse effect on the ability of the City to make Installment Payments with respect to the Certificates.

See “SAN JOSÉ-SANTA CLARA REGIONAL WASTEWATER FACILITY AND AGREEMENTS – Treatment Plan Litigation” for a description of a recent lawsuit by the Tributary Agencies.

## RATING

S&P Global Ratings (“**S&P**”) has assigned its municipal bond rating of “\_\_\_” to the Certificates. There is no assurance that any credit rating given to the Certificates will be maintained for any period of time or that the rating may not be lowered or withdrawn entirely by such rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates. Such rating reflects only the views of S&P and an explanation of the significance of such rating, and any outlook associated with such rating, may be obtained from S&P.

## CONTINUING DISCLOSURE

The City has covenanted, for the benefit of holders and beneficial owners of the Certificates to provide certain financial information and operating data relating to the City to the Municipal Securities Rulemaking Board on an annual basis (an “**Annual Report**”) not later than 230 days after the end of the City’s Fiscal Year (which currently would be February 15), commencing February 15, 2024, with the report for the 2022-23 Fiscal Year, and to provide notices of the occurrence of certain enumerated events.

The Annual Report and other required notices will be filed by the City with the Municipal Securities Rulemaking Board (the “**MSRB**”) in the manner prescribed by the Securities Exchange Commission. The specific nature of such information is set forth below under the caption APPENDIX E – “Form of Continuing Disclosure Certificate.” These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the “**Rule**”).

The City has represented that it has complied with each and every undertaking previously entered into by it pursuant to the Rule during the previous five years. A failure by the City to comply with the Disclosure Certificate will not constitute a default under the [Installment Sale Agreement or the Indenture] and Beneficial Owners of the Certificates are limited to the remedies described in the Undertaking. See APPENDIX E — “Form of Continuing Disclosure Certificate.” A failure by the City to comply with the Disclosure Certificate must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Certificates in the secondary market. Consequently,

such a failure may adversely affect the transferability and liquidity of the Certificates and their market price.

### **MUNICIPAL ADVISOR**

KNN Public Finance, LLC, California, has served as municipal advisor (the “**Municipal Advisor**”) to the City with respect to the sale of the Certificates. The Municipal Advisor has assisted in various matters relating to the planning, structuring and sale of the Certificates. The Municipal Advisor has not independently verified any of the data contained in the Official Statement or conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of the Official Statement.

### **COMPETITIVE SALE OF CERTIFICATES**

The Certificates are expected to be sold pursuant to a competitive auction to be held on \_\_\_\_\_, 2023, pursuant to the terms set forth in the Official Notice of Sale for the Certificates.

The Certificates were awarded to \_\_\_\_\_ (the “**Underwriter**”) and are being purchased at a purchase price of \$\_\_\_\_\_, which represents the principal component of the Certificates (\$\_\_\_\_\_) plus net original issue premium of (\$\_\_\_\_\_) and less an Underwriter’s discount (\$\_\_\_\_\_).

The Underwriter intends to offer the Certificates to the public at the offering prices set forth on the inside cover page of this Official Statement. The Underwriter may over allot or take other steps that stabilize or maintain the market prices of the Certificates at levels above that which might otherwise prevail in the open market. If commenced, the Underwriter may discontinue such market stabilization at any time.

### **PROFESSIONAL FEES**

Fees or compensation payable to certain professionals are contingent upon the execution and delivery of the Certificates. Those professionals include:

- the Underwriter;
- Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel;
- KNN Public Finance, LLC, as Municipal Advisor; and
- The Bank of New York Mellon Trust Company, N.A., as Trustee.

**EXECUTION**

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

**CITY OF SANTA CLARA**

By: \_\_\_\_\_

**CITY OF SANTA CLARA PUBLIC  
FACILITIES FINANCING CORPORATION**

By: \_\_\_\_\_

## **APPENDIX A**

### **SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS**

[to come closer to posting POS]

**APPENDIX B  
GENERAL INFORMATION ABOUT  
THE CITY OF SANTA CLARA AND SANTA CLARA COUNTY**

*The economic and demographic information provided in this Appendix B is presented as general background data and has been collected from sources which the City deems to be reliable. The General Fund of the City is not liable, and neither the credit nor taxing power of the City is pledged, for the payment of the Certificates. The Certificates are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the City, or any of its income or receipts, except the Net Revenues of the Wastewater System and the other funds which are pledged to the payment of the Certificates pursuant to the Trust Agreement. See the section in the Official Statement entitled "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES."*

**Area, Geography and Population**

The City is located at the southern end of the San Francisco Bay, approximately 45 miles southeast of San Francisco and three miles west of downtown San José. Encompassing a total area of approximately 18.41 square miles within northern Santa Clara County, the City is situated in the heart of "Silicon Valley." Surrounded by the Diablo Mountain Range to the east and the Santa Cruz mountains to the west, the valley is protected from ocean fog.

The City experienced rapid population growth during the 1990s to 2023. A five-year history of population in the City is shown in the table below, along with comparable population data, from Santa Clara County and the State of California.

**CITY OF SANTA CLARA, SANTA CLARA COUNTY,  
AND STATE OF CALIFORNIA  
Population Estimates  
Calendar Years 2019 through 2023**

<b>Calendar Year</b>	<b>City of Santa Clara</b>	<b>Santa Clara County</b>	<b>State of California</b>
2019	129,926	1,944,733	39,605,361
2020	130,462	1,945,166	39,648,938
2021	132,476	1,910,551	39,286,510
2022	125,908	1,890,967	39,078,674
2023	127,301	1,886,079	38,940,231

Source: California Department of Finance, Demographic Research Unit.

## History

The first inhabitants of the Santa Clara Valley were the Ohlone Indians. In the 1770s, Spanish adventurers and ranchers, impressed by the richness of the soil and mild climate, explored and settled the area. In 1777, Spanish Padres chose the area as the site of Mission Santa Clara de Asis, the eighth of 21 missions which stretch 600 miles along the California coast. When Mexico took over the Spanish possession in 1822, livestock and farming became the main sources of livelihood. In 1850, California was admitted to the Union and the valley officially became known as Santa Clara County. The City of Santa Clara was incorporated in 1852. For the next century the City enjoyed a period of rich agricultural growth. Recently, orchards have given way to homes and businesses. The area is now known as “Silicon Valley” because of its important role in electronic and aerospace industries. Computer parts, lasers and other sophisticated electronic equipment are produced in and around the City.

## Governing Body

The City operates under a Council-Manager form of government, whereby policies of the City Council are administered by a City Manager, who is appointed by the City Council. All municipal departments, other than the City Attorney’s Office, operate under the supervision of the City Manager. The City Council consists of the Mayor, who is elected at large, and six councilmembers elected by district, serving as the legislative authority. The Mayor and councilmembers are elected to four-year terms, with the councilmember terms being staggered. The City Charter limits the Mayor and all Councilmembers to serving two consecutive terms.

The current members of the City Council and key administrative personnel of the City are listed in the following tables:

<b>Name</b>	<b>Office</b>	<b>Term Expires</b>
Lisa M. Gillmor	Mayor	Dec. 2026
Kevin Park	Vice Mayor – District 4	Dec. 2024
Kathy Watanabe	Councilmember – District 1	Dec. 2024
Raj Chahal	Councilmember– District 2	Dec. 2026
Karen Hardy	Councilmember – District 3	Dec. 2026
Sudhanshu Jain	Councilmember– District 5	Dec. 2024
Anthony J. Becker	Councilmember– District 6	Dec. 2024

<b>Member</b>	<b>Position</b>
Jovan D. Grogan	City Manager
Nadine Nader	Chief Operating Officer
Cynthia Bojorquez	Assistant City Manager
Glen R. Googins, Esq.	City Attorney
Kenn Lee	Director of Finance
Gary Welling	Director of Water and Sewer Utilities
Hosam Haggag	City Clerk

## Budgetary Policies

A budget is prepared each year by the City Manager with the assistance of the Finance Department for the General Fund and certain special revenue funds and is approved by the City Council. The budget is in certain aspects prepared on the modified accrual basis of

accounting under which resources are budgeted as revenues in the period they are anticipated to become measurable and available, and appropriations are made in the period when the resources are committed. Unencumbered appropriations, other than long-term projects, lapse at the end of the year. Encumbrances outstanding at the end of the year are reported as reservations of fund equity since they do not constitute expenditures or liabilities under generally accepted accounting principles. However, in the statement of revenues, expenditures and changes in fund balance for the general and special revenue funds prepared on the non-GAAP budgetary basis, outstanding encumbrances at the end of the year are included as expenditures to facilitate the comparison of actual operating results to the approved budget on a comparable basis of accounting.

## **Budgetary Process**

The budget of the City is a detailed operating plan which identifies estimated costs and results in relation to estimated revenues. The budget includes: (1) the programs, projects, services and activities to be provided during the fiscal year, (2) the estimated revenue available to finance the operating plan, and the estimated spending requirements of the operating plan.

The budget represents a process through which policy decisions are made, implemented and controlled. The Charter requires that the City establish a budgetary system for general operations, and prohibits expending funds for which there is no legal appropriation. The City is required to adopt an annual operating budget on or before June 30 for the ensuing fiscal year. Activities of the General Fund, the Community Development Block Grant Special Revenue Fund and the Other Special Revenue Fund are included in the annual appropriated operating budget. The procedures followed to establish the budgetary data reflected in the accompanying General Purpose Financial Statements are as follows.

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a minute order.

From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the applicable governmental funds. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the object category level within a department (an, "entity"). During the fiscal year, the City Council may amend or supplement the budget by motion by the affirmative votes of at least five members so as to authorize the transfer between entities (a fund or fund group) involving new revenue sources or funds previously appropriated by Council.

The operating budget is prepared at the object level within divisions of departments. The City Manager may transfer appropriations from one program to another within the same object classification of a department within the same fund without approval from the City Council. All other transfers require City Council approval.

Budget information is presented on a non-GAAP budgetary basis. Budgeted revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental

appropriations during the year which were contingent upon new or additional revenue sources. Total expenditures of the general and special revenue funds may not legally exceed fund appropriations.

All appropriations lapse at the end of the fiscal year to the extent they have not been expended or encumbered. Encumbered appropriations are not reported as expenditures but are reported as a reservation of fund balance available for subsequent year expenditures based on the encumbered appropriation authority carried over to the next fiscal year.

In addition to the annual appropriated operating budget, a Biennial Capital Improvement Program Budget that extends for a five-year period, and a Ten-Year Financial Plan are updated and accepted by the City Council.

The City Council employs, at the beginning, of each fiscal year, an independent certified public accountant who, at such time or times as specified by the Council, at least annually, and at such other times as he or she shall determine, examines the books, records, inventories and reports of all officers and employees who receive, control, handle or disburse public funds and of all such other officers, employees or departments as the City Council may direct. As soon as practicable after the end of the fiscal year, a final audit and report is submitted by such accountant to the City Council and a copy of the financial statements as of the close of the fiscal year is published.

### **Ad Valorem Property Taxes**

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County of Santa Clara as of the preceding March 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and property the taxes on which are a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

### **Assessed Valuations**

The valuation of property in the City is established by the Santa Clara County Assessor. Assessed valuations are reported at 100% of the full value, of the property, as defined in Article XIII A of the California Constitution. Prior to 1981-82, assessed valuations were reported at 25% of the full value of property.

The California State Legislature adopted two types of State-reimbursed exemptions beginning in the tax years 1969-1970. The first currently provides a credit of \$7,000 of the full value of an owner-occupied dwelling for which application has been made to the County Assessor. Revenue estimated to be lost to local taxing agencies due to the above exemptions has in the past been, reimbursed from State sources. Reimbursement is based upon total taxes due upon such exemption values and therefore is not reduced by any estimated amount of actual delinquencies.

Pursuant to legislation adopted in 1979 (Statutes of 1979, Chapter 1150), business inventories are entirely exempt from taxation in fiscal year 1980-81, and each fiscal year thereafter. This law further provides a formula for reimbursement by the State to cities, counties, special districts and school districts for the amount of tax revenues lost by reason of such

exemption, as adjusted for percentage changes in the population and the cost of living. Under prior State law, the State paid 50% of the taxes that were levied against business inventories. Under Chapter 1150, the State pays, as a subvention, an amount equal to 100% of taxes that would otherwise be due (excluding taxes to pay for voter approved indebtedness) from business inventories commencing with the 1980-81 fiscal year. To compute amounts payable by the State, 1979-80 was established as the base year for business inventory subventions; thereafter, the subventions due are increased based upon increases in population and inflation rather than expanded business inventories.

In addition, certain classes of property such as churches, colleges, not-for-profit hospitals and charitable institutions are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions.

The following table provides a five-year record of assessed valuations for the City.

**CITY OF SANTA CLARA  
Assessed Valuation of Taxable Property  
Fiscal Years 2018-19 through  
2022-23 (In Thousands)**

<b>Fiscal Year</b>	<b>Net Secured Public Valuation</b>	<b>Utility</b>	<b>Net Unsecured Valuation</b>	<b>Net Assessed Valuation <sup>(1) (2)</sup></b>
2018-19	\$36,596,483	\$35	\$7,266,592	\$43,863,429
2019-20	38,502,828	870	7,629,244	46,132,942
2020-21	42,047,766	870	7,972,493	50,021,129
2021-22	44,162,052	870	8,007,077	52,170,000
2022-23	48,144,003	870	8,688,804	56,833,678

(1) Net of Homeowner Property Tax Relief.

(2) Totals may not add due to rounding.

Source: Santa Clara County, Department of Finance.

The following two tables set out the amounts of property tax collected in the City and the ten largest property-taxpayers in the City, respectively.

**CITY OF SANTA CLARA**  
**Property Tax Levies and Collections**  
**Fiscal Years 2017-18 through 2021-22**  
(In Thousands)

<b>Year</b>	<b>Gross Tax Levy</b>	<b>Current Tax Collections</b>	<b>% of Current Levy Received</b>
2017-18	\$33,312	\$33,312	100.00%
2018-19	37,374	37,374	100.00
2019-20	40,288	40,288	100.00
2020-21	43,680	43,680	100.00
2021-22	45,539	45,539	100.00

Source: City of Santa Clara.

Pursuant to California Revenue and Taxation Code Sections 4701 et seq., Santa Clara County maintains a reserve fund for the purpose of guaranteeing 100% of the secured levies of the electing governmental jurisdictions for which such county collects taxes (commonly referred to as “The Teeter Plan”). The City has elected to participate in Santa Clara County’s Teeter Plan. Consequently, the City is not exposed to the effect of delinquencies in tax collections as long as the Teeter Plan is in effect.

**CITY OF SANTA CLARA**  
**2022-23 Ten Largest Property Taxpayers**  
(In Thousands)

<b>Taxpayer</b>	<b>Total Assessed Value</b>	<b>% of Citywide Net Assessed Value</b>	<b>Primary Use</b>
Intel Corporation	\$2,193,816,422	3.85%	Industrial
Santa Clara Square Office IIA LLC	1,831,502,517	3.22	Residential
Nvidia Corporation	1,544,984,455	2.71	Commercial
Microsoft Corporation	1,201,470,025	2.11	Commercial
SI LLC	890,735,826	1.56	Commercial
Santa Clara Phase III EFH LLC	884,621,595	1.55	Commercial
Vantage Data Centers LLC	867,314,302	1.52	Commercial
Forty Niners SC Stadium Company LLC	777,020,014	1.36	Entertainment
Apple Inc	689,186,057	1.21	Industrial
Coresite Real Estate	539,534,745	0.95	Real Estate
<b>TOTAL</b>	<b>\$11,420,185,958</b>	<b>20.06%</b>	

Source: Santa Clara County Assessor 2022-23 Combined Tax Rolls through HdL Coren & Cone.

## Employment

The main businesses in the City are manufacturing and industrial. There are numerous manufacturing plants producing electric components, communications equipment, computer systems, electronic games and similar products and general items such as fiberglass, paper and chemicals.

The largest employers in the City as of June 30, 2022 were as follows:

**CITY OF SANTA CLARA  
Top Ten Employers  
As of June 30, 2022**

<b>Company</b>	<b>No. of Employees</b>	<b>% of Total City Employment</b>
Applied Materials, Inc.	8,500	20.7%
Intel Corporation	7,801	19.0
Advanced Micro Devices Inc.	3,000	7.3
California's Great America	2,500	6.1
Nvidia	2,500	6.1
Dell	2,088	5.1
Santa Clara University	2,000	4.9
City of Santa Clara	1,752	4.3
SVB Financial Group	1,250	3.0
Macy's	1,200	2.9
<b>TOTAL TOP 10</b>	<b>32,591</b>	<b>79.4%</b>
All Others	<u>8,491</u>	<u>20.6</u>
<b>Total Employment</b>	<b>41,082</b>	<b>100.0%</b>

Source: City of Santa Clara Annual Comprehensive Financial Report for Fiscal Year Ended June 30, 2022

Due to the nature of local industry, with its heavy emphasis on electronics, aerospace and research, Santa Clara has attracted many professional people and industrial workers possessing skills well above the average.

The San José Labor Market, as defined by the State of California Employment Development Department, includes all cities within Santa Clara County. This area is a highly developed industrial, research, and educational center of employment for a labor force that ranks well above the average in educational attainment and income.

The unemployment rate in the San José-Sunnyvale-Santa Clara MSA was 3.0 percent in April 2023, down from a revised 3.3 percent in March 2023, and above the year-ago estimate of 2.5 percent. This compares with an unadjusted unemployment rate of 4.3 percent for California and 3.1 percent for the nation during the same period. The unemployment rate was 5.8 percent in San Benito County, and 2.9 percent in Santa Clara County.

The following table presents the annual average wage and salary employment figures by industry classification for the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area for the years 2018 through 2022.

**SAN JOSÉ-SUNNYVALE-SANTA CLARA METROPOLITAN STATISTICAL AREA (MSA)**  
**(SAN BENITO AND SANTA CLARA COUNTIES)**  
**Annual Average Civilian Labor Force, Employment and Unemployment,**  
**Employment by Industry**  
**Calendar Years 2018 through 2022**  
**(March 2022 Benchmark)**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Civilian Labor Force <sup>(1)(2)</sup>	1,073,700	1,083,000	1,058,200	1,044,200	1,073,300
Employment	1,044,600	1,054,900	981,900	993,300	1,044,100
Unemployment	29,200	28,000	76,300	51,000	29,200
Unemployment Rate	2.7%	2.6%	7.2%	4.9%	2.7%
<b>Wage and Salary Employment:</b> <sup>(3)</sup>					
Agriculture	5,800	5,600	5,300	5,000	4,800
Mining, Logging and Construction	50,100	53,200	50,300	51,900	54,100
Manufacturing	171,100	170,300	165,800	167,400	179,100
Wholesale Trade	32,200	31,400	29,200	28,300	29,000
Retail Trade	85,700	83,100	73,000	73,700	73,700
Transportation, Warehousing, Utilities	15,800	16,100	15,800	16,900	19,200
Information	92,100	100,600	105,900	107,100	106,400
Finance Activities	36,700	37,900	38,000	38,400	38,000
Professional and Business Services	236,200	243,100	237,600	242,600	253,700
Educational and Health Services	176,200	178,700	172,700	178,400	187,100
Leisure and Hospitality	105,700	107,500	73,100	79,000	96,600
Other Services	28,900	28,900	22,100	22,800	25,100
Federal Government	9,900	10,000	10,700	10,500	10,200
State Government	7,100	6,900	7,000	6,900	7,000
Local Government	79,700	80,400	76,300	76,000	78,800
<b>Total all Industries</b>	<b>1,133,300</b>	<b>1,153,700</b>	<b>1,082,700</b>	<b>1,104,800</b>	<b>1,162,600</b>

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

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

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

## Commercial Activity

The following summary shows the annual volume of taxable sales within the City since 2018. In 2022, retail sales totaled \$2,367,525,270 and total taxable sales were \$4,831,300,445.

**CITY OF SANTA CLARA**  
**Taxable Transactions by Type of Business**  
**Calendar Years 2018 through 2022<sup>(1)</sup>**  
**(In Thousands)**

	2018	2019	2020	2021	2022
Retail and Food Services:					
Motor Vehicle and Parts Dealers	\$677,247	\$622,888	\$518,034	\$657,361	\$776,153
Home Furnishing and Appliance Stores	340,746	361,006	232,802	216,616	234,450
Bldg. Mat'ls., Garden Equip., Supplies	91,281	95,046	110,846	120,862	128,752
Food and Beverage Stores	104,346	106,104	98,126	97,548	104,979
Gasoline Stations	153,094	152,581	97,171	128,918	176,771
Clothing and Accessories Stores	70,294	67,237	37,503	62,871	67,950
General Merchandise Stores	238,331	244,739	192,168	241,633	288,217
Food Services and Drinking Places	438,523	500,613	256,099	371,203	487,223
Other Retail Group	114,576	98,701	81,977	98,405	103,030
Total Retail and Food Services	2,228,437	2,248,916	1,624,725	1,995,416	2,367,525
All other outlets	2,478,517	2,380,777	2,366,534	2,492,184	2,463,775
Total all outlets	\$4,706,954	\$4,629,693	\$3,991,259	\$4,487,600	\$4,831,300

(1) Most recent full year data available. Totals may not add due to rounding.

Source: State of California Board of Equalization

**APPENDIX C**

**AUDITED FINANCIAL STATEMENTS OF THE CITY  
FOR FISCAL YEAR ENDED JUNE 30, 2022**

**APPENDIX D**  
**FORM OF SPECIAL COUNSEL OPINION**

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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City of Santa Clara  
Wastewater Revenue Certificates of Participation,  
Series 2023 (Green Bonds - Climate Bond Certified)

**CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Santa Clara (the “City”) in connection with the execution and delivery of the certificates of participation captioned above (the “Certificates”). The Certificates are being executed and delivered pursuant to a Trust Agreement dated as of October 1, 2023, between the City and The Bank of New York Mellon Trust Company, N.A. (the “Trustee”) (the “Trust Agreement”). The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Certificates and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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

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

“*Annual Report Date*” means the date that is 230 days after the end of the City’s fiscal year (currently February 15 based on the City’s fiscal year end of June 30).

“*Dissemination Agent*” means The Bank of New York Mellon Trust Company, N.A., or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

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

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

“*Official Statement*” means the final official statement dated \_\_\_\_\_, 2023, executed by the City in connection with the execution and delivery of the Certificates.

“*Participating Underwriter*” means \_\_\_\_\_, the original underwriter of the Certificates required to comply with the Rule in connection with offering of the Certificates.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

### Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing February 15, 2024, with the report for Fiscal Year 2022-23, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City shall provide (or cause the Dissemination Agent to provide) a notice to the MSRB, in an electronic format as prescribed by the MSRB.

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

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

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

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

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

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the City for the

preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

- (1) [\_\_\_\_\_.
- (2) \_\_\_\_\_.
- (3) \_\_\_\_\_.
- (4) \_\_\_\_\_].

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

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

#### Section 5. Reporting of Significant Events.

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

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

- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (15) Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material.
- (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Certificates under the Trust Agreement.

(c) The City acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14), and (a)(15) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Certificates. The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the City obtains knowledge of the occurrence of any of these Listed Events, the City will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the City will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if

such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

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

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be The Bank of New York Mellon Trust Company, N.A. Any Dissemination Agent may resign by providing 30 days’ written notice to the City.

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

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

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Certificates in the manner provided in the Trust Agreement for amendments to the Trust Agreement with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Certificates.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

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

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. (a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder, and shall not be deemed to be acting in any fiduciary capacity for the City, the Certificate holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

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

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

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

Date: \_\_\_\_\_, 2023

**CITY OF SANTA CLARA**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

AGREED AND ACCEPTED:  
The Bank of New York Mellon Trust Company, N.A.,  
as Dissemination Agent

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## APPENDIX F

### BOOK-ENTRY ONLY SYSTEM

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

*Neither the City nor the Underwriter take any responsibility for the information contained in this Section.*

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

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

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

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

3. Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("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 Certificates 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 Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Certificates, such as prepayments, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates 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 the notices be provided directly to them.

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

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

MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to City 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Prepayment proceeds, distributions, and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from City or the trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the trustee, or City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of prepayment proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of City 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.

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

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

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

**APPENDIX G**  
**CLIMATE BOND VERIFIER'S REPORT**