

**SPECIAL MEETING AGENDA**  
**Fortuna City Council, Fortuna Public Financing Authority (FPFA) and**  
**Fortuna Successor Agency**  
**August 30, 2017 at 5:00 P.M.**  
**621 11<sup>th</sup> Street at Fortuna City Hall**

We May Disagree, But We Will Be Respectful of One Another  
 All Comments Will Be Directed to the Issue at Hand, and Addressed to the City Council  
 Personal Attacks are Unacceptable  
***The City Council May Take Action on any Item on this Agenda.***

**I. CALL TO ORDER / FLAG SALUTE / ROLL CALL 5:00 PM**

<b>Council</b>	<b>Staff</b>
Council Member Tiara Brown	City Manager Mark Wheatley
Council Member Dean Glaser	City Clerk Siana Emmons
Council Member Doug Strehl	Finance Director Aaron Felmlee
Mayor Pro Tem Tami Trent	
Mayor Sue Long	

**II. ORAL COMMENTS FROM THE PUBLIC**

*Members of the Public may be heard at this time on any item within the subject matter jurisdiction of the City that is not on the Public Meeting Agenda. It is the practice of this Council to hold public comment for every item of business on the agenda at the time that item is heard. If a speaker cannot stay for a particular item of business, they may be heard during this time. Comments concerning the Consent Calendar may also be heard at this time. Speakers addressing the Council will be limited to 3 minutes per speaker. Be advised that, by law, the City Council can only deliberate or take action on items that are included on the agenda.*

**III. CITY COUNCIL & FORTUNA PUBLIC FINANCING AUTHORITY (FPFA) BUSINESS**

- A. **City Council:** Authorization to Proceed with the Refunding of the 2006 Water and 2006 Wastewater Revenue Bonds for Interest Savings; *Resolution 2017-29*
- B. **FPFA:** Consider Approving the Form of Escrow Agreements Relating to the Refinancing of Certain Outstanding Bonds of the Authority; *Resolution FPFA 2017-02*

**IV. ADJOURN THE CITY COUNCIL & FPFA SPECIAL MEETING**

**V. CONVENE THE SUCCESSOR AGENCY SPECIAL MEETING**

At this time, members of the City Council act as the governing body of the Successor Agency to the Fortuna Redevelopment Agency, in accordance with Health and Safety Code 34173(d)(1) and the City of Fortuna Resolution No. 2012-02. All actions of the Successor Agency are authorized by Part 1.85 (commencing with Section 34170) of Division 24 of the Health and Safety Code. Liability of the Successor Agency for any action taken is expressly limited by Health and Safety Code Section 34173(e).

**VI. SUCCESSOR AGENCY BUSINESS**

- A. Consider Approving the Sale, Execution and Delivery of the Refunding Bonds; *Resolution SA 2017-02*

**VII. ADJOURN**

Pursuant to Government Code Section 54957.5, any non-confidential documents or writings that the City distributes, less than 72 hours before a regular meeting, to all or a majority of the legislative body's members must be made available to members of the public at the same time as the distribution. Documents and information related to the agenda topics are available for review at City Hall, 621 11<sup>th</sup> Street, between the hours of 8:00 AM to 5:00 PM. Members of the public are invited to come to the meeting and comment. In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the City Clerk at 725-7600. Notification prior to the meeting will enable the City to make reasonable arrangements to ensure accessibility to this meeting.

Siana L. Emmons  
 City Clerk



**STAFF REPORT**  
***City Council and***  
***Public Financing Authority Board***  
***Business Agenda Item***

---

**DATE:** August 30, 2017

**TO:** City Council / FPFA Board Members

**FROM:** Mark Wheatley, City Manager

**SUBJECT:** Authorization to Proceed with the Refunding of the 2006 Water and 2006 Wastewater Revenue Bonds for Interest Savings

**STAFF RECOMMENDATION:**

It is recommended that the City Council adopt the *City Resolution 2017-29*, thereby approving the sale, execution and delivery of the 2017 Water Bonds and the 2017 Wastewater Bonds.

Staff also recommends that the Fortuna Public Financing Authority Board adopt *Resolution FPFA 2017-02*, thereby appointing an Escrow Agent and approving the forms of each Escrow Agreement.

**EXECUTIVE SUMMARY:**

The City has heretofore provided for the issuance of (i) Fortuna Public Financing Authority (as the conduit issuer), Series 2006 Water Revenue Bonds, in the aggregate principal amount of \$8,085,000, which have a remaining balance of \$6,750,000 (the “2006 Water Bonds”), and (ii) Fortuna Public Financing Authority, Series 2006 Wastewater Revenue Bonds, in the aggregate principal amount of \$13,820,000, which have a remaining balance of \$11,010,000 (the “2006 Wastewater Bonds,” and together with the 2006 Water Bonds, the “Prior Bonds”).

The Prior Bonds bear interest at rates ranging from 4.00% to 5.00%, and have a final maturity date of October 1, 2036. The Prior Bonds may now be prepaid and refunded (i.e., replaced with another bond issue) with no penalty on any date, upon 30 days’ notice to the present bondholder.

The current bond market provides an opportunity for the City to refinance the Prior Bonds to a lower interest rate in order to reduce the cost of debt service payable by the City (this process is hereafter referred to as a “Refunding”). Much like refinancing a home mortgage, this Refunding will provide a substantial net (after all costs and expenses) savings on the interest accrued over the life of the bonds, which is a direct benefit to the City and its ratepayers.

The City can accomplish the Refunding of the Prior Bonds by issuing new Series 2017 Water Revenue Refunding Bonds (the “2017 Water Bonds”) and Series 2017 Wastewater Revenue Refunding Bonds (the “2017 Wastewater Bonds,” and together with the 2017 Water Bonds, the “2017 Bonds”) to take the place of the Prior Bonds. The term of 2017 Bonds will match (or be less than) the term of the respective Prior Bonds. The proceedings do not require a public hearing or a rate increase, and there is no provision for public protest. The reason for this is that the Refunding

saves the City and its ratepayers money without increasing (i) its annual obligation, (ii) its overall principal obligation, or (iii) the existing maturity dates of the respective Prior Bonds.

At the February 21st meeting, the Council took the first step in the Refunding process by adopting Resolution No. 2017-06, setting forth its intention to proceed with the Refunding, and appointing the necessary consultants in connection therewith. There are several steps/documents that need to be authorized/approved by the Council which are contained in the subject Resolutions attached to this staff report.

### **FINANCIAL IMPACT:**

In today's low interest rate environment, the City can significantly reduce the interest cost associated with the 2 separate issues of Prior Bonds by refunding such debt at lower interest rates, thereby saving the City money each year without extending the length of the term of the debt. The City's financing team will be presenting the financing details at the time of the meeting, and will be available to answer any questions the Council may have.

If the subject Resolutions are approved, the City will be authorized to sell the 2017 Water Bonds and 2017 Wastewater Bonds within certain parameters (e.g., underwriter's discount shall not exceed 1% of the principal amount of bonds sold, and further provided that the NPV savings shall not be less than 3%), and City staff will be authorized and directed to complete the issuance of 2017 Water Bonds and 2017 Wastewater Bonds within those parameters. Approval of the Resolutions is a required prerequisite to accomplishing the issuance of the 2017 Water Bonds and 2017 Wastewater Bonds, which, if adopted, is presently expected to occur in September.

### **SUMMARY OF THE FINANCING DOCUMENTS:**

The subject resolutions being recommended for adoption authorize and approve the form of all the foundational legal documents (the "Financing Documents") necessary to provide for the successful issuance of the 2017 Water Bonds and the 2017 Wastewater Bonds. The adoption of each of the Resolutions is necessary for the financing team to move forward with completing the appropriate documentation and credit analysis before entering the market and locking interest rates.

The 2017 Water Bonds will be repaid from Net Revenues of the Water Enterprise, and the 2017 Wastewater Bonds will be repaid from Net Revenues of the Wastewater Enterprise. "Net Revenues" means for any Fiscal Year (or other designated twelve (12) calendar month period), the Gross Revenues (i.e., all revenues generated by either the Water Enterprise or the Wastewater Enterprise, as the case may be) during such Fiscal Year (or designated twelve (12) calendar month period) less the Operation and Maintenance Costs of such enterprise during such period.

The proposed 2017 Bonds are to be issued as limited obligation bonds, payable only from Net Revenues, and therefore the City's general fund (and other funds) will be not be exposed to repayment risk.

Please note that the Financing Documents are being presented to the Council as form documents, as they cannot be fully completed at this time because certain critical components such as interest rates and annual debt service payments will depend on the state of the bond market at the time the transaction is actually priced (i.e., sold to the Underwriter or private placement bank), which is expected to occur sometime in September. This method of approval is the normal method of approving a bond issue in California. The individual Financing Documents needed to complete this financing are included as attachments and are each briefly described below:

1. Indenture of Trust (Water): This is an agreement which sets forth the covenants and specifics of the 2017 Water Bonds, including the flow of funds, prepayment provisions, establishment and management of the reserve fund and all other funds and accounts, the City's and Trustee's duties, repayment mechanisms and the 2017 Water Bond owners' rights and remedies. The Indenture also requires the City to maintain Net Revenues in excess of 125% of total annual debt service on the 2017 Water Bonds and any new parity debt issued in the future.
2. Indenture of Trust (Wastewater): This is an agreement which sets forth the covenants and specifics of the 2017 Wastewater Bonds, including the flow of funds, prepayment provisions, establishment and management of the reserve fund and all other funds and accounts, the City's and Trustee's duties, repayment mechanisms and the 2017 Wastewater Bond owners' rights and remedies. The Indenture also requires the City to maintain Net Revenues in excess of 125% of total annual debt service on the 2017 Wastewater Bonds and any new parity debt issued in the future.
3. Water Escrow Agreement: This is an agreement between the Fortuna Public Financing Authority (the "Authority") and the Escrow Agent, pursuant to which the proceeds of the 2017 Water Bonds, together with funds on hand pertaining to the 2006 Water Bonds, will be deposited in the Water Escrow Fund, and used exclusively for the purpose of prepaying all outstanding 2006 Water Bonds.
4. Wastewater Escrow Agreement: This is an agreement between the Authority and the Escrow Agent, pursuant to which the proceeds of the 2017 Wastewater Bonds, together with funds on hand pertaining to the 2006 Wastewater Bonds, will be deposited in the Wastewater Escrow Fund, and used exclusively for the purpose of prepaying all outstanding 2006 Wastewater Bonds.
5. Preliminary Official Statements: As a necessary prerequisite to the public marketing and selling of the 2017 Bonds, a preliminary official statement for each of the 2017 Water Bonds and the 2017 Wastewater Bonds (each a "Preliminary Official Statement") has been prepared by The Weist Law Firm, as Disclosure Counsel to the City, with the help of the Financial Advisor, Underwriter and City staff. This document describes the City, the Refunding, the respective Water Enterprise and/or Wastewater Enterprise, the 2017 Bonds, the relevant Financing Documents, and the risk factors associated with an investment in the 2017 Bonds. The Preliminary Official Statement is the central source of information to potential bond buyers, and as such it is essential that the information be accurate and complete. Once the respective Bond Purchase Contract (described below) is executed, the final pricing detail will be used to fill in the blanks of the respective Preliminary Official Statement, which will then be used as the basis for the final Official Statement.

*Important Information about Securities Disclosure*: Each Preliminary Official Statement has been reviewed and approved for transmittal to the Council by staff and the financing team. The City Council is responsible for ensuring that the Preliminary Official Statement includes all facts that would be considered material to an investor in the respective 2017 Water Bonds and the 2017 Wastewater Bonds. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the respective 2017 Water Bonds and 2017 Wastewater Bonds. Members of the Council are encouraged to review each Preliminary Official Statement and/or question staff and consultants to make sure they feel comfortable that it includes all material facts.

6. Bond Purchase Contracts: Each Bond Purchase Contract is an agreement between the City and Stifel, Nicolaus & Company, Incorporated (the “Underwriter”), which provides the terms and conditions for the sale of the respective 2017 Water Bonds and 2017 Wastewater Bonds by the City to the Underwriter, and once signed, locks in the final terms and interest rates.

7. Continuing Disclosure Certificates: Each Continuing Disclosure Certificate is an agreement between the City and the Dissemination Agent pursuant to which the City is obligated to make certain secondary market disclosures on an annual basis to comply with securities regulations.

### **THREE NEW CITY POLICIES:**

In addition to approval of the Financing Documents, the subject resolution also adopts a Continuing Disclosure Policy, a Post-Issuance Tax Compliance Policy and a Debt Management Policy which are intended to (i) ensure that the all Continuing Disclosure under Rule15c2-12 is accurate, timely and in compliance with all applicable federal and state securities laws, (ii) ensure that use, expenditure and investment of bond proceeds (as well as equipment and property acquired and constructed with such proceeds) remains in compliance with federal tax rules arbitrage rules, and retention of records, (iii) identify the processes for debt issuance, identify risk thresholds, and provide a mode of enforcement of debt management policies, and (iv) promote best practices regarding Continuing Disclosure and Tax Compliance and Debt Management. Ensuring a solid track record of Continuing Disclosure, Tax Compliance and Debt Management will be viewed favorably by bond investors, rating agencies, bond insurers and the public, and is therefore in the best interests of the City.

### **TIMING:**

If Council adopts the subject resolutions, the financing team will immediately seek a rating of the 2017 Bonds, and possibly municipal bond insurance (depending on the ratings and the associated price of bond insurance). Once the ratings are known, the financing team will begin marketing the 2017 Bonds, and then close the transactions sometime in September. However, the actual timing of the marketing and the decision to sell will depend on market conditions at the time. Until the new Bonds are sold, the City retains the option of not moving forward if staff believes that it is not in the City’s financial interest to do so.

### **RECOMMENDED CITY COUNCIL ACTION:**

1. Receive staff presentation and review Council questions with staff
2. Open the public hearing.
3. Close the public hearing.
4. Motion to adopt *Resolution 2017-29* and read by title only. Voice vote.

### **RECOMMENDED AUTHORITY BOARD ACTION:**

1. Receive staff presentation and review Board questions with staff
2. Open the public hearing.
3. Close the public hearing.
4. Motion to adopt *Resolution FPFA 2017-02* and read by title only. Voice vote.

## ATTACHMENTS:

Attachment A:            *City Resolution 2017-29*

- Continuing Disclosure Policy and Procedures (attached as Exhibit A to the City Resolution)
- Post-Issuance Tax Compliance Policy and Procedures (attached as Exhibit B to the City Resolution)
- Debt Management Policy and Procedures (attached as Exhibit C to the City Resolution)

Attachment B:            *Authority Resolution FPPA 2017-02*

Attachment C            Form of Indenture of Trust (Water)

Attachment D            Form of Indenture of Trust (Wastewater)

Attachment E            Form of 2006 Water Escrow Agreement

Attachment F            Form of 2006 Wastewater Escrow Agreement

Attachment G            Form of 2017 Preliminary Official Statement (Water)

Attachment H            Form of 2017 Preliminary Official Statement (Wastewater)

- Attachment A Form of Continuing Disclosure Certificates (attached as Appendix C to each Preliminary Official Statement)

Attachment I            Form of Bond Purchase Contract (Water)

Attachment J            Form of Bond Purchase Contract (Wastewater)



**ATTACHMENT A**

**RESOLUTION NO. 2017-29**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FORTUNA  
AUTHORIZING THE ISSUANCE OF SERIES 2017 WATER REVENUE REFUNDING  
BONDS AND SERIES 2017 WASTEWATER REVENUE REFUNDING BONDS;  
APPROVING THE FORMS OF AND AUTHORIZING AND DIRECTING  
EXECUTION AND DELIVERY OF INDENTURE OF TRUST AGREEMENTS,  
ESCROW AGREEMENTS, PURCHASE CONTRACTS AND CONTINUING  
DISCLOSURE CERTIFICATES; APPROVING THE FORM OF THE OFFICIAL  
STATEMENTS AND THE DISTRIBUTION THEREOF; AND PROVIDING FOR  
OTHER MATTERS PROPERLY RELATED THERETO**

**WHEREAS**, the City of Fortuna (the “City”) has heretofore provided for the issuance of (i) Fortuna Public Financing Authority (as the conduit issuer), Series 2006 Water Revenue Bonds (the “2006 Water Bonds”), and (ii) Fortuna Public Financing Authority (as the conduit issuer), Series 2006 Wastewater Revenue Bonds (the “2006 Wastewater Bonds,” and together with the 2006 Water Bonds, the “Prior Bonds”); and

**WHEREAS**, the City owns and operates facilities for (i) the collection, treatment and disposal of wastewater within the service area of the City (the “Wastewater System”), and (ii) the production, storage, treatment and distribution of water within the service area of the City (the “Water System,” and together with the Wastewater System, the “Water and Wastewater Systems”); and

**WHEREAS**, because interest rates have declined since the Prior Bonds were issued, the City intends to take all action necessary to provide for the issuance of one or more series (as is determined most economically advantageous prior to the time of issuance) of (i) City of Fortuna, Series 2017 Water Revenue Refunding Bonds (the “Water Refunding Bonds”), and (ii) City of Fortuna, Series 2017 Wastewater Revenue Refunding Bonds (the “Wastewater Refunding Bonds,” and together with the Water Refunding Bonds, the “Refunding Bonds”), pursuant to this Resolution and the Indentures (as defined in Section 6) for the purpose of refunding (the “Refunding”) the City’s remaining outstanding principal balances of the respective Prior Bonds; and

**WHEREAS**, the City has determined to sell the Refunding Bonds to Stifel, Nicolaus & Company, Incorporated (the “Underwriter”), pursuant to the terms and conditions of the respective Bond Purchase Contracts (the “Bond Purchase Contracts”) to be entered into by the City and the Underwriter, the forms of which are on file with the City Clerk; and

**WHEREAS**, the City has caused to be prepared a preliminary Official Statement containing material information relating to the City, its Wastewater System and the Bonds (the “Wastewater POS”), the preliminary form of which will be distributed by the Underwriter to persons and institutions interested in purchasing the Wastewater Refunding Bonds, the form of which is on file with the City Clerk; and

**WHEREAS**, the City has caused to be prepared a preliminary Official Statement containing material information relating to the City, its Water System and the Bonds (the “Water POS,” and together with the Wastewater POS, the “Preliminary Official Statements”), the preliminary form of which will be distributed by the Underwriter to persons and institutions interested in purchasing the Water Refunding Bonds, the form of which is on file with the City Clerk; and

**WHEREAS**, there has been prepared and filed with the City Clerk a proposed form of Continuing Disclosure Certificate for each of the Water Refunding Bonds and the Wastewater Refunding Bonds (the “Continuing Disclosure Certificates”) in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5), and this City Council hereby finds and determines that it is in the public interest and for the public benefit that the form of Continuing Disclosure Certificates be approved and that certain policy and procedure be established therefore; and

**WHEREAS**, there has been presented at this meeting a proposed Continuing Disclosure Policy (the “Continuing Disclosure Policy”); and

**WHEREAS**, there has been presented at this meeting a proposed Post-Issuance Tax Compliance Policy (the “Post-Issuance Tax Compliance Policy”); and

**WHEREAS**, there has been presented at this meeting a proposed Debt Management Policy (the “Debt Management Policy”); and

**WHEREAS**, the City Council of the City wishes at this time to authorize all proceedings relating to the issuance of the Refunding Bonds, and to approve the execution and delivery of all agreements and documents relating thereto; and

**WHEREAS**, the City Council, with the aid of its staff, has reviewed the Indentures, the Bond Purchase Contracts, the Preliminary Official Statements and the Continuing Disclosure Certificates, the forms of which have been presented to the City Council and are on file with the City Clerk, and the City Council wishes at this time to approve the foregoing documents (collectively, the “Bond Documents”) in the public interests of the City; and

**WHEREAS**, the City Council, with the aid of its staff, has reviewed the Continuing Disclosure Policy, the Post-Issuance Tax Compliance Policy, and the Debt Management Policy (collective, the “Policies”), the forms of which have been presented to the City Council and are on file with the City Clerk, and the City Council wishes at this time to approve the Policies in the public interests of the City; and

**WHEREAS**, this action does not constitute a “Project” under California Environmental Quality Act (CEQA) Guidelines Section 15378; and

**NOW, THEREFORE, BE IT RESOLVED** by the City Council of the City of Fortuna as follows:

**Section 1. Recitals and Findings.** The City Council hereby specifically finds and declares that each of the statements, findings and determinations set forth in the recitals set forth above are true and correct and are incorporated herein by this reference, and finds further that the Refunding is expected to result in significant public benefits to the City and its ratepayers.

**Section 2. Adoption of Authorizing Procedures.** The City Council hereby authorizes the Refunding Bonds to be issued pursuant to Articles 10 (commencing with Section 53570) and 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the “Refunding Bond Law”).

**Section 3. Authorization of the Water Refunding Bonds.** The Water Refunding Bonds are hereby authorized to be issued pursuant to the Refunding Bond Law, payable exclusively from the revenues of the Water System (the “Water System Revenues”). Such revenues constitute a trust fund for the

security and payment of the principal or redemption price of and interest on the Water Refunding Bonds. The general fund of the City is not liable and the credit or taxing power of the City is not pledged for the payment of the principal or redemption price of and interest on the Water Refunding Bonds. The owners of the Water Refunding Bonds may not compel the exercise of the taxing power by the City or the forfeiture of its property, and the principal or redemption price of and interest on the Water Refunding Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Water System Revenues.

**Section 4. Authorization of the Wastewater Refunding Bonds.** The Wastewater Refunding Bonds are hereby authorized to be issued pursuant to the Refunding Bond Law, payable exclusively from the revenues of the Wastewater System (the “Wastewater System Revenues”). Such revenues constitute a trust fund for the security and payment of the principal or redemption price of and interest on the Wastewater Refunding Bonds. The general fund of the City is not liable and the credit or taxing power of the City is not pledged for the payment of the principal or redemption price of and interest on the Wastewater Refunding Bonds. The owners of the Wastewater Refunding Bonds may not compel the exercise of the taxing power by the City or the forfeiture of its property, and the principal or redemption price of and interest on the Wastewater Refunding Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Wastewater System Revenues.

**Section 5. Authorized Representatives.** The Mayor, City Manager, Finance Director, City Clerk, and any other person authorized by the Council or City Manager to act on behalf of the City shall each be an “Authorized Representative” of the City for the purposes of structuring and providing for the issuance of the Refunding Bonds, and are hereby authorized, jointly and severally, for and in the name of and on behalf of the City, to execute and deliver any and all documents and certificates that may be required to be executed in connection with the Refunding and sale of the Refunding Bonds (including, but not limited to, the Bond Documents and any documentation necessary in connection with the Refunding Bonds, such as bond ratings, bond insurance surety reserve policies or other credit enhancement for the Refunding Bonds or relating to the Refunding escrow or investment of proceeds of the Refunding Bonds), and to do any and all things and take any and all actions which may be necessary or advisable, in their discretion, to effectuate the actions which the City Council has approved in this Resolution and the Bond Documents.

**Section 6. Approval of Indenture of Trust Agreements.** The Water Refunding Bonds shall be issued pursuant to and secured by the Indenture of Trust (the “Water Indenture”), between the City and U.S. Bank National Association (the “Trustee”), the form of which is on file with the City Clerk and is hereby referred to and incorporated herein by this reference. The Wastewater Refunding Bonds shall be issued pursuant to and secured by the Indenture of Trust (the “Wastewater Indenture,” and together with the Water Indenture, the “Indentures”), between the City and the Trustee, the form of which is on file with the City Clerk and is hereby referred to and incorporated herein by this reference. The Indentures, in substantially the forms on file with the City Clerk, are hereby approved by the City Council. Any Authorized Representative, on behalf of the City, each acting alone, are hereby authorized and directed, for and in the name of the City, to execute and deliver the Indentures in such form, together with such changes, insertions and omissions as may be approved by the City Attorney, the City’s Bond Counsel, and the Authorized Representative, such execution to be conclusive evidence of such approval; and the City Clerk is hereby authorized and directed to attest such Indentures and affix the seal of the City thereto. The City Council hereby authorizes the delivery and performance of the Indentures. The Trustee shall be compensated for the services rendered by it in

accordance with the Indentures on the basis of the fee schedule approved from time to time by an Authorized Representative.

**Section 7. Terms of the Refunding Bonds.** The Refunding Bonds shall be dated, shall bear interest at the rates, shall mature on the dates, shall be issued in the form, shall be subject to redemption, and shall otherwise be issued on the terms and conditions, all as set forth in the respective Indentures and in accordance with this Resolution.

**Section 8. Preliminary Official Statements.** Staff has caused a draft of the Preliminary Official Statements to be distributed to the members of the City Council and to be placed on file with the City Clerk. Each of the Preliminary Official Statements are still in draft form and staff is continuing to work with the City's municipal advisor and disclosure counsel to finalize the Preliminary Official Statement. The City Council hereby authorizes and directs each Authorized Representative on behalf of the City to deem the Preliminary Official Statement "final" pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule") prior to its distribution to prospective purchasers of the Refunding Bonds. The City Council hereby approves and authorizes the distribution of the Preliminary Official Statements to prospective purchasers of the Refunding Bonds.

The Authorized Representatives are authorized and directed to cause the preliminary Official Statements to be brought into the form of a final Official Statement and to execute said final Official Statement, dated as of the date of the sale of the respective Refunding Bonds, and a statement that the facts contained in the final Official Statement, and any supplement or amendment thereto (which shall be deemed an original part thereof for the purpose of such statement) were, at the time of sale of the Refunding Bonds, true and correct in all material respects and that each of the final Official Statements did not, on the date of sale of the respective Refunding Bonds, and does not, as of the date of delivery of the respective Refunding Bonds, contain any untrue statement of a material fact with respect to the City or omit to state material facts with respect to the City required to be stated where necessary to make any statement made therein not misleading in the light of the circumstances under which it was made.

The Authorized Representative shall take such further actions prior to the signing of the final Official Statements as are deemed necessary or appropriate to verify the accuracy thereof. The execution of the final Official Statements, which shall be in substantially the form of the preliminary Official Statements and which shall include such changes and additions thereto deemed advisable by the Authorized Representative and such information permitted to be excluded from the preliminary Official Statements pursuant to the Rule, shall be conclusive evidence of the approval of the final Official Statements by the City.

Each of the final Official Statements, when prepared, is approved for distribution in connection with the offering and sale of the respective Refunding Bonds.

**Section 9. Continuing Disclosure.** The City Council hereby approves each of the Continuing Disclosure Certificates, in substantially the forms attached to each of the Preliminary Official Statements, together with any changes therein or additions thereto deemed advisable by the Authorized Representative, such approval to be conclusively evidenced by the execution and delivery thereof. The Authorized Representatives are hereby separately authorized and directed to execute, and the City Clerk is hereby authorized and directed to attest the final form of each of the Continuing Disclosure Certificates, for and in the name and on behalf of the City. The City Council hereby authorizes the delivery and performance of the Continuing Disclosure Certificates.

**Section 10. Bond Documents in Substantially Final Form; Further Authority.** The Bond Documents on file with the City Clerk and herein approved are in substantially final form; that is, they are final as to important business terms such as the rate covenant undertaken by the City as to the water and wastewater rates the City will enact so long as the Refunding Bonds are outstanding, and parity bond restrictions, governing limitations on future issues of bonds secured by net revenues of the Water System and Wastewater System, respectively, but do not contain such things as the numbers resulting from the sale of the Refunding Bonds, which numbers will be inserted once the Refunding Bonds are sold, or the provisions for reserve accounts for the Refunding Bonds, which will be inserted into the Indentures if and to the extent, upon consultation with the Municipal Advisor and the Underwriter, that it is in the best interest of the City to utilize reserve accounts in connection with the Refunding Bonds. All Authorized Representatives of the City, each acting alone, is hereby authorized and directed to execute, and the City Clerk is hereby authorized and directed to attest to the final form of the Bond Documents for and in the name and on behalf of the City, and the execution thereof shall be conclusive evidence of the City Council's approval of any such additions and changes.

**Section 11. Municipal Bond Insurance and Surety Bond.** The respective Authorized Representatives, each acting alone, are hereby authorized and directed to take all actions necessary to obtain a municipal bond insurance policy for the Refunding Bonds and a reserve account surety bond for the Refunding Bonds from a municipal bond insurance company if it is determined, upon consultation with the Municipal Advisor and the Underwriter, that such municipal bond insurance policy and/or surety bond will reduce the interest cost or increase savings with respect to the Refunding Bonds

**Section 12. Sale of Refunding Bonds.** The City Council hereby authorizes and approves the sale of the respective Refunding Bonds by the City to the Underwriter pursuant to and in accordance with the respective Bond Purchase Contracts. The Authorized Representatives, each acting alone, are hereby authorized and directed to execute and deliver each of the Bond Purchase Contracts for and in the name and on behalf of the City, in substantially the form on file with the City Clerk, with such changes therein, deletions therefrom and additions thereto as the Authorized Representatives executing the same shall approve, such approval to be conclusively evidenced by the execution and delivery of each of the Bond Purchase Contracts, provided that the discount of the Original Purchaser, not including any net original issue discount, shall not exceed 1%.

**Section 13. Continuing Disclosure Policy.** The form of the Continuing Disclosure Policy attached hereto as Exhibit A is hereby approved, and any Authorized Representative, on behalf of the City, is hereby authorized and directed to make such changes thereto as are necessary in order to conform the same to actual or recommended City practices, to correct typographical or grammatical errors, to cure ambiguities and inconsistencies, and to conform to applicable law as advised by Bond Counsel or the City Attorney, and to execute the final form of the Continuing Disclosure Policy on behalf of the City, and the execution thereof by an Authorized Representative shall be conclusive evidence of the approval of any such additions and changes.

**Section 14. Post-Issuance Tax Compliance Policy.** The form of the Post-Issuance Tax Compliance Policy attached hereto as Exhibit B is hereby approved, and any Authorized Representative, on behalf of the City, is hereby authorized and directed to make such changes thereto as are necessary in order to conform the same to actual or recommended City practices, to correct typographical or grammatical errors, to cure ambiguities and inconsistencies, and to conform to applicable law as advised by Bond Counsel or the City Attorney, and to execute the final form of the Post-Issuance Tax Compliance Policy on behalf of the City, and the execution thereof by an Authorized Representative shall be conclusive evidence of the approval of any such additions and changes.

**Section 15. Debt Management Policy.** The form of the Debt Management Policy attached hereto as Exhibit C is hereby approved, and any Authorized Representative, on behalf of the City, is hereby authorized and directed to make such changes thereto as are necessary in order to conform the same to actual or recommended City practices, to correct typographical or grammatical errors, to cure ambiguities and inconsistencies, and to conform to applicable law as advised by Bond Counsel or the City Attorney, and to execute the final form of the Debt Management Policy on behalf of the City, and the execution thereof by an Authorized Representative shall be conclusive evidence of the approval of any such additions and changes.

**Section 16. Effective Date.** This Resolution shall take effect from and after the date of its passage and adoption.

**PASSED AND ADOPTED** by the City Council of the City of Fortuna on this 30<sup>th</sup> day of August 2017 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

\_\_\_\_\_  
Sue Long, Mayor

ATTEST:

—

\_\_\_\_\_  
Siana Emmons, City Clerk

## EXHIBIT A

### CITY OF FORTUNA

#### CONTINUING DISCLOSURE POLICY

DATED: August 30, 2017

THIS CONTINUING DISCLOSURE POLICY (the “Disclosure Policy”) establishes the policy and procedures necessary to satisfy the requirements of Securities and Exchange Commission (“SEC”) Rule 15c2-12 (the “Rule”), which policies and procedures are applicable to the City of Fortuna (the “City”), the Fortuna Public Financing Authority, and all other City-controlled entities that ratify this policy in the future (collectively, the “Covered Entities”).

#### **Background**

Pursuant to the Rule, issuers of obligations are required under most circumstances to provide financial and operating information on an annual basis with the Municipal Securities Rulemaking Board (“MSRB”) using the Electronic Municipal Market Access system (EMMA). Certain of the Covered Entities have issued obligations which are covered by the Rule (the “Obligations”) and are required to comply with Rule. This Disclosure Policy is intended to assure that all filings required under the Rule are made timely and completely, and that all other requirements of the Rule are otherwise satisfied on an ongoing basis. The Covered Entities have covenanted or will covenant to comply with the Rule through the execution and delivery of continuing disclosure agreements or certificates (each, a “Continuing Disclosure Undertaking”) applicable to each issue of Obligations.

The Rule requires that an underwriter, prior to purchasing or selling an issue of obligations in connection with a covered offering, determine that the issuer and any other “Obligated Person” (as defined in the Rule) for whom financial or operating data is presented in the official statement has undertaken in writing to provide the following information to the MSRB using EMMA and to the appropriate state information depository (“SID”), if any:

- By a specified date, annual financial and operating information for each Obligated Person for whom financial information or operating data is presented in the official statement (an “Annual Information Filing”);
- By a specified date, if available, audited annual financial statements for each Obligated Person (“Audited Financial Statements”) and, if not available by the date required, unaudited financial statements with Audited Financial Statements;
- In a timely manner within 10 business days of occurrence, notice of the occurrence of one or more of the listed events described in the Rule (a “Rule 15c2-12 Event Notice”); and

- In a timely manner, notice of a failure of any Obligated Person required to make the Annual Information Filing and/or file the Audited Financial Statements on or before the date(s) specified in the Continuing Disclosure Undertaking (“Notice of Failure”).

### **Responsible Party: Maintenance of List and Files**

The Responsible Party for the Covered Entities shall be the City Manager and/or Finance Director and any alternate or assistant as either the City Manager or Finance Director shall assign. The Responsible Party shall maintain a current list for each fiscal year identifying each issue of Obligations during such fiscal year setting forth the name, original principal amount, date of issuance and CUSIP numbers for each such issue, the dates by which the Annual Information Filings and the Audited Financial Statements are required to be submitted to the MSRB using EMMA, and the current contact information for the dissemination agent (if any) with respect to such Continuing Disclosure Undertaking; such list is to be accompanied by copies of the related Continuing Disclosure Undertakings.

### **Annual Information Filing Requirements**

The Responsible Party shall be knowledgeable and familiar with the provisions of each Continuing Disclosure Undertaking as to the type, format and content of the financial and operating information to be included in each Annual Information Filing to be made thereunder and the timing requirements for the filing thereof. The submission dates for the Continuing Disclosure Undertakings vary.

### **Audited Financial Statements**

Audited Annual Financial Statements of the City and/or applicable Covered Entity are also required to be filed no later than the submission dates established under each Continuing Disclosure Undertaking. The Responsible Party shall be knowledgeable and familiar with the specific timing requirements for the filing of Audited Financial Statements and, if not available by the date(s) required, the provisions regarding the filing of unaudited financial statements under the terms of each Continuing Disclosure Undertaking.

### **Notices of Failures to File**

The Responsible Party shall be knowledgeable and familiar with the specific requirements for the filing of a Notice of Failure to make Annual Information Filings and/or to file Audited Financial Statements by the date(s) required under the terms of each Continuing Disclosure Undertaking.

### **Preparation**

Approximately 90 days before the submission date for required filings established under each Continuing Disclosure Undertaking, the Responsible Party shall initiate the process of preparing the financial and operating information required to be submitted thereunder. The Responsible Party shall assemble the information available at that time and determine the scope of additional information to be required and also contact the auditors to establish a schedule for completion and submission for the Audited Financial Statements.

Not less than 30 days before the submission date, the Responsible Party shall prepare a draft submission of required financial and operating information, highlighting any information still unavailable.

On or before the submission date established under each Continuing Disclosure Undertaking, the Responsible Party shall make the Annual Information Filing together with the Audited Financial Statements. If the Audited Financial Statements are not then available, unaudited financial information shall be filed with the MSRB using EMMA and the Audited Financial Statements shall be filed within 10 business days of their receipt and acceptance.

The Responsible Party shall set calendar reminders in the Water Department's recordkeeping systems.

### **Listed Events**

The Rule also requires filing of a Rule 15c2-12 Event Notice upon the occurrence of certain listed events described in the Continuing Disclosure Undertakings. The Responsible Party shall provide a Rule 15c2-12 Event Notice to the MSRB using EMMA within 10 business days of occurrence of any such listed event.

The listed events most likely to occur relate to bond redemptions or defeasances of outstanding issues and rating changes.

### **Familiarity with EMMA Submission Process**

The Responsible Party shall register with EMMA and review the on-line process of filing with EMMA located at [www.emma.msrb.org](http://www.emma.msrb.org) in order to submit the required information. The MSRB market Information Department can also be contacted at (703) 797-6668. A tutorial is available at the website and a practice submission is available as well.

The Responsible Party also shall enroll the City and each applicable Covered Entity in EMMA's reminder system to ensure timely performance of their responsibilities and obligations.

### **Training Efforts**

To ensure adequate resources to comply with the Rule, the Responsible Party shall develop a training process aimed at providing additional assistance in preparing required information. A training review process shall be conducted at least annually and shall encompass a review of the EMMA submission process and an understanding of the timing requirements necessary for full compliance.

### **Coordination Effort**

The Responsible Party shall coordinate the preparation and submission of the required information with the Department's continuing disclosure consultant (Urban Futures) and corporate trustees and paying agents to ensure full compliance with the requirements of the Rule and the Continuing Disclosure Undertakings.

## **Records Retention**

The Responsible Party shall maintain records with respect to the filings with the MSRB using EMMA, including, but not limited to, EMMA posting receipts showing the dates and nature or contents of all filings for each issue of Obligations outstanding during each fiscal year.

**EXHIBIT B**

**CITY OF FORTUNA**

**POST-ISSUANCE TAX COMPLIANCE POLICY**

**DATED: August 30, 2017**

THIS POST-ISSUANCE TAX COMPLIANCE POLICY (the “Tax Compliance Policy”) establishes the policy and procedures necessary to satisfy the requirements of Federal tax rules pertaining to the expenditure of proceeds, use of bond financed property, investment of proceeds in compliance with arbitrage rules, and retention of records. This Tax Compliance Policy pertains to the City of Fortuna (the “City”), the Fortuna Public Financing Authority, and all other City-controlled entities that ratify this policy in the future (collectively, the “Covered Entities”).

**I. PROCEDURES**

**1. Expenditure of Proceeds**

The Finance Director of the City (the “Responsible Party”) shall have the responsibility for allocating bond proceeds to particular investments, expenditures, and assets. The Responsible Party may delegate this responsibility, but shall retain the primary responsibility for insuring that the following procedures are followed.

- a) **Proceeds of a bond issue must be identified.** The Responsible Party shall refer to the Tax Certificate and to bond counsel (The Weist Law Firm) for help in identifying the amount of the proceeds of the bonds and for identification of funds holding bond proceeds.
- b) **Investments of bond proceeds must be tracked.** The Responsible Party shall ensure that all investments of bond proceeds are recorded, including identification of the investment, the purchase price of the investment, the date of the investment, the date of any receipts from the investment, and the date of repayment or sale of the investment. Earnings from investments of bond proceeds will be treated as additional bond proceeds and similarly tracked.
- c) **Proceeds must be tracked until they are allocated to expenditures.** Proceeds may be allocated to a capital expenditure by direct tracing or by another other reasonable method (such as treating an expenditure made from another source as having been made from bond proceeds if that source is reimbursed from bond proceeds).
  - i. If the Covered Entity uses direct tracing of bond proceeds, the Responsible Party shall establish the form and procedure for preparation and review of requisitions of bond proceeds. Requisitions must identify the financed property in conformity with the Tax Certificate, including certifications as to the character and average economic life of the bond-financed property.
  - ii. If the Covered Entity uses bond proceeds to reimburse costs that were paid prior to the issuance of the bonds, the Responsible Party shall document the use of bond

proceeds to make such reimbursements and will only allow such reimbursements to the extent permitted in the Tax Certificate.

- iii. If the Covered Entity uses any other method for allocating bond proceeds to expenditures, the Responsible Party shall prepare at least annually until all proceeds have been spent a written allocation of bond proceeds to expenditures, including the dates and amounts of such expenditures. The Responsible Party shall only allocate bond proceeds to expenditures if there is a reasonably concurrent actual outlay of cash by the Covered Entity to a third party.
  - iv. The Responsible Party shall prepare a written “final allocation” of bond proceeds to expenditures no later than the earlier of 18 months after the in-service date of the financed property and the fifth anniversary date of the issue of the bonds. If not all bond proceeds are allocated to expenditures by that date, allocations thereafter may only be made using a tracing method.
- d) The Responsible Party shall compare the allocation of proceeds to expenditures of proceeds to the tax certificate expectation to spend or commit 5% of net sale proceeds within 6 months, to spend 85% of net sale proceeds within 3 years, and to proceed with due diligence to complete the project and fully spend the net sale proceeds. In the event that those expectations are not met, the Responsible Party shall consult with bond counsel to determine whether further action is necessary. Similarly, the Responsible Party shall compare to the allocation of proceeds to expenditures to the timetables set forth for the arbitrage rebate exceptions described in the tax certificate.
- e) As proceeds are allocated to expenditures for capital assets, the Responsible Party shall prepare and maintain a schedule of all capital assets treated as financed with the bonds. The Responsible Party shall maintain a separate schedule for each bond issue. If only a portion of a capital asset is treated as financed with a particular bond issue, the Responsible Party shall consult with bond counsel as to how to document the particular allocation.

## **2. Use of Bond-Financed Property**

The Responsible Party shall have the responsibility of periodically reviewing the continued ownership and use of all assets financed by the bond issue. The Responsible Party may delegate this responsibility, but shall retain the primary responsibility for insuring that the following procedures are followed.

- a) At least annually, the Responsible Party shall conduct a review of the assets financed with the proceeds of the bonds in accordance with the schedule prepared under 1(e) above.
  - i. The Responsible Party shall contact the appropriate officers or employees of the applicable Covered Entity to determine whether the assets continue to be owned by the applicable Covered Entity. Ownership of bond financed facilities by entities other than governmental entities can give rise to tax issues.
  - ii. The Responsible Party shall contact the appropriate officers or employees of the applicable Covered Entity to determine whether the assets are used only by the

applicable Covered Entity or by some other entities. Use of assets by any entities other than another governmental entity can give rise to tax issues. Use may arise through ownership, lease, management contract, sponsored research, purchase of output, or other arrangements that give rise to priority rights in bond-financed assets. Use as a member of the general public (such as through short-term rentals or use under a rate-scale arrangement) will not be treated as private use.

- b) If the Responsible Party learns of sale of assets or private use of bond financed assets, he or she shall consult with bond counsel concerning appropriate remedies, including remedial action or voluntary compliance agreements with the IRS.
- c) Ideally, the Responsible Party will try to learn in advance of any proposed sale, lease, or other use by a private entity of bond financed assets and will consult with bond counsel concerning appropriate remedial action or other action.

### **3. Investments**

Investment of bond proceeds in compliance with the arbitrage bond rules and rebate of arbitrage will be supervised by the Responsible Party.

- a) Guaranteed investment contracts (“GIC”) will be purchased only using the three-bid “safe harbor” of applicable Treasury regulations, in compliance with fee limitations on GIC brokers in the regulations. Any exceptions to this rule must be discussed with the bond counsel.
- b) Other investments will be purchased only in market transactions.
- c) Calculations of rebate liability will be performed as necessary by outside consultants.
- d) Rebate payments will be made with Form 8038-T no later than 60 days after (a) each fifth anniversary of the date of issuance and (b) the final retirement of the issue. Compliance with rebate requirements will be reported to the applicable bond trustee and the applicable Covered Entity.
- e) The Responsible Party shall identify date for first rebate payment at time of issuance, in conjunction with bond counsel, and enter that date in the records for the issue.

### **4. Records**

Management and retention of records related to tax exempt bond issues will be supervised by the Responsible Party.

- a) The Responsible Party shall retain records relating to investment, expenditures, and use of bond financed facilities for the life of the bonds plus any refunding bonds plus three years. Records may be in the form of documents or electronic copies of documents, appropriately indexed to specific bond issues and compliance functions.

- i. Retainable records pertaining to bond issuance include transcript of documents executed in connection with the issuance of the bonds and any amendments, and copies of rebate calculations and records of payments including Forms 8038-T.
- ii. Retainable records pertaining to expenditures of bond proceeds include requisitions, trustee statements and final allocation of proceeds.
- iii. Retainable records pertaining to use of property include all agreements reviewed for nonexempt use and any reviewed documents relating to unrelated business activity.
- iv. Retainable records pertaining to investments include GIC documents under the Treasury regulations, records of purchase and sale of other investments, and records of investment activity sufficient to permit calculation of arbitrage rebate or demonstration that no rebate is due.
- v. Retainable records pertaining to any credit enhancement of the bonds during the entire term of the bonds, including bond insurance contracts, letters of credit and standby purchase agreements.
- vi. Retainable records pertaining to interest rate swaps, interest rate caps and other hedging contracts, including any ISDA agreements, fairness opinions, termination agreements and records of termination payments.

## **II. COMPLIANCE UNDER TAX CERTIFICATE**

The Responsible Party shall also periodically, and at least annually, review and monitor comply with all provisions of the related Tax Certificate so long as the bonds are outstanding and will consult with bond counsel to take timely remedial actions under section 1.141-12 of the Treasury Regulations (or other remedial actions authorized by the Commissioner of the IRS under Section 1.141-12(h) of the Regulations) to prevent from being considered “deliberate actions” any actions of the applicable Covered Entity which cause the conditions of the private business tests or the private loan financing test to be met resulting in private activity bonds.

### **TRAINING**

The Responsible Party and any persons to who the Responsible Party specifically delegates any of the duties in these procedures will consult with bond or tax counsel at the time a new issue of bonds is issued to determine what further training may be needed to comply with these procedures. In addition, the Responsible Party shall also periodically, and at least annually, consult with bond or tax counsel to determine whether additional training is needed.

## EXHIBIT C

### CITY OF FORTUNA

#### DEBT MANAGEMENT POLICY

**DATED: August 30, 2017**

THIS DEBT MANAGEMENT POLICY (the “Debt Policy”) establishes the parameters within which debt may be issued and administered by the City of Fortuna (the “City”), the Fortuna Public Financing Authority, and all other City-controlled entities that ratify this policy in the future (collectively, the “Covered Entities”). Additionally, these policies and procedures apply to debt issued by a Covered Entity on behalf of assessment, community facilities, or other special districts, and conduit-type financing by a Covered Entity.

This Debt Policy may be utilized by staff of the Covered Entities with the discretion to deviate as determined appropriate by the City Manager/Executive Director and/or Finance Director/Treasurer, and may be amended by the governing board of the applicable Covered Entity as it deems appropriate from time to time in the prudent management of the debt and capital financing needs of the Covered Entities.

#### **1. Purpose**

This Debt Policy is intended to comply with Government Code Section 8855(i), effective on January 1, 2017, and shall govern all debt undertaken by a Covered Entity. The Covered Entities hereby recognize that a fiscally prudent debt policy is required in order to:

- Maintain the Covered Entities’ sound financial position.
- Ensure the Covered Entities have the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the Covered Entities’ credit-worthiness.
- Ensure that all debt is structured in order to protect both current and future taxpayers, ratepayers and constituents of the Covered Entities.
- Ensure that the Covered Entities’ debt is consistent with their planning goals and objectives and capital improvement program or budget, as applicable.

#### **2. Scope**

The guidelines established by this Debt Policy will govern the issuance and management of all debt funded for long-term capital financing needs and not for general operating functions. When used in this Debt Policy, “debt” refers to all forms of indebtedness and financing lease obligations. The Finance Department recognizes that changes in the capital markets and other unforeseen circumstances may require action that deviates from this Debt Policy. In cases that require exceptions to this Debt Policy, approval from the City Council or pertinent governing boards will be necessary for implementation.

### 3. Objectives

The purpose of this Debt Policy is to assist the City in pursuit of the following equally important objectives:

- Minimize debt service and issuance costs.
- Maintain access to cost effective borrowing.
- Achieve the highest practical credit rating.
- Ensure full and timely repayment of debt.
- Maintain full and complete financial disclosure and reporting.
- Ensure compliance with debt covenants.
- Ensure compliance with applicable state and federal laws.

### 4. Policies

#### A. Purposes for Which Debt May Be Issued

1. Long-Term Debt. Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and operated by the City.
  - a. Long-term debt financings are appropriate when the following conditions exist:
    - When the project to be financed is necessary to provide basic services.
    - When the project to be financed will provide benefit to constituents over multiple years.
    - When total debt does not constitute an unreasonable burden to the Covered Entities and the City's taxpayers and/or ratepayers, as applicable.
    - When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.
  - b. Long-term debt financings will not be considered appropriate for current operating expenses and routine maintenance expenses, unless extraordinary circumstances exist.
  - c. The Covered Entities may use long-term debt financings, subject to the following conditions:
    - The project or projects to be financed must be approved by the governing board of the pertinent Covered Entity.
    - The weighted average maturity of the debt will not exceed the average useful life of the project(s) to be financed by more than 20%.
    - The Covered Entity estimates that sufficient revenues will be available to service the debt through its maturity.
    - The Covered Entity determines that the issuance of the debt will comply with the applicable state and federal law.

2. Short-term Debt. Short-term debt may be issued to provide financing for the Covered Entities' operational cash flows in order to maintain a steady and even cash flow balance. Short-term debt may also be used to finance short-lived capital projects; for example, the Covered Entities may undertake lease-purchase financing for equipment.
3. Financings on Behalf of Other Entities. The Covered Entities may also find it beneficial to issue debt on behalf of other governmental agencies or private third parties in order to further the public purposes of Covered Entities. In such cases, the Covered Entities shall take reasonable steps to confirm the financial feasibility of the project or projects to be financed and the financial solvency of any such borrower and that the issuance of such debt is consistent with the policies set forth herein.

## **B. Methods of Financing and Types of Debt**

The City Manager and/or Finance Director will investigate financing alternatives including, but not limited to bonds, loans, state bond pools, and grants.

- **Cash Funding** – The City funds a significant portion of capital improvements from reserves accumulated from one-time revenues, which have been set aside for investment in the City's infrastructure.
- **Inter-fund borrowing** – The City may borrow internally from other funds with surplus cash in lieu of issuing bonded debt. Purposes warranting the use of this type of borrowing could include short-term cash flow imbalances, interim financing pending the issuance of bonds, or long-term financing in lieu of bonds for principal amounts of under \$5 million. Inter-fund borrowing should be undertaken only under the following circumstances and conditions:
  - City Council approval required for all loans;
  - If from the City's General Fund, the duration shall not exceed 12 months, with the loan and repayment occurring within the same fiscal year;
  - Fixed loan term (i.e., specific number of months with repayment date);
  - Lending fund may charge interest at a rate approximately commensurate with what it might otherwise expect to receive if it were to invest such funds in the open market, given substantially equivalent parameters;
  - Specific revenue pledged to repay the loan must be based on realistic expectations for receipt;
  - Funds in the lending fund must not be needed for operations during the period of the loan; and
  - Loans must not be made from project-specific restricted funds, grant funds or other funds enabled by State or Federal legislation.

Inter-fund loans provide an alternative investment opportunity for idle funds with the same return on the investment that would have been earned otherwise. If the Council elects to pursue this option, staff would return at a subsequent meeting with a specific

proposal for inter-fund loans. The City Manager and/or Finance Director shall also exercise due diligence to ensure that it is financially prudent for the lending fund to make the loan. Inter-fund loans will be evaluated on a case-by-case basis. Any borrowing between two City funds requires approval by City Council by resolution and shall be documented with an agreement specifying the terms of the borrowing, including the security, interest rate, payment dates and amount and the maturity date. The purpose of inter-fund borrowing is to finance high priority needs and to reduce costs of interest, debt issuance and/or administration.

- **Other Loans** – Applicable Covered Entities will evaluate other loan programs, including but not limited to State “loans” such as the Water Resources Control Board’s revolving fund loans or federal “loans” through the United States Department of Agriculture for the construction of infrastructure projects.
- **Bond Financing** – Covered Entities may issue any bonds which are allowed under applicable federal and state law, including, but not limited to, general obligation bonds, certificates of participation, revenue bonds, refunding bonds, land-secured (assessment and special tax) bonds, and other obligations (see below for detail). The following types of debt are allowable under this Debt Policy:
  - **General obligation bonds (GO Bonds):** General Obligation Bonds (GO Bonds) may only be issued with two-thirds approval of registered voters. The California State Constitution (Article XVI, Section 18) limits the use of the proceeds from GO Bonds to “the acquisition or improvement of real property.” Parks and Public Safety facilities are examples of the type of facilities that could be financed with GO Bonds. This type of financing requires approval of governing board of the applicable Covered Entity.
  - **Lease revenue bonds, certificates of participation (COPs) and lease-purchase transactions:** Lease financings may take a variety of forms, including COPs, lease revenue bonds, and direct leases (typically for equipment). When the City finances acquisition or construction of capital improvements or equipment with a lease financing, the applicable Covered Entity agrees to lease either the financed asset or a different asset and, most commonly, the applicable Covered Entity’s lease payments are securitized in the form of certificates of participation or lease revenue bonds. This type of financing requires approval of governing board of the applicable Covered Entity.
  - **Revenue bonds:** Revenue Bonds are generally issued by the applicable Covered Entity for enterprise funds that are financially self-sustaining without the use of taxes and therefore rely on the revenues collected by the enterprise fund to repay the debt. This type of financing requires approval of governing board of the applicable Covered Entity.
  - **Refunding Obligations** – Pursuant to the Government Code and various other financing statutes applicable in specific situations, the governing board of the

applicable Covered Entity is authorized to provide for the issuance of bonds for the purpose of refunding any long-term obligation of the applicable Covered Entity. Absent any significant non-economic factors, a refunding is required to meet the following test: the refunding must produce a minimum net debt service savings (net of transaction costs) of at least 3% of the par value of the refunded bonds on a net present value basis, using the refunding issue's True Interest Cost (TIC) as the discount rate, unless the City Manager and/or Finance Director determines that there are other, compelling "non-economic" reasons for a refunding (i.e. removal of onerous covenants, terms or conditions).

- **Special Tax Bonds** – Under the Mello-Roos Community Facilities Act of 1982, the applicable Covered Entity may issue bonds on behalf of a Community Facilities District (CFD) to finance capital facilities, most commonly in connection with new development. These bonds must be approved by a two-thirds vote of the qualified electors in the CFD, which the Mello-Roos Act defines to mean registered voters if there are 12 or more registered voters in the CFD and, if there are fewer than 12 registered voters, the landowners in the CFD. Bonds issued by a Covered Entity under the Mello-Roos Act are secured by a special tax on the real property within the CFD. The governing board of the applicable Covered Entity will approve any special tax bonds prior to placement on a ballot for voter consideration. The financed facilities do not need to be physically located within the CFD. As this type of financing is secured by the special tax lien upon the real property it does not obligate the City's general fund or other funds. This type of financing requires approval of governing board of the applicable Covered Entity.
- **Assessment Bonds** – The Improvement Bond Act of 1915 (Streets and Highways Code Section 8500 et seq.) and other state laws, subject to Article XIID of the California Constitution, allow a Covered Entity to issue bonds to finance improvements that provide "specific benefit" to the assessed real property. Installments are collected on the secured property tax roll of the County. This type of financing is secured by the lien upon and assessments paid by the real property owners and does not obligate the City's general fund or other funds. This type of financing requires approval of governing board of the applicable Covered Entity.
- **Other Obligations** – There may be special circumstances when other forms of debt are appropriate and may be evaluated on a case-by-case basis. The governing body of an applicable Covered Entity may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy. Such other forms include, but are not limited to: Tax and revenue anticipation notes (TRANs), bond anticipation notes, grant anticipation notes, tax allocation bonds, pension obligation bonds, conduit financings, such as financings for affordable rental housing, etc.

### C. Relationship of Debt to Capital Improvement Program and Budget

The City and Covered Entities are committed to long-term capital planning. The City and

Covered Entities intend to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the capital budget and the capital improvement plan.

**Budget Integration** – The decision to incur new indebtedness should be integrated with the policy decisions embedded in the City Council-adopted Operating Budget and Capital Improvement Program Budget. The annual debt service payments shall be included in the Operating Budget. The City will integrate its debt issuances with the goals of its Capital Improvement Program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the City’s public purposes. The City will seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

The City and Covered Entities shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues. The City and Covered Entities shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

The Covered Entities shall seek to avoid the use of debt to fund infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

**Biennial Review** – Recognizing that cost-effective access to the capital market depends on prudent management of each Covered Entity’s debt program, a biennial review of this Debt Policy should be performed. Any substantive changes to the policy shall be brought to the City Council for consideration and approval.

#### **D. Policy Goals Related to Planning Goals and Objectives**

The City and Covered Entities are committed to long-term financial planning, maintaining appropriate reserve levels, and employing prudent practices in governance, management, and budget administration. The Covered Entities intend to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the operations budget.

It is a policy goal of the City and each Covered Entity to protect taxpayers, ratepayers (if applicable), and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

Each of the Covered Entities will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

## **E. Internal Control Procedures**

When issuing debt, in addition to complying with the terms of this Debt Policy, each Covered Entity shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

Without limiting the foregoing, the Covered Entities will periodically review the requirements of and will remain in compliance with the following:

- Any continuing disclosure undertakings entered into by any applicable Covered Entity in accordance with SEC Rule 15c2-12.
- Any federal tax compliance requirements, including, without limitation, arbitrage and rebate compliance.
- Investment policies as they relate to the use and investment of bond proceeds.

Proceeds of debt will be held either (a) by a third-party trustee or fiscal agent, which will disburse such proceeds to or upon the order of the applicable Covered Entity upon the submission of one or more written requisitions by the City Manager/Executive Director or Finance Director/Treasurer, or his or her written designee, or (b) by the applicable Covered Entity, to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by the applicable Covered Entity.

## **F. Structure and Limits**

**Interest Rate Structure** – The City currently issues securities on a fixed interest rate basis only. Fixed rate securities ensure budget certainty through the life of the issue and avoid the volatility of variable rates. The use of variable rate securities are prohibited for all Covered Entities.

**Derivative products** - Because of their complexity, unless otherwise amended, Derivative Products such as interest rate swaps, interest floaters, and other hybrid securities are prohibited by this Debt Policy.

**Credit Enhancement** – Credit enhancement may be used to improve or establish a credit rating on a debt obligation. Types of credit enhancement include bond insurance and surety policies. The City Manager and/or Finance Director will recommend the use of a credit enhancement if it reduces the overall cost of the proposed financing or if the use of such credit enhancement furthers the applicable Covered Entity's overall financial objectives.

**Debt Limits** – California Government Code Section 43605 states the City shall not incur bonded indebtedness payable from the proceeds of property tax which exceeds 15 percent of the assessed value of all real and personal property of the City. The cumulative annual debt service of all bond issues supported by the General Fund is restricted to no more than 15 percent of annual General Fund Revenue.

Bond issues supported by Enterprise Funds should maintain a minimum ratio of net operating income to annual debt service (“coverage ratio”) that the City Manager and/or Finance Director concludes is financially prudent. Typically, a higher coverage ratio produces a better credit rating and lower interest rates, however if it is set too high, there is a possibility that it may restrict efficient Enterprise operations or unduly induce unneeded user rate increases. Therefore, the applicable Covered Entity should balance the benefits of higher ratings with the operational impact of high coverage ratios.

## **G. Delegation of Authority**

Pursuant to the provisions of Section 37209 and 40805.5 of the Government Code of the State of California, the City Manager and/or Finance Director shall be responsible for all of the financial affairs of the City. This Debt Management Policy grants the City Manager and/or Finance Director the authority to select the Financing Team, coordinate the administration and issuance of debt, communicate with the rating agencies, and fulfill all of the pre-issuance and post-issuance requirements imposed by or related to state law, federal tax law and federal securities law.

**Financing Team Definitions and Roles** – The financing team is the working group of the applicable Covered Entity’s staff along with outside consultants necessary to complete a debt issuance, including, but not limited to, bond counsel, disclosure counsel, underwriter, municipal advisor, trustee, pricing consultant and/or arbitrage analyst.

Typically, the City Manager, the Finance Director, the City Attorney, and appropriate Department Head(s) form the City staff portion of the Financing Team. As needed, other staff members or designees may be appointed to the Financing Team.

**Consultant Selection** –The applicable Covered Entity will consider the professional qualifications and experience of consultants as it relates to the specific bond issue or other financing under consideration. In certain instances, the applicable Covered Entity will conduct a request for proposal/qualification process to select such consultants. The City Manager and/or Finance Director may, however, decide to select such consultants based on their understanding and expertise without having to undertake a request for proposal/qualification process, on an as-needed basis.

**ATTACHMENT B**

**FORTUNA PUBLIC FINANCING AUTHORITY**

**RESOLUTION NO. FPFA 2017-02**

**A RESOLUTION OF THE GOVERNING BOARD OF THE FORTUNA  
PUBLIC FINANCING AUTHORITY, APPROVING THE FORM OF ESCROW  
AGREEMENTS RELATING TO THE REFINANCING OF CERTAIN  
OUTSTANDING BONDS OF THE AUTHORITY, AND APPROVING RELATED  
MATTERS AND OFFICIAL ACTIONS**

**WHEREAS**, the Fortuna Public Financing Authority (the “Authority”) is a joint powers authority duly organized and existing under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California, and is authorized pursuant to Article 4 of the Act to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations to provide financing or refinancing for public capital improvements of local agencies within the State of California; and

**WHEREAS**, the Authority has heretofore issued its (i) Fortuna Public Financing Authority, Series 2006 Water Revenue Bonds in the original aggregate principal amount of \$8,085,000 (the “2006 Water Bonds”), and (ii) Fortuna Public Financing Authority, Series 2006 Wastewater Revenue Bonds in the original aggregate principal amount of \$13,820,000 (the “2006 Wastewater Bonds,” and together with the 2006 Water Bonds, the “Prior Bonds”); and

**WHEREAS**, the Prior Bonds are subject to redemption in whole, or in part, on any date on or after October 1, 2016, upon thirty (30) days advance notice, at a redemption price equal to 100% of the principal amount of the Prior Bonds called for redemption, plus accrued interest to the date of redemption, without premium; and

**WHEREAS**, in order to take advantage of favorable bond market conditions, the City desires to issue (i) City of Fortuna, Series 2017 Water Revenue Refunding Bonds (the “2017 Water Bonds”) to refund and defease the 2006 Water Bonds in advance of their scheduled maturities (the “Water Bonds Refunding”), and (ii) City of Fortuna, Series 2017 Wastewater Revenue Refunding Bonds (the “2017 Wastewater Bonds,” and together with the 2017 Water Bonds, the “Refunding Bonds”) to refund and defease the 2006 Wastewater Bonds in advance of their scheduled maturities (the “Wastewater Bonds Refunding,” and together with the Water Bonds Refunding, the “Refunding”); and

**WHEREAS**, in order to properly account for the Refunding, as well as the legal defeasance of all outstanding Prior Bonds, it is now appropriate and necessary to approve the form of (i) Wastewater Escrow Agreement, dated as of September 1, 2017, in connection with the Wastewater Bonds Refunding (the “Wastewater Escrow Agreement”), and (ii) Water Escrow Agreement, dated as of September 1, 2017, in connection with the Water Bonds Refunding (the “Water Escrow Agreement,” and together with the Wastewater Escrow Agreement, the “Escrow Agreements”), copies of which have been presented at this meeting and are on file with the Secretary; and

**WHEREAS**, the Authority wishes to appoint U.S. Bank National Association to serve as Escrow Agent under the Escrow Agreements; and

**WHEREAS**, this action does not constitute a “Project” under California Environmental Quality Act (CEQA) Guidelines Section 15378; and

**NOW, THEREFORE, BE IT RESOLVED** by the governing board of the Fortuna Public Financing Authority (the “Governing Board”) as follows:

**Section 1. Recitals.** The Governing Board hereby specifically finds and declares that each of the recitals set forth above are true and correct and are incorporated herein by this reference.

**Section 2. Approval of Escrow Agreements.** Each of the Escrow Agreements, in substantially the form submitted at this meeting, are hereby approved. The Executive Director of the Authority (the “Executive Director”), or any officer designated by the Executive Director is hereby authorized and directed, for and on behalf of the Authority, to execute and deliver each of the Escrow Agreements in substantially said form, with such changes therein as the Executive Director or officer designated by the Executive Director with the advice of the Authority’s counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof. U.S. Bank National Association is hereby appointed as Escrow Agent. The Authority hereby authorizes the delivery and performance of each of the Escrow Agreements.

**Section 3. Partial Invalidity.** If any provision of this Resolution or the application of any such provision to any person or circumstance is held invalid, such invalidity shall not affect other provisions or applications of this Resolution that can be given effect without the invalid provision or application, and to this end the provisions of this Resolution are severable. The Authority declares that its Governing Board would have adopted this Resolution irrespective of the invalidity of any particular portion of this Resolution.

**Section 4. Official Actions.** The officers of the Authority are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents (including, but not limited to a tax certificate), including all things and documents that may be necessary to assist the City issue the Refunding Bonds and/or refund and defease the Prior Bonds, which they may deem necessary or advisable in connection therewith, or related documents and otherwise to effectuate the purposes of this Resolution. Whenever in this Resolution any officer of the Authority is directed to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer is absent or unavailable.

**Section 5. Effective Date.** This Resolution shall take effect from and after the date of its passage and adoption.

**PASSED AND ADOPTED THIS** 30th day of August 2017, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

\_\_\_\_\_  
Chairperson

ATTEST:

\_\_\_\_\_  
Secretary

## SECRETARY'S CERTIFICATE

I hereby certify that the foregoing is a true and correct copy of **Resolution FPFA 2017-02**, passed and adopted at a meeting of the Board of Directors of the Fortuna Public Financing Authority, Humboldt County, California, held on the 30<sup>th</sup> day of August 2017, by the following vote:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

---

Secretary, Fortuna Public Financing Authority

---

---

**INDENTURE OF TRUST**

**by and between the**

**CITY OF FORTUNA**

**and**

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

**Dated as of September 1, 2017**

**Relating to**

**[\$Par Amount]  
CITY OF FORTUNA  
SERIES 2017 WATER REVENUE REFUNDING BONDS  
(WATER ENTERPRISE PROJECT)**

---

---

**TABLE OF CONTENTS**

**ARTICLE I:  
DEFINITIONS; AUTHORIZATION AND PURPOSE OF BONDS;  
EQUAL SECURITY:**

SECTION 1.01. Definitions. ....2  
SECTION 1.02. Rules of Construction. ....13  
SECTION 1.03. Authorization and Purpose of Series 2017 Bonds.....13  
SECTION 1.04. Equal Security.....13

**ARTICLE II:  
ISSUANCE OF SERIES 2017 BONDS**

SECTION 2.01. Terms of Series 2017 Bonds. ....14  
SECTION 2.02. Redemption of Series 2017 Bonds.....15  
SECTION 2.03. Form of Series 2017 Bonds.....18  
SECTION 2.04. Execution of Series 2017 Bonds. ....18  
SECTION 2.05. Transfer of Series 2017 Bonds.....18  
SECTION 2.06. Exchange of Series 2017 Bonds.....19  
SECTION 2.07. Temporary Bonds.....19  
SECTION 2.08. Bond Registration Books. ....19  
SECTION 2.09. Bonds Mutilated, Lost, Destroyed or Stolen. ....19  
SECTION 2.13. Book Entry System .....20

**ARTICLE III:  
ISSUE OF SERIES 2017 BONDS; PARITY DEBT**

SECTION 3.01. Issuance of Series 2017 Bonds.....22  
SECTION 3.02. Application of Proceeds of Series 2017 Bonds; Bond Proceeds Fund.....22  
SECTION 3.03. Reserve Fund .....22  
SECTION 3.04. Cost of Issuance Fund.....23  
SECTION 3.05. Issuance of Parity Debt. ....23  
SECTION 3.06. Reserved.....23  
SECTION 3.07. Subordinate Bonds.....23  
SECTION 3.08. Validity of Bonds.....23

**ARTICLE IV:  
PLEDGE OF NET REVENUES; FUNDS AND ACCOUNTS:**

SECTION 4.01. Pledge of Net Revenues. ....24  
SECTION 4.02. Receipt and Deposit of Gross Revenues. ....24  
SECTION 4.03. Establishment of Funds and Accounts and Allocation of Gross Revenues.....24  
SECTION 4.04. Application of Debt Service Fund. ....26  
SECTION 4.05. Reserve Fund. ....26  
SECTION 4.06. Application of Redemption Account .....26  
SECTION 4.07. Establishment of Rate Stabilization Fund .....27  
SECTION 4.08. Investments .....27  
SECTION 4.09. Valuation; Investments .....28  
SECTION 4.10. Rebate Fund .....28

**ARTICLE V:  
COVENANTS OF THE CITY; SPECIAL TAX COVENANTS:**

SECTION 5.01. Punctual Payment; Compliance With Documents. ....29  
SECTION 5.02. Against Encumbrances.....29

SECTION 5.03. Discharge of Claims.....	30
SECTION 5.04. Acquisition, Construction or Financing of any Project and Improvements to the Water System.....	30
SECTION 5.05. Maintenance and Operation of Sewer System in Efficient and Economical Manner. ....	30
SECTION 5.06. Against Sale, Eminent Domain.....	30
SECTION 5.07. Insurance.....	30
SECTION 5.08. Records and Accounts.....	31
SECTION 5.09. Protection of Security and Rights of Owners.....	31
SECTION 5.10. Against Competitive Facilities.....	31
SECTION 5.11. Payment of Taxes, Etc. ....	31
SECTION 5.12. Rates and Charges.....	31
SECTION 5.13. No Priority for Additional Obligations .....	32
SECTION 5.14. No Arbitrage.....	32
SECTION 5.15. Information Report.....	32
SECTION 5.16. Private Activity Bond Limitation.....	32
SECTION 5.17. Federal Guarantee Prohibition.....	32
SECTION 5.18. Further Assurances.....	32
SECTION 5.19. Continuing Disclosure.....	32
SECTION 5.20. Rebate Requirement.....	33
SECTION 5.21. Maintenance of Tax Exemption.....	33

**ARTICLE VI:  
THE TRUSTEE:**

SECTION 6.01. Appointment of Trustee.....	33
SECTION 6.02. Acceptance of Trusts.....	33
SECTION 6.03. Fees, Charges and Expenses of Trustee.....	36
SECTION 6.04. Notice to Bond Owners of Default.....	36
SECTION 6.05. Intervention by Trustee.....	36
SECTION 6.06. Removal of Trustee.....	36
SECTION 6.07. Resignation by Trustee.....	36
SECTION 6.08. Appointment of Successor Trustee.....	36
SECTION 6.09. Merger or Consolidation.....	37
SECTION 6.10. Concerning any Successor Trustee.....	37
SECTION 6.11. Appointment of Co-Trustee.....	37
SECTION 6.12. Indemnification; Limited Liability of Trustee.....	38

**ARTICLE VII:  
MODIFICATION AND AMENDMENT OF THE INDENTURE:**

SECTION 7.01. Amendment by Consent of Bond Owners.....	38
SECTION 7.02. Amendment Without Consent of Bondholders.....	39
SECTION 7.03. Disqualified Bonds.....	39
SECTION 7.04. Endorsement or Replacement of Bonds After Amendment.....	39
SECTION 7.05. Amendment by Mutual Consent.....	39

**ARTICLE VIII:  
EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS:**

SECTION 8.01. Events of Default and Acceleration of Maturities.....	40
SECTION 8.02. Application of Funds Upon Acceleration.....	41
SECTION 8.03. Other Remedies; Rights of Bond Owners.....	41
SECTION 8.04. Power of Trustee to Control Proceedings.....	42
SECTION 8.05. Appointment of Receivers.....	42
SECTION 8.06. Non-Waiver.....	42

SECTION 8.07. Rights and Remedies of Bond Owners. ....43  
SECTION 8.08. Termination of Proceedings. ....43

**ARTICLE IX:  
MISCELLANEOUS:**

SECTION 9.01. Limited Liability of City. ....44  
SECTION 9.02. Parties Interested Herein .....44  
SECTION 9.03. Discharge of Indenture. ....44  
SECTION 9.04. Content of Certificates. ....45  
SECTION 9.05. Execution of Documents by Bond Owners .....45  
SECTION 9.06. Waiver of Personal Liability. ....46  
SECTION 9.07. Partial Invalidity. ....46  
SECTION 9.08. Destruction of Cancelled Bonds .....47  
SECTION 9.09. Funds and Accounts. ....47  
SECTION 9.10. Notices. ....47  
SECTION 9.12. Unclaimed Moneys. ....47

- EXHIBIT A: Form of Series 2017 Bond  
EXHIBIT B: Form of Cost of Issuance Fund Requisition

## INDENTURE OF TRUST

THIS INDENTURE OF TRUST, made and entered into as of September 1, 2017, by and between the CITY OF FORTUNA, a municipal corporation organized and existing under the constitution and laws of the State of California (the “City”), and U.S. Bank National Association, a national banking association organized and existing under the laws of the United State of America, with a corporate trust office in San Francisco, California, and being qualified to accept and administer the trusts hereby created, as trustee (the “Trustee”);

### WITNESSETH:

WHEREAS, the City owns and operates facilities for the production, storage, disinfection, and transmission of water within the service area of the City (the “Water System”); and

WHEREAS, the City previously entered into an Installment Sale Agreement, dated as of October 1, 2006 (the “2006 Installment Sale Agreement”) with the Fortuna Public Financing Authority (the “Authority”), pursuant to which the City agreed to make certain installment payments in the aggregate principal amount of \$13,820,000 (the “2006 Installment Payments”), and in connection therewith the Authority issued its Water Revenue Bonds, Series 2006 (the “2006 Bonds”), pursuant to a Trust Agreement dated as of October 1, 2006 (the “2006 Trust Agreement”), between the Authority and Deutsche Bank National Trust Company, N.A. (which was later replaced by U.S. Bank National Association), as trustee (the “2006 Trustee”), all for the purpose of financing certain capital improvements to the Water System; and

WHEREAS, the City, after due investigation and deliberation, has determined that it is in the interests of the City at this time to provide for the issuance of its \$[Par Amount] City of Fortuna, Series 2017 Water Revenue Refunding Bonds (Water Enterprise Project) (the “Series 2017 Bonds”) pursuant to Articles 10 (commencing with Section 53570) and 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, a Resolution adopted by the City Council of the City on \_\_\_\_\_, 2017 and this Indenture for the purpose of refinancing the 2006 Installment Sale Agreement, thereby refunding the 2006 Bonds, and paying the costs of issuing and selling the Series 2017 Bonds; and

WHEREAS, the Series 2017 Bonds will be secured by a pledge of the Net Revenues, as defined herein, of the Water System and certain other moneys and securities held by the City and the Trustee hereunder; and

[WHEREAS, \_\_\_\_\_ (“Insurer”) is issuing its municipal bond debt service reserve policy in satisfaction of the obligation of the City to fund the Reserve Fund created under this Indenture to the Reserve Requirement for the Bonds; and]

WHEREAS, in order to provide for the authentication and delivery of the Series 2017 Bonds, to establish and declare the terms and conditions upon which the Series 2017 Bonds are to be issued and secured and to secure the payment of the principal thereof and of the interest and

premium, if any, thereon, the Council has authorized the execution and delivery of this Indenture; and

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

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

## ARTICLE I

### DEFINITIONS; AUTHORIZATION AND PURPOSE OF BONDS; EQUAL SECURITY

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

“Authority” means the Fortuna Public Financing Authority, a joint exercise of powers agency organized and existing under the laws of the State of California.

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

(a) Federal Securities;

(b) (i) obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America, including: Export-Import Bank, Farm Credit System Financial Assistance Corporation, Rural Economic Community Development Administration (formerly Farmers Home Administration), General Services Administration, U.S. Maritime Administration, Small Business Administration, Government National Mortgage Association, U.S. Department of Housing & Urban Development, Federal Housing Administration

and Federal Financing Bank. and (ii) direct obligations for any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: senior debt obligations rated “Aaa” by Moody’s and “AAA” by S&P issued by Fannie Mae or Federal Home Loan Mortgage Corporation (FHLMC); obligations of the Resolution Funding Corporation (REFCORP); senior debt obligations of the Federal Home Loan Bank System; and senior debt obligations of other Government Sponsored Agencies;

(c) U.S. dollar denominated deposit accounts federal funds and banker’s acceptances with domestic commercial banks, which may include the Trustee, its parent holding company, if any, and their affiliates, which have a rating on their short term certificates of deposit on the date of purchase of “P-1” by Moody’s and “A-1” or “A-1+” by S&P or are collateralized by Federal Securities and maturing no more than 360 days after the date of purchase, provided that ratings on holding companies are not considered as the rating of the bank;

(d) commercial paper which is rated at the time of purchase in the single highest classification, “P-1” by Moody’s and “A-1+” by S&P, and which matures not more than 270 calendar days after the date of purchase;

(e) investments in a money market fund, including those of an affiliate of the Trustee, rated “AAAm” or “AAAm-G” or better by S&P, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee or such holding company provide investment advisory or other management services;

(f) pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (i) which are rated, based upon an irrevocable escrow account or fund, in the highest rating category of Moody’s and S&P or any successors thereto; or (ii)(A) subject to the approval of S&P, which are fully secured as to principal and interest and prepayment premium, if any, by an escrow consisting only of Federal Securities, which escrow may be applied only to the payment of such principal of and interest and prepayment premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified prepayment date or dates pursuant to such irrevocable instructions, as appropriate, and (B) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and prepayment premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the prepayment date or dates specified in the irrevocable instructions referred to above, as appropriate; and

(g) the Local Agency Investment Fund of the State of California, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

“Authorized Representative” means the Mayor, City Manager, Finance Director, or the designee of the City Manager.

“Average Annual Debt Service” means the total aggregate Debt Service for the entire period during which the Bonds are Outstanding divided by the number of Fiscal Years or portions thereof during which the Bonds are Outstanding.

“Bond Counsel” means The Weist Law Firm or any other attorney at law or firm of attorneys, of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States of America.

“Bond Law” means Articles 10 (commencing with Section 53570) and 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California.

“Bond Registration Books” means the books maintained by the Trustee pursuant to Section 2.08 for the registration and transfer of ownership of the Series 2017 Bonds.

“Bond Proceeds Fund” means the fund established and held by the Trustee pursuant to Section 3.02.

“Bonds” means, collectively, the Series 2017 Bonds and any Parity Debt issued and at any time Outstanding hereunder.

“2006 Bonds” means the Authority’s Water Revenue Bonds, Series 2006, issued in the original principal amount of \$13,820,000.

“Bond Year” means the twelve-month period beginning on June 2 in each year and ending on June 1 in the following year except that (i) the first Bond Year with respect to the Series 2017 Bonds shall begin on the Closing Date, and (ii) the last Bond Year with respect to the Series 2017 Bonds may end on a redemption date prior to maturity of the Series 2017 Bonds or the final maturity date of the Series 2017 Bonds.

“Business Day” means any day other than a Saturday, Sunday or a day on which the Trustee is authorized by law to remain closed.

“Certificate of the City” means a certificate in writing signed by the Authorized Representative or by any other officer of the City duly authorized by the Council for that purpose.

“Charges” means fees, tolls, assessments, rates and charges prescribed by the Council for the services and facilities of the Water System furnished by the City.

“City” means the City of Fortuna, a municipal corporation organized and existing under the Constitution and laws of the State, and any successor thereto.

“Closing Date” means, with respect to the Series 2017 Bonds, the date upon which there is an exchange of the Series 2017 Bonds for the proceeds representing the purchase of such Series by the Original Purchaser thereof.

“Continuing Disclosure Certificate” means that certain Continuing Disclosure Certificate executed by the City and dated the date of original execution and delivery of the Series 2017 Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Cost of Issuance Fund” means the fund by that name established pursuant to Section 3.04.

“Costs of Issuance” means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Series 2017 Bonds, including but not limited to compensation, fees and expenses of the City and the Trustee and their respective counsel, compensation to any financial consultants and underwriters, legal fees and expenses, municipal bond insurance or surety bond premiums, filing and recording costs, rating agency fees, costs of preparation and reproduction of documents and costs of printing.

“Council” means the City Council of the City.

“Debt Service” The term “Debt Service” means, for any period of calculation, the sum of:

(1) the interest payable during such period on all outstanding Bonds, assuming that all outstanding Serial Bonds are retired as scheduled and that all outstanding Term Bonds are redeemed or paid from Sinking Fund Installments as scheduled (except to the extent that such interest is capitalized or is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111 5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program);

(2) those portions of the principal amount of all Outstanding Serial Bonds maturing in such period; and

(3) those portions of the principal amount of all Outstanding Term Bonds required to be redeemed or paid in such period;

provided, as to any such Bonds bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be the greater of: (a) the actual interest rate on such Bonds on the date of calculation, or if the indebtedness is not yet outstanding, the initial interest rate (if established and binding); (b) if the Bonds have been outstanding for at least twelve months, the average rate over the twelve calendar months immediately preceding the date of calculation; and (c)(i) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Tax Code, the most recently published Securities Industry and Financial Markets Association Index for tax-exempt variable rate obligations; or (ii) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities plus 50 basis points; provided, however, that for purposes of any portion of Section 3.05 (Issuance of Parity Debt) and Section 5.12 (Rates and Charges), measuring actual debt service coverage during a test period, variable rate indebtedness shall be deemed to bear interest at the actual rate per annum applicable during the test period; and

provided further that, if any series or issue of such Bonds have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Debt Service shall be determined for the Fiscal Year of determination as if the principal of and interest on such series or issue of such Bonds were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty-five (25) years from the date of calculation; and

provided further that, as to any such Bonds or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Bonds or portions thereof, such accreted discount shall be treated as interest in the calculation of Debt Service; and

provided further that, the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Bonds for which such debt service reserve fund was established and in each preceding year until such amount is exhausted; and

provided further that, Debt Service shall not include interest which is paid from investment earnings on amounts on deposit in reserve funds and transferred to the Debt Service Fund.

“Debt Service Fund” means the fund by that name established and held by the Trustee pursuant to Section 4.03.

“Defeasance Obligations” means the Federal Securities listed in clause (a) of the definition thereof.

“Depository” means (a) initially, DTC, and (b) any other Securities Depositories acting as Depository pursuant to Section 2.11.

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

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

“Escrow Agent” means U.S. Bank National Association, acting as Escrow Agent under the Escrow Agreement.

“Escrow Agreement” means the Escrow Agreement, dated as of September 1, 2017, by and between the Authority and U.S. Bank National Association, as Escrow Agent.

“Event of Default” means any of the events described in Section 8.01.

“Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Tax Code) and, otherwise,

the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the City and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment.

“Federal Securities” means, with respect to the Bonds: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged; or (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America; specifically:

U.S. treasury Obligations,  
all direct or fully guaranteed obligations,  
Farmers Home Administration,  
General Services Administration,  
Guaranteed Title IX financing,  
Government National Mortgage Association (GNMA), and  
State and Local Government Series.

“Fiscal Year” means the period commencing on July 1 of each year and terminating on the next succeeding June 30.

“Gross Revenues” means all gross income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Water System calculated in accordance with GAAP and deposited in the Water Revenue Fund, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees (including but not limited to any developer impact fees to the extent permitted by law), charges, business interruption insurance proceeds or other moneys derived by the City from the sale, furnishing and supplying of water or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, plus (2) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, or other moneys, including amounts in the Rate Stabilization Fund and City Water System reserves, plus (3) the proceeds of any stand-by or water availability charges collected by the City, plus (4) all amounts transferred from the Rate Stabilization Fund to the Water Revenue Fund during any Fiscal Year in accordance with Section 4.07 hereof, and (5) all other monies howsoever derived by the City from the operation of the Water System or arising from the Water System; but excluding (i) customer deposits or any other deposits or advances subject to refund until such deposits or advances have become the property

of the City, (ii) any proceeds of taxes restricted by law to be used by the City to pay the Series 2017 Bonds or Parity Debt and (iii) any amounts transferred from the Water Revenue Fund to the Rate Stabilization Fund during any Fiscal Year pursuant to Section 4.01(b)(iii) hereof.

“Improvement” means any addition, extension, improvement, equipment, machinery or other facilities to or for the Water System.

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

“Independent Certified Public Accountant” means any certified public accountant or firm of such accountants appointed and paid by the City, and who, or each of whom-

(a) is in fact independent and not under domination of the City;

(b) does not have any substantial identity of interest, direct or indirect, with the City; and

(c) is not and no member of which is connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

“Independent Consultant” means any financial or engineering consultant (including without limitation any Independent Certified Public Accountant) with an established reputation in the field of municipal finance or firm of such consultants appointed and paid by the City, and who, or each of whom-

(a) is in fact independent and not under domination of the City;

(b) does not have any substantial identity of interest, direct or indirect, with the City; and

(c) is not and no member of which is connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

“Information Services” means in accordance with then-current guidelines of the Securities and Exchange Commission, the Electronic Municipal Market Access System (referred to as EMMA”), a facility of the Municipal Securities Rulemaking Board (at <http://emma.msrb.org>), or such service or services as the City may designate in a certificate delivered to the Trustee.

“2006 Installment Sale Agreement” means the Installment Sale Agreement, dated as of October 1, 2006 between the City and the Authority.

[“Insurer” means \_\_\_\_\_, or any successor thereto, as issuer of the Reserve Policy.]

“Interest Payment Date” means, with respect to the Series 2017 Bonds, December 1 and June 1 in each year, beginning December 1, 2017, and with respect to any Parity Debt, any date on which interest is due and payable thereon, and continuing so long as any Bonds or Parity Debt remain Outstanding.

“Interest Requirement” means, as of any particular date of calculation, the amount equal to any unpaid interest then due and payable, plus an amount that will on the next succeeding Interest Payment Date be equal to the interest to become due and payable on Bonds or other Parity Debt on such next succeeding Interest Payment Date or payment date for interest on Parity Debt.

“Maintenance and Operation Costs” means reasonable and necessary costs spent or incurred for maintenance and operation of the Water System calculated in accordance with GAAP, including (among other things) the reasonable and necessary expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, including, but not limited to, salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges, but excluding (i) transfers to other City departments, (ii) debt service payments or other similar payments on the Parity Debt or other obligations required to be paid by it to comply with the terms of this Indenture or any contract or resolution or indenture authorizing the issuance of any bonds or obligations, and (iii) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

“Maximum Annual Debt Service” means, as of the date of calculation, the maximum amount of Debt Service for the current or any future Fiscal Year.

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

“Net Revenues” means, with respect to the Water System, for any period of computation, the amount of the Gross Revenues received from the Water System during such period, less the amount of Maintenance and Operation Costs of the Water System becoming payable during such period.

“Original Purchaser” means, in the case of the Series 2017 Bonds, Stifel, Nicolaus & Company, Incorporated.

“Outstanding”, when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 7.03) all Bonds theretofore executed, issued and delivered by the City under this Indenture except:

(a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(b) Bonds paid or deemed to have been paid within the meaning of Section 9.03; and

(c) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the City pursuant to this Indenture or any Parity Debt Instrument.

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

“Parity Debt” means any indebtedness or other obligations (including leases and installment sale agreements, bonds or contracts) hereafter issued or incurred and secured by a pledge of and lien upon any of the Net Revenues issued or incurred in compliance with Section 3.05 or 3.06.

“Parity Debt Instrument” means the resolution, trust indenture or installment sale agreement or other evidence of indebtedness adopted, entered into or executed and delivered by the City, and under which Parity Debt is issued.

“Participating Underwriter” has the meaning ascribed thereto in the Continuing Disclosure Certificate.

“Principal Corporate Trust Office” means the corporate trust office of the Trustee at the address set forth in Section 9.10, provided that for purposes of payment, cancellation, surrender, redemption, exchange and transfer of Bonds, such term means the corporate trust office of the Trustee in San Francisco, California or such other or additional offices as may be designated by the Trustee from time to time.

“Principal Installment” means with respect to any particular Principal Payment Date, an amount equal to the sum of (i) the aggregate principal amount of Outstanding Serial Bonds payable on such Principal Payment Date as determined by the applicable Parity Debt Instrument (but not including Sinking Fund Installments) and (ii) the aggregate of Sinking Fund Installments with respect to all Outstanding Term Bonds payable on such Principal Payment Date as determined hereby and by the applicable Parity Debt Instrument.

“Principal Payment Date” means the date on which Principal Payments are required to be made pursuant to Section 2.01, and with respect to any Parity Debt, any date on which principal is due and payable thereon, and continuing so long as any Parity Debt remains Outstanding.

“Rate Stabilization Fund” means the fund by that name established and held by the City pursuant to Section 4.07.

“Rebate Fund” means the fund by that name established and held by the Trustee pursuant to Section 4.10.

“Record Date” means, with respect to the Series 2017 Bonds, the fifteenth (15th) calendar day of the month immediately preceding an Interest Payment Date or, with respect to any Parity Debt, any other date established in the applicable Parity Debt Instrument.

“Redemption Account” means the Account by that name established and held by the Trustee pursuant to Section 4.03.

“Redemption Price” means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption thereof pursuant to this Indenture and the Parity Debt Instrument pursuant to which the same was issued.

“Request of the City” means a request in writing signed by an Authorized Representative, or by any other officer of the City duly authorized by the Council for that purpose.

“Reserve Fund” means the fund by that name established in Section 3.03.

[“Reserve Policy” means the Municipal Bond Debt Service Reserve Account Policy No. \_\_\_\_\_ issued by Insurer guaranteeing payments to be applied to the payment of principal and interest on the Bonds as provided in such policy, for the credit of the Reserve Fund.]

“Reserve Requirement” means an amount equal to the lesser of: (i) maximum annual debt service on the Outstanding Series 2017 Bonds; (ii) ten percent (10%) of the principal amount of the Series 2017 Bonds; or (iii) 125% of average annual debt service on the Outstanding Series 2017 Bonds.

“S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, and its successors or assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

“Securities Depositories” means The Depository Trust Company; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the City may designate in writing to the Trustee.

“Serial Bonds” means all Bonds other than Term Bonds.

“Series” when used with respect to less than all of the Bonds, means and refers to all of the Bonds delivered on original issuance in a simultaneous transaction, regardless of variations in maturity, interest rate or other provisions, and any Bond thereafter delivered in lieu of or substitution for any of such Bonds pursuant to Sections 2.02, 2.05, 2.06, 2.07, 2.09 and 7.04.

“Series 2017 Bonds” means the \$[Par Amount] City of Fortuna, Series 2017 Water Revenue Refunding Bonds (Water Enterprise Project), issued and at any time Outstanding hereunder.

“Sinking Fund Installment” means, with respect to any particular date, the amount of money required hereby or by or pursuant to a Parity Debt Instrument to be paid by the City on such date toward the retirement of any particular Term Bonds prior to their respective stated maturities.

“State” means the State of California.

“Subordinate Bonds” means all bonds, notes or other obligations (including without limitation long-term contracts, loans, sub-leases or other legal financing arrangements) of the City payable from and secured by a pledge of and lien upon any of the Net Revenues issued or incurred pursuant to Section 3.07.

“Subordinate Bonds Instrument” means the resolution, trust indenture or installment sale agreement adopted, entered into or executed and delivered by the City, and under which Subordinate Bonds are issued.

“Supplemental Indenture” means any supplement or amendment to this Indenture which complies with the provisions of Section 7.01 or 7.02.

“Tax Certificate” means the tax certificate delivered by the City at the time of the issuance and delivery of the 2017 Bonds, as the same may be amended or supplemented in accordance with its terms.

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

“Tax Regulations” means temporary and permanent regulations promulgated under the Tax Code.

“Term Bonds” means, with respect to any Series 2017 Bonds or any Parity Debt, such Series 2017 Bonds or Parity Debt which are payable prior to their stated maturity by operation of Sinking Fund Installments.

“Trustee” means U.S. Bank National Association, appointed by the City to act as trustee hereunder pursuant to Section 6.01, and its assigns or any other corporation or association which may at any time be substituted in its place, as provided in Section 6.01.

“2006 Trustee” means U.S. Bank National Association, as trustee for the 2006 Bonds.

“Water Revenue Fund” means the fund by that name established and held by the City pursuant to Section 4.02 hereof.

“Water System” means the entire system of the City for the production, storage, disinfection, and transmission of water, including but not limited to all facilities, properties and improvements at any time owned, controlled or operated by the City for the production, storage, disinfection, and transmission of water 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.

**SECTION 1.02. Rules of Construction.** All references in this Indenture to “Articles,” “Sections,” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; and the words “herein,” “hereof,” “hereunder,” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Unless the context shall otherwise indicate, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include corporations and associations, including public bodies, as well as natural persons.

**SECTION 1.03. Authorization and Purpose of Series 2017 Bonds.** The City has reviewed all proceedings heretofore taken relative to the authorization of the Series 2017 Bonds and has found, as a result of such review, and hereby finds and determines that all things, conditions, and acts required by law to exist, happen and/or be performed precedent to and in the issuance of the Series 2017 Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and the City is now authorized, as an exercise of the municipal affairs power of the City as a municipal corporation city under the constitution and laws of the State and pursuant to the Bond Law and each and every requirement of law, to issue the Series 2017 Bonds in the manner and form provided in this Indenture. Accordingly, the City hereby authorizes the issuance of the Series 2017 Bonds pursuant to the Bond Law and this Indenture for the purposes specified in this Indenture.

**SECTION 1.04. Equal Security.** In consideration of the acceptance of the Series 2017 Bonds by the Owners thereof, this Indenture shall be deemed to be and shall constitute a contract among the City, the Trustee and the Owners from time to time of the Series 2017 Bonds; and the covenants and agreements herein set forth to be performed on behalf of the City shall be for the equal and proportionate benefit, security and protection of all Owners of the Series 2017 Bonds without preference, priority or distinction as to security or otherwise of any of the Series 2017 Bonds over any of the others by reason of the number or date thereof or the time of sale, execution or delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or herein.

## ARTICLE II

**ISSUANCE OF SERIES 2017 BONDS**

**SECTION 2.01. Terms of Series 2017 Bonds.** The Series 2017 Bonds authorized to be issued by the City under and subject to the Bond Law and the terms of this Indenture shall be designated the “City of Fortuna, Series 2017 Water Revenue Refunding Bonds (Water Enterprise Project),” and shall be issued in the original principal amount of \_\_\_\_\_ Dollars (\$[Par Amount]).

The Series 2017 Bonds shall be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof, so long as no Series 2017 Bond shall have more than one maturity date. The Series 2017 Bonds shall mature on June 1 in each of the years and in the amounts, and shall bear interest at the rates, as follows:

Maturity Date <u>(June 1)</u>	Principal <u>Amount</u>	Interest Rate <u>Per Annum</u>
----------------------------------	----------------------------	-----------------------------------

Interest on the Series 2017 Bonds shall be payable on each Interest Payment Date to the person whose name appears on the Bond Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check or draft of the Trustee mailed by first class mail to the Owner or, at the option of any Owner of at least \$1,000,000 aggregate principal amount of the Bonds with respect to which written instructions have been filed with the Trustee prior to the Record Date, by wire transfer, at the address of such Owner as it appears on the Bond Registration Books.

In the event there exists a default in payment of interest due on such Interest Payment Date, such interest shall be payable on a payment date established by the Trustee to the persons in whose names the Bonds are registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Trustee to the registered Owners of the Bonds not less than 15 days preceding such special record date. Principal of and premium (if any)

on any Series 2017 Bond shall be paid upon presentation and surrender thereof at the Principal Corporate Trust Office of the Trustee in San Francisco, California. Both the principal of and interest and premium (if any) on the Series 2017 Bonds shall be payable in lawful money of the United States of America.

The Series 2017 Bonds shall be dated the Closing Date and bear interest based on a 360-day year comprised of twelve 30-day months from the Interest Payment Date next preceding the date of authentication thereof, unless said date of authentication is an Interest Payment Date, in which event such interest is payable from such date of authentication, and unless said date of authentication is prior to November 15, 2017, in which event such interest is payable from the Closing Date; provided, however, that if, as of the date of authentication of any Series 2017 Bond, interest thereon is in default, such Series 2017 Bond shall bear interest from the date to which interest has previously been paid or made available for payment thereon in full.

**SECTION 2.02. Redemption of Series 2017 Bonds.**

(a) Optional Redemption.

The Series 2017 Bonds maturing on or before June 1, 20\_\_ shall not be subject to optional redemption prior to maturity. The Series 2017 Bonds maturing on or after June 1, 20\_\_ shall be subject to redemption prior to their respective maturity dates, at the option of the City, as a whole, or in part, as determined by the City, on any date on or after June 1, 20\_\_, from any source of available funds, at the principal amount of the Series 2017 Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

The City shall be required to give the Trustee written notice of its intention to redeem Series 2017 Bonds under this subsection (a) at least forty-five (45) days prior to the date fixed for redemption (or such later date that is acceptable to the Trustee).

(b) Mandatory Sinking Fund Redemption of Term Bonds. The Series 2017 Bonds that are Term Bonds are subject to mandatory redemption in whole, or in part by lot, from Sinking Fund Installments made under Section 4.03(b), at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest to the date of redemption, in the aggregate respective principal amounts and on June 1 in the years as set forth in the following tables:

**Term Bonds Maturing June 1, 20\_\_**

Sinking Fund Redemption Date <u>(June 1)</u>	Principal <u>Amount</u>
--	----------------------------

(Maturity)

**Term Bonds Maturing June 1, 20\_\_**

Sinking Fund Redemption Date <u>(June 1)</u>	Principal <u>Amount</u>
--	----------------------------

(Maturity)

If some but not all of the Series 2017 Bonds that are Term Bonds have been redeemed under subsection (a) of this Section, the total amount of all future sinking fund payments will be reduced by the aggregate principal amount of such Series 2017 Bonds that are Term Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis as determined by the Authority, which shall notify the Trustee in writing of such determination.

(c) Additional Bonds. Any Parity Debt issued pursuant to Section 3.05 of this Indenture may be made subject to redemption prior to maturity, as a whole or in part, at such time or times, and upon payment of the principal amount thereof and accrued interest thereon plus such premium or premiums, if any, as may be determined by the City in the applicable Parity Debt Instrument.

(d) Reserved.

(e) Notice of Redemption. Unless waived by any Owner of Bonds to be redeemed, notice of any redemption of Bonds shall be given, at the expense of the City, by the Trustee by mailing a copy of a redemption notice by first class mail at least 30 days and not more than 60 days prior to the date fixed for redemption to the Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Registration Books; provided, that neither the failure to receive such notice nor any immaterial defect in any notice shall affect the sufficiency of the proceedings for the redemption of the Bonds. Any such notice also shall be given to the Securities Depositories and the Information Services on the same date that it is given to the Owner of the Bonds.

- (f) Contents of Notice. All notices of redemption shall be dated and shall state:
- (i) the CUSIP numbers of all Outstanding Bonds being redeemed;
  - (ii) the stated interest rate with respect to each Bond being redeemed;
  - (iii) the maturity date of each Bond being redeemed;
  - (iv) the Redemption Price;
  - (v) that on the redemption date the Redemption Price will become due and payable with respect to each such Bond or portion thereof called for redemption, and that interest with respect thereto shall cease to accrue from and after said date; and
  - (vi) the place or places where such Bonds are to be surrendered for payment of the Redemption Price, which places of payment may include the Principal Corporate Trust Office of the Trustee.

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

(g) Consequences of Notice. Notice of redemption having been given as aforesaid, the Bonds or portions of Bonds so to be redeemed shall, on the redemption date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the City shall default in the payment of the Redemption Price) such Bonds or portions of Bonds shall cease to have interest accrue thereon. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Trustee at the Redemption Price. Installments of interest due on or prior to the redemption date shall be payable as herein provided for payment of interest. Upon surrender for any partial redemption of any Bond, there shall be prepared for the Owner a new Bond or Bonds of the same maturity in the amount of the unredeemed principal. All Bonds which have been redeemed shall be cancelled and destroyed by the Trustee and shall not be redelivered. Neither the failure of any Bond Owner to receive any notice so mailed nor any defect therein shall affect the sufficiency of the proceedings for redemption of any Bonds nor the cessation of accrual of interest thereon.

(h) Partial Redemption of Bonds. In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond redeemed in part only, the City shall execute and the Trustee shall authenticate and deliver to the Owner, at the expense of the City, a new Bond or

Bonds, of the same maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

(i) Manner of Redemption. Whenever any Bonds are to be selected for redemption, the Trustee shall determine, by lot, the numbers of the Bonds to be redeemed, and shall notify the City thereof.

All Series 2017 Bonds redeemed pursuant to this Section and all Series 2017 Bonds purchased by the City pursuant to this subsection shall be cancelled and destroyed pursuant to Section 9.08.

**SECTION 2.03. Form of Series 2017 Bonds.** The Series 2017 Bonds, the Trustee's certificate of authentication, and the assignment to appear thereon, shall be substantially in the respective forms set forth in Exhibit A attached hereto and by this reference incorporated herein, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Indenture.

**SECTION 2.04. Execution of Series 2017 Bonds.** The Series 2017 Bonds shall be signed in the name and on behalf of the City with the manual or facsimile signatures of an Authorized Representative and attested by the manual or facsimile signature of its City Clerk under the seal of the City. Such seal may be in the form of a facsimile of the City's seal and shall be imprinted or impressed upon the Series 2017 Bonds. The Series 2017 Bonds shall then be delivered to the Trustee for authentication by it. In case any officer who shall have signed any of the Series 2017 Bonds shall cease to be such officer before the Series 2017 Bonds so signed shall have been authenticated or delivered by the Trustee or issued by the City, such Series 2017 Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the City as though the individual who signed the same had continued to be such officer of the City. Also, any Series 2017 Bond may be signed on behalf of the City by any individual who on the actual date of the execution of such Series 2017 Bond shall be the proper officer although on the nominal date of such Series 2017 Bond such individual shall not have been such officer.

Only such of the Series 2017 Bonds as shall bear thereon a certificate of authentication in substantially the form set forth in Exhibit A, manually executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee shall be conclusive evidence that the Series 2017 Bonds so authenticated have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

**SECTION 2.05. Transfer of Series 2017 Bonds.** Any Series 2017 Bond may, in accordance with its terms, be transferred upon the Bond Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Series 2017 Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed. Whenever any Series 2017 Bond shall be surrendered for transfer, the City shall execute and the Trustee shall thereupon authenticate and deliver to the transferee a new Bond or Bonds of like tenor, maturity and aggregate principal amount. No Series

2017 Bonds, the notice of redemption of which has been mailed pursuant to Section 2.02(e), shall be subject to transfer pursuant to this Section.

**SECTION 2.06. Exchange of Series 2017 Bonds.** Series 2017 Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee, for Series 2017 Bonds of the same tenor and maturity and of other authorized denominations. No Series 2017 Bonds the notice of redemption of which has been mailed pursuant to Section 2.02(e) shall be subject to exchange pursuant to this Section.

**SECTION 2.07. Temporary Bonds.** The Series 2017 Bonds may be issued initially in temporary form exchangeable for definitive Series 2017 Bonds when ready for delivery. The temporary Series 2017 Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the City and may contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Series 2017 Bond shall be executed by the City and be registered and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Series 2017 Bonds. If the City issues temporary Series 2017 Bonds, it will execute and furnish definitive Bonds without delay, and thereupon the temporary Series 2017 Bonds may be surrendered, for cancellation, in exchange therefor at the Principal Corporate Trust Office of the Trustee, and the Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Series 2017 Bonds of authorized denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds authenticated and delivered hereunder.

**SECTION 2.08. Bond Registration Books.** The Trustee will keep or cause to be kept at its trust office sufficient Bond Registration Books for the registration and transfer of the Bonds, which shall at all times during regular business hours, and upon reasonable notice, be open to inspection by the City; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as hereinbefore provided.

**SECTION 2.09. Bonds Mutilated, Lost, Destroyed or Stolen.** If any Bond shall become mutilated, the City, at the expense of the Owner of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like maturity and principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled by it and delivered to, or upon the order of, the City. If any Bond issued hereunder shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and the Trustee and, if such evidence be satisfactory to them and indemnity satisfactory to them shall be given, the City, at the expense of the Bond Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like maturity and principal amount in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been called for redemption, instead of issuing a substitute Bond the Trustee may pay the same without surrender thereof upon receipt of indemnity satisfactory to the Trustee). The City may require payment of a reasonable fee for each new Bond issued under this Section and of the expenses which may be incurred by the City and the Trustee.

Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original contractual obligation on the part of the City whether or not the Bond alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Indenture with all other Bonds secured by this Indenture.

**SECTION 2.10. Book Entry System.**

(a) Original Delivery. The Bonds shall be initially delivered in the form of a separate single fully registered Bond (which may be typewritten) for each maturity of the Bonds. Upon initial delivery, the ownership of each such Bond shall be registered on the Bond Registration Books maintained by the Trustee pursuant to Section 2.08 hereof in the name of the Nominee. Except as provided in subsection (c), the ownership of all of the Outstanding Bonds shall be registered in the name of the Nominee on such Bond Registration Books.

With respect to Bonds the ownership of which shall be registered in the name of the Nominee, the City and the Trustee shall have no responsibility or obligation to any Depository System Participant or to any person on behalf of which the City holds an interest in the Bonds. Without limiting the generality of the immediately preceding sentence, the City and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Depository System Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any notice with respect to the Bonds, including any notice of redemption, (iii) the selection by the Depository of the beneficial interests in the Bonds to be redeemed in the event the City elects to redeem the Bonds in part, (iv) the payment to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any amount with respect to principal, premium, if any, or interest represented by the Bonds or (v) any consent given or other action taken by the Depository as Owner of the Bonds. The City and the Trustee may treat and consider the person in whose name each Bond is registered as the absolute owner of such Bond for the purpose of payment of principal, premium, if any, and interest represented by such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers of ownership of such Bond, and for all other purposes whatsoever. The Trustee shall pay the principal, interest and premium, if any, represented by the Bonds only to the respective Owners or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge all obligations with respect to payment of principal, interest and premium, if any, represented by the Bonds to the extent of the sum or sums so paid. No person other than a Bond Owner shall receive a Bond evidencing the obligation of the City to make payments of principal, interest and premium, if any, pursuant to this Trust Indenture. Upon delivery by the Depository to the Nominee of written notice to the effect that the Depository has determined to substitute a new Nominee in its place, such new nominee shall become the Nominee hereunder for all purposes; and upon receipt of such a notice the City shall promptly deliver a copy of the same to the Trustee.

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

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

In the event the City determines that it is in the best interests of the beneficial owners of the Bonds that they be able to obtain certificated Bonds, the City may notify the Depository System Participants of the availability of such certificated Bonds through the Depository. In such event, the Trustee will execute, transfer and exchange Bonds as required by the Depository and others in appropriate amounts; and whenever the Depository requests, the Trustee and the City shall cooperate with the Depository in taking appropriate action (y) to make available one or more separate certificates evidencing the Bonds to any Depository System Participant having Bonds credited to its account with the Depository, or (z) to arrange for another Securities Depository to maintain custody of a single certificate evidencing such Bonds, all at the City's expense.

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

### ARTICLE III

#### ISSUE OF SERIES 2017 BONDS; PARITY DEBT

**SECTION 3.01. Issuance of Series 2017 Bonds.** Upon the execution and delivery of this Indenture, the City shall execute and deliver Series 2017 Bonds in the aggregate principal amount of \_\_\_\_\_ Dollars (\$[Par Amount]) to the Trustee for authentication and delivery to the Original Purchaser thereof upon the Request of the City.

**SECTION 3.02. Application of Proceeds of Series 2017 Bonds; Bond Proceeds Fund.** On the Closing Date, the Trustee shall apply the proceeds of the sale of the Series 2017 Bonds received or deemed to have been received from the Original Purchaser on the Closing Date, being an amount equal to \$\_\_\_\_\_ (being an amount equal to the par amount of the Series 2017 Bonds (\$\_\_\_\_\_) [plus] [less] net original issue [premium] [discount] of \$\_\_\_\_\_, and less an Underwriter's discount of \$\_\_\_\_\_, as follows (the Trustee may, in its discretion, establish one or more temporary funds or accounts to account for or facilitate the following transfers and deposits). [At the request of the City, on the Closing Date the Underwriter will wire the Reserve Policy premium of \$\_\_\_\_\_ to the Insurer.] As a result, the net amount to be wired to the Trustee will be \$\_\_\_\_\_, whereupon the Trustee shall deposit such proceeds into the Bond Proceeds Fund, which is hereby established as a separate fund to be held by the Trustee in trust. The Trustee shall apply moneys in the Bond Proceeds Fund as follows:

(a) The Trustee will deposit the amount of \$\_\_\_\_\_ in the Costs of Issuance Fund;

(b) The Trustee will transfer the amount of \$\_\_\_\_\_, constituting the remainder of such proceeds, to the Escrow Agent for deposit into the Escrow Fund established under the Escrow Agreement to prepay the 2006 Installment Sale Agreement and cause the redemption of the 2006 Bonds; and

[(c) In addition, the Trustee shall credit the Reserve Policy to the Reserve Fund in satisfaction of the Reserve Requirement upon delivery of the Bonds. The parties hereto acknowledge that on the Closing Date from the proceeds of the Bonds, the Underwriter paid on behalf of the Authority to Insurer \$\_\_\_\_\_ as payment of the premium for the Reserve Policy.]

After making the transfers from the Bond Proceeds Fund described in Section 3.02, and after transferring any moneys that remain in the Bond Proceeds Fund to the Debt Service Fund, the Trustee shall close the Bond Proceeds Fund.

**SECTION 3.03. Reserve Fund.** The Trustee shall establish and maintain a separate fund to be known as City of Fortuna Series 2017 Water Revenue Refunding Bonds, Reserve Fund (the "Reserve Fund"), which shall be administered as provided in Section 4.05 hereof.

**SECTION 3.04. Cost of Issuance Fund.** There is hereby created a fund to be known as the “City of Series 2017 Fortuna Water Revenue Refunding Bonds, Cost of Issuance Fund,” which the City hereby covenants and agrees to cause to be maintained and which shall be held in trust by the Trustee. The moneys in the Cost of Issuance Fund shall be used in the manner provided by law solely for the purpose of the payment of Costs of Issuance upon receipt by the Trustee of one or more Requests of the City therefor, on or after the Closing Date, in the form of Exhibit B. Any funds remaining in the Cost of Issuance Fund on \_\_\_\_ 1, 2017, shall be transferred by the Trustee to the Debt Service Fund.

**SECTION 3.05. Issuance of Parity Debt.** In addition to the Series 2017 Bonds, the City may at any time issue or incur additional Parity Debt under applicable law which are secured by a pledge of Net Revenues on parity with the payments by the City under this Indenture; provided that the Net Revenues (excluding any amounts transferred from a Rate Stabilization Fund) for the Fiscal Year or any consecutive 12-month period in the 18 months next preceding the date of the adoption by the City of the resolution authorizing the issuance of such Parity Debt or the execution of such Parity Debt, as the case may be, as evidenced by a calculation prepared by the City upon which the Trustee may conclusively rely; plus an allowance for Net Revenues that would have been derived from any increase in the rates and charges fixed and prescribed for the Water System which was enacted prior to the adoption of such resolution or the execution of such Parity Debt, as the case may be, but which, during all or any part of said Fiscal Year or 12-month period, was not in effect, in an amount equal to the estimated additional Net Revenues that would have been derived from such increase in rates and charges if it had been in effect prior to the beginning of said Fiscal Year or 12-month period, as shown by the Certificate of an Authorized Representative of the City shall have produced an amount equal to at least the sum of 125% of Maximum Annual Debt Service on the Series 2017 Bonds and all Parity Debt outstanding after the issuance of such Parity Debt.

Furthermore, in order to issue such Parity Debt the City may not be in default with respect to its obligations under this Indenture or any Parity Debt Instrument and must provide for repayment on the same interest and principal payment dates.

**SECTION 3.06. Reserved.**

**SECTION 3.07. Subordinate Bonds.** Nothing in this Indenture shall prohibit or impair the authority of the City to issue bonds or other obligations secured by a lien on Gross Revenues or Net Revenues which is subordinate to the lien established hereunder, upon such terms and in such principal amounts as the City may determine.

**SECTION 3.08. Validity of Bonds.** The validity of the authorization and issuance of the Bonds shall not be affected in any way by any proceedings taken by the City in connection with the Water System, and the recital contained in the Bonds that the same are issued pursuant to the Bond Law shall be conclusive evidence of their validity and of the regularity of their issuance.

## ARTICLE IV

### PLEDGE OF NET REVENUES; FUNDS AND ACCOUNTS

#### **SECTION 4.01. Pledge of Net Revenues.**

(a) The City hereby transfers, places a charge upon, assigns and sets over to the Trustee, for the benefit of the Owners, that portion of the Net Revenues which is necessary to pay the principal or Redemption Price of and interest on the Bonds in any Fiscal Year, together with all moneys on deposit in the Debt Service Fund, and such portion of the Net Revenues is hereby irrevocably pledged to the punctual payment of the principal or Redemption Price of and interest on the Bonds. The Net Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding, except that out of Net Revenues there may be apportioned and paid such sums for such purposes, as are expressly permitted by this Article and by provisions of this Indenture applicable to Parity Debt. Said pledge shall constitute a first, direct and exclusive charge and lien on the Net Revenues for the payment of the principal or Redemption Price of and interest on the Bonds in accordance with the terms thereof.

(b) The Net Revenues constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the Bonds. The general fund of the City is not liable and the credit or taxing power of the City is not pledged for the payment of the principal or Redemption Price of and interest on the Bonds. The Owner of the Bonds shall not compel the exercise of the taxing power by the City or the forfeiture of its property. The principal or Redemption Price of and interest on the Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Net Revenues of the Water System.

**SECTION 4.02. Receipt and Deposit of Gross Revenues.** The City covenants and agrees that all Gross Revenues, when and as received, will be received and held by the City in trust hereunder and will be deposited by the City in a Water Revenue Fund to be established and held by the City, and will be accounted for through and held in trust in the Water Revenue Fund, and the City shall only have such beneficial right or interest in any of such money as in this Indenture provided. All such Gross Revenues shall be transferred, disbursed, allocated and applied solely to the uses and purposes hereinafter in this Article set forth, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the City.

**SECTION 4.03. Establishment of Funds and Accounts and Allocation of Gross Revenues.** The Debt Service Fund, as a special fund, and the Redemption Account, as a special account therein, are hereby created.

The Debt Service Fund and the Redemption Account therein shall be held and maintained by the Trustee.

All Gross Revenues shall be held in trust by the Finance Director in the Water Revenue Fund and shall be applied, transferred, used and withdrawn only for the purposes hereinafter authorized in this Article.

(a) Operating Costs. The Finance Director shall first pay from the moneys in the Water Revenue Fund the budgeted Maintenance and Operation Costs as such Costs become due and payable.

(b) Debt Service Fund. On or before the second Business Day prior to each Interest Payment Date, the Finance Director shall transfer from the Water Revenue Fund to the Trustee for deposit in the Debt Service Fund (i) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding Series 2017 Bonds on the next succeeding Interest Payment Date, plus (ii) an amount equal to the aggregate amount of Principal Installments (including any Sinking Fund Installments) becoming due and payable on all Outstanding Series 2017 Bonds on the next succeeding Principal Payment Date.

(c) Debt Service Funds for Parity Debt. On or before the second Business Day prior to each Interest Payment Date, the Finance Director shall also cause to be transferred from the Water Revenue Fund to the Trustee (or other party as appropriate relative to each Parity Debt) for deposit in the debt service fund created for each issue of Parity Debt (or if no debt service fund was created for an issue of Parity Debt, otherwise set-aside for the payment of Parity Debt) (i) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding Parity Debt on the next succeeding Interest Payment Date (or, as to Parity Debt with annual interest payments, for a 6-month period), plus (ii) an amount equal to the aggregate amount of Principal Installments (including any Sinking Fund Installments) becoming due and payable on all Outstanding Parity Debt on the next succeeding Principal Payment Date (or, as to Parity Debt with annual principal payments, one-half of the annual principal payment amount).

All interest earnings and profits or losses on the investment of amounts in the Debt Service Fund shall be deposited in or charged to the Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Payment Date upon all Outstanding Series 2017 Bonds and Parity Debt.

(d) Reserve Accounts. After making the payments, allocations and transfers provided for in subsections (a), (b) and (c) above, if the balance on hand in the Reserve Fund for the Series 2017 Bonds or a reserve account for any issue of Parity Debt is less than the Reserve Requirement or the reserve requirement applicable to such Parity Debt, such deficiency (or payment due to the provider of a reserve policy or surety) shall be restored by transfers from the first moneys which become available in the Water Revenue Fund to the appropriate party to replenish the Reserve Fund, repay the provider of a reserve policy or surety, or to satisfy a reserve requirement established for any issue of Parity Debt, on a pro rata basis.

(e) Surplus. As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner set forth above in subsections (a) to (d), inclusive, any moneys remaining in the Water Revenue Fund may at any time be treated as surplus and applied for any lawful purpose.

**SECTION 4.04. Application of Debt Service Fund.**

(a) The Trustee shall withdraw from the Debt Service Fund, prior to each Interest Payment Date, an amount equal to the Interest Requirement payable on such Interest Payment Date, and shall cause the same to be applied to the payment of said interest when due and is hereby authorized to apply the same to the payment of such interest.

(b) The Trustee shall withdraw from the Debt Service Fund, prior to each Principal Payment Date, an amount equal to the principal amount due on said Principal Payment Date (including any Sinking Fund Installments due and payable on said Principal Payment Date), and shall cause the same to be applied to the payment of such principal.

(c) All withdrawals and transfers under the provisions of subsection (a) or subsection (b) of this Section shall be made not earlier than one (1) day prior to the Interest Payment Date or Principal Payment Date to which they relate, and the amount so withdrawn or transferred shall, for the purposes of this Indenture, be deemed to remain in and be part of the appropriate fund or account until such Interest Payment Date or Principal Payment Date.

**SECTION 4.05. Reserve Fund.**

The Reserve Requirement for the Series 2017 Bonds shall [be satisfied by the delivery of the Reserve Policy by the Insurer to the Trustee on the Closing Date. The Trustee shall draw on the Reserve Policy in accordance with its terms and conditions and the terms of this Indenture].

[The amounts available under the Reserve Policy shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Debt Service Fund for payment of the Series 2017 Bonds (and not any Parity Debt), in the event of any deficiency at any time in such fund.]

[The Trustee shall comply with all documentation relating to the Reserve Policy as shall be required to maintain the Reserve Policy in full force and effect and as shall be required to receive payments thereunder in the event and to the extent required to make any payment when and as required under this Section 4.05.]

[The City shall have no obligation to replace the Reserve Policy or to fund the Reserve Fund with cash or any other security if, at any time that the Series 2017 Bonds are Outstanding, amounts are not available under the Reserve Policy.]

[With respect to the Reserve Policy, notwithstanding anything to the contrary set forth herein, the City and the Trustee agree to comply with the following provisions: [To be determine if necessary]

**SECTION 4.06. Application of Redemption Account.** There is hereby established with the Trustee the Redemption Account. On or before the date which is at least one day prior to any Interest Payment Date on which Series 2017 Bonds are subject to redemption pursuant to Section 2.02(a), the City shall transfer from the Water Revenue Fund to the Trustee for deposit in the

Redemption Account an amount at least equal to the Redemption Price (excluding accrued interest, which is payable from the Debt Service Fund) of such Series 2017 Bonds to be redeemed on such date. In addition, the City shall transfer to the Trustee for deposit in the Redemption Account all amounts required to redeem any Series 2017 Bonds which are subject to redemption pursuant to Section 2.02(c), when and as such amounts become available. Amounts in the Redemption Account shall be applied by the Trustee solely for the purpose of paying the Redemption Price of Bonds to be redeemed pursuant to Sections 2.02 (a) or (c). If after all of the Series 2017 Bonds have been paid or deemed to have been paid, there are moneys remaining in the Redemption Account, such moneys shall be transferred by the Trustee to the Finance Director for deposit in the Water Revenue Fund.

**SECTION 4.07. Establishment of Rate Stabilization Fund.** The City has the right at any time to establish a rate stabilization fund (the “Rate Stabilization Fund”) to be held by it and administered in accordance with this Section 4.07, for the purpose of stabilizing the rates and charges imposed by the City with respect to the Water System. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues that are released from the pledge and lien which secures the Bonds and any Parity Debt, as the City may determine.

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

**SECTION 4.08. Investments.** All moneys in the Water Revenue Fund and the Rate Stabilization Fund may be invested by the City from time to time in any investments authorized by law, consistent with the City’s investment policy.

All moneys in the Debt Service Fund and Cost of Issuance Fund shall be invested by the Trustee solely in Authorized Investments, as directed pursuant to a Request of the City. In the absence of any such Request of the City, the Trustee will invest any such moneys in money market funds whose investments are restricted to Federal Securities, provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a written direction from the City specifying a specific money market fund and, if no such written direction is so received, the Trustee shall hold such moneys uninvested. Obligations purchased as an investment of moneys in any Fund or Account shall be deemed to be part of such Fund or Account, and all interest or gain derived from the investment of amounts in any of the Funds or Accounts established hereunder shall be deposited in the Fund or Account from which such investment was made; and shall be accounted for and

applied as provided in Section 4.04(c) (with respect to the Debt Service Fund). For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it hereunder with the written approval of the City. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of any investment, and shall be entitled to its customary fees therefor. The Trustee shall incur no liability for losses arising from any investments made pursuant to this Section.

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

#### **SECTION 4.09. Valuation; Investments.**

In computing the amount in any Fund or Account, Authorized Investments shall be valued at Fair Market Value. With respect to all Funds and Accounts, valuation shall occur annually.

Except as otherwise provided in the following sentence, the City covenants that all investments of amounts deposited in any fund or account created by or pursuant to this Indenture, or otherwise containing gross proceeds of the Series 2017 Bonds (within the meaning of section 148 of the Tax Code) shall be acquired, disposed of, and valued (as of the date that valuation is required by this Indenture or the Tax Code) at Fair Market Value. Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Tax Code shall be valued at their present value (within the meaning of section 148 of the Tax Code).

#### **SECTION 4.10. Rebate Fund.**

(a) In addition to the other funds and accounts created pursuant hereto, the Trustee shall establish and maintain a fund separate from any other fund or account established and maintained hereunder designated the "Rebate Fund" (the "Rebate Fund") in connection with the 2017 Bonds. Within the Rebate Fund, the Trustee shall maintain such accounts or subaccounts as are specified in a Certificate of the City to the Trustee pursuant to the Tax Certificate. The Trustee shall deposit moneys in the Rebate Fund pursuant to a Certificate of the City. Subject to the transfer provisions provided below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the federal government of the United States of America, and none of the City, the Trustee or the Owner of any 2017 Bond shall have any right in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Section and by the Tax Certificate (which is incorporated herein by reference). The Trustee shall be deemed conclusively to have complied with the provisions of this Section 4.10 and the Tax Certificate if it follows the Certificate of the City, including supplying all necessary information in the manner requested by the City, and except as otherwise expressly provided herein, shall not be required to take any actions hereunder

in the absence of written directions by the City, and shall have no liability or responsibility to enforce compliance by the City with the terms of the Tax Certificate or this Section. The Trustee agrees to comply with all Certificate of the City given pursuant to the Tax Certificate.

(1) Upon a Certificate of the City, an amount shall be deposited into the Rebate Fund by the Trustee from deposits by the City, if and to the extent required, so that the balance of the amount on deposit thereto shall be equal to the Rebate Requirement. Computations of the Rebate Requirement shall be furnished by or on behalf of the City in accordance with the Tax Certificate. The City shall provide the Trustee with a Certificate of the City evidencing that the computation of the Rebate Requirement has been made.

(2) The Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to this Section, other than from moneys held in the funds and accounts created hereunder or from other moneys provided to it by the City.

(3) The Trustee shall invest all amounts held in the Rebate Fund in Authorized Investments as directed by a Certificate of the City. Money, including investment earnings, shall not be transferred from the Rebate Fund except as provided in subparagraph (4) below.

(4) Upon receipt of a Certificate of the City, the Trustee shall remit part or all of the amounts in the Rebate Fund to the United States of America, as so directed. In addition, if the City so directs, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or fund as directed by the Certificate of the City. Any funds remaining in the Rebate Fund in excess of the Rebate Requirement (as defined in the Tax Certificate) as of the end of any Bond Year shall be transferred to the Interest Account.

Notwithstanding any other provision hereof, including, in particular, Section 9.03, the obligation to remit the Rebate Requirement to the United States and to comply with all other requirements of this Section and the Tax Certificate shall survive the defeasance or payment in full of the 2017 Bonds.

## ARTICLE V

### COVENANTS OF THE CITY; SPECIAL TAX COVENANTS

**SECTION 5.01. Punctual Payment; Compliance With Documents.** The City shall punctually pay or cause to be paid the interest and principal to become due with respect to all of the Bonds in strict conformity with the terms of the Bonds and of this Indenture, and will faithfully observe and perform all of the conditions, covenants and requirements of this Indenture and all Parity Debt Instruments.

**SECTION 5.02. Against Encumbrances.** The City will not mortgage or otherwise encumber, pledge or place any charge upon the Water System or any part thereof, or upon any of the Net Revenues, except as provided in the Indenture.

**SECTION 5.03. Discharge of Claims.** The City covenants that in order to fully preserve and protect the priority and security of the Bonds the City shall pay from the Net Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Water System which, if unpaid, may become a lien or charge upon the Net Revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The City shall also pay from the Net Revenues all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Water System or upon any part thereof or upon any of the Net Revenues therefrom.

**SECTION 5.04. Acquisition, Construction or Financing of any Improvements to the Water System.** The City will acquire, construct, or finance Improvements to the Water System to be financed with the proceeds of any Parity Debt with all practicable dispatch, and such Improvements will be made in an expeditious manner and in conformity with laws so as to complete the same as soon as possible.

**SECTION 5.05. Maintenance and Operation of Water System in Efficient and Economical Manner.** The City covenants and agrees to maintain and operate the Water System in an efficient and economical manner and to operate, maintain and preserve the Water System in good repair and working order.

**SECTION 5.06. Against Sale, Eminent Domain.**

(a) The City will not sell, lease or otherwise dispose of the Water System or any part thereof essential to the proper operation of the Water System or to the maintenance of the Net Revenues except as herein expressly permitted. The City will not enter into any lease or agreement which impairs the operation of the Water System or any part thereof necessary to secure adequate Net Revenues for the payment of the interest on and principal or Redemption Price, if any, on the Bonds, or which would otherwise impair the rights of the Owners with respect to the Net Revenues or the operation of the Water System. Any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Water System, or any material or equipment which has worn out, may be sold at not less than the market value thereof without the consent of the Owners if such sale will not reduce Net Revenues and if all of the net proceeds of such sale are deposited in the Water Revenue Fund.

(b) If all or any part of the Water System shall be taken by eminent domain proceedings, the net proceeds realized by the City therefrom shall, at the option of the City, either (a) be used for the acquisition or construction of improvements to the Water System, or (b) be applied to repay the Series 2017 Bonds and Parity Debt on a pro rata basis.

**SECTION 5.07. Insurance.** The City covenants that it shall at all times maintain such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Water System shall be damaged or destroyed, such part shall be restored to use. The net proceeds of insurance against accident to or destruction of the physical Water System shall be used for repairing or rebuilding the damaged or destroyed portions of the Water System.

Any such insurance shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the City, or may be in the form of self-insurance by the City. The City shall establish such fund or funds or reserves as it determines, in its sole judgment, are necessary to provide for its share of any such self-insurance.

**SECTION 5.08. Records and Accounts.** The City covenants that it shall keep proper books of record and accounts of the Water System, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Water System. Said books shall, upon reasonable request, be subject to the inspection of the Owners of not less than ten percent (10%) of the Outstanding Bonds or their representatives authorized in writing.

The City covenants that it will cause the books and accounts of the Water System to be audited annually by an Independent Certified Public Accountant and will make available for inspection by the Bond Owners at the office of the Trustee in San Francisco, California, upon reasonable request, a copy of the report of such Independent Certified Public Accountant.

The City covenants that it will cause to be prepared annually, not more than one hundred eighty (180) days after the close of each Fiscal Year, as a part of its regular annual financial report, a summary statement showing the amount of Gross Revenues and the amount of all other funds collected which are required to be pledged or otherwise made available as security for payment of principal of and interest on the Bonds, the disbursements from the Gross Revenues and other funds in reasonable detail. The City shall furnish a copy of the statement to the Trustee, and upon written request, to any Bond Owner.

**SECTION 5.09. Protection of Security and Rights of Owners.** The City will preserve and protect the security of the Bonds and the rights of the Owners, and will warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of any Parity Debt by the City, such Parity Debt shall be incontestable by the City.

**SECTION 5.10. Against Competitive Facilities.** The City will not acquire, construct, operate or maintain the Water System or utility within the service area of the City that would be competitive with the Water System.

**SECTION 5.11. Payment of Taxes, Etc.** The City will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Water System or any part thereof or upon any Revenues when the same shall become due. The City will duly observe and conform with all valid requirements of any governmental authority relative to the Water System or any part thereof, and will comply with all requirements with respect to any state or federal grants received to assist in paying for the costs of the acquisition, construction or financing of any Improvements to the Water System.

**SECTION 5.12. Rates and Charges.** (a) The City shall, to the extent permitted by law, fix, prescribe and collect rates, fees and charges for the Water System which will be at least sufficient to yield Net Revenues equal to one hundred twenty-five percent (125%) of

Debt Service coming due and payable during such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of this section.

For the purpose of computing the amount of Water Revenues for any Fiscal Year or the amount of Net Revenues for any Fiscal Year for purposes of the preceding paragraph, the City shall be permitted to transfer amounts on deposit in the Rate Stabilization Fund for purposes of such computation, such transfers may be made until (but not after) one hundred twenty (120) days after the end of such Fiscal Year.

**SECTION 5.13. No Priority for Additional Obligations.** The City covenants that no additional bonds or other obligations shall be issued or incurred having any priority in payment of principal or interest out of the Net Revenues over the Bonds.

**SECTION 5.14. No Arbitrage.** The City shall not take, nor permit nor suffer to be taken any action with respect to the proceeds of any of the Series 2017 Bonds which would cause any of the Bonds to be “arbitrage bonds” within the meaning of the Tax Code.

**SECTION 5.15. Information Report.** The Finance Director is hereby directed to assure the filing of an information report for the Series 2017 Bonds in compliance with Section 149 (e) of the Tax Code.

**SECTION 5.16. Private Activity Bond Limitation.** The City shall assure that the proceeds of the Series 2017 Bonds are not so used as to cause the Series 2017 Bonds to satisfy the private business tests of section 141(b) of the Tax Code or the private loan financing test of section 141(c) of the Tax Code.

**SECTION 5.17. Federal Guarantee Prohibition.** The City shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Series 2017 Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Tax Code.

**SECTION 5.18. Further Assurances.** The City will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture, and for the better assuring and confirming unto the Owners of the Bonds the rights and benefits provided in this Indenture.

**SECTION 5.19. Continuing Disclosure.** The City hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Indenture, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, any holder or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

**SECTION 5.20. Rebate Requirement.** The City shall take any and all actions necessary to assure compliance with section 148(f) of the Tax Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Series 2017 Bonds.

**SECTION 5.21. Maintenance of Tax-Exemption.** The City shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Series 2017 Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the date of issuance of the Bonds.

## ARTICLE VI

### THE TRUSTEE

**SECTION 6.01. Appointment of Trustee.** U.S. Bank National Association, with an office in San Francisco, California, a banking association organized and existing under and by virtue of the laws of the United States of America, is hereby appointed Trustee by the City for the purpose of receiving all moneys required to be deposited with the Trustee hereunder and to allocate, use and apply the same as provided in this Indenture. The City agrees that it will maintain a Trustee having a corporate trust office in California, with a combined capital and surplus of at least Fifty Million Dollars (\$50,000,000), and subject to supervision or examination by federal or State authority, so long as any Bonds are Outstanding. If such bank or trust company publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this Section 5.01 the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee is hereby authorized to pay the Bonds when duly presented for payment at maturity, or on redemption or purchase prior to maturity, and to cancel all Bonds upon payment thereof. The Trustee shall keep accurate records of all funds administered by it and of all Bonds paid and discharged.

**SECTION 6.02. Acceptance of Trusts.** The Trustee hereby accepts the trusts imposed upon it by this Indenture, and agrees to perform said trusts, but only upon and subject to the following express terms and conditions:

- (a) The Trustee, prior to the occurrence of an Event of Default and after curing all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default hereunder has occurred (which has not been cured or waived) the Trustee may exercise such of the rights and powers vested in it by this Indenture, and shall use the same degree of care and skill in their exercise, as a prudent and reasonable man would exercise or use under the circumstances in the conduct of his own affairs.

(b) The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents, or receivers but shall be answerable for the selection of the same in accordance with the standard specified above, and shall be entitled to rely conclusively on advice of counsel of its choice concerning all matters of trust and its duty hereunder.

(c) The Trustee shall not be responsible for any recital herein, or in the Bonds, or for the validity of this Indenture or any of the supplements thereto or instruments of further assurance, or for the sufficiency of the security for the Bonds issued hereunder or intended to be secured hereby and the Trustee shall not be bound to ascertain or inquire as to the observance or performance of any covenants, conditions or agreements on the part of the City hereunder. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with Section 4.08.

(d) The Trustee shall not be accountable for the use of any proceeds of sale of the Bonds delivered hereunder. The Trustee may become the Owner of Bonds secured hereby with the same rights which it would have if not the Trustee; may acquire and dispose of other bonds or evidence of indebtedness of the City with the same rights it would have if it were not the Trustee; and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of Bonds, whether or not such committee shall represent the Owners of the majority in principal amount of the Bonds then Outstanding.

(e) In the absence of bad faith on its part, the Trustee shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document believed by it to be genuine and to have been signed or sent by the proper person or persons. Any action taken or omitted to be taken by the Trustee pursuant to this Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the Owner of any Bond, shall be conclusive and binding upon all future Owners of the same Bond and upon Bonds issued in exchange therefor or in place thereof. The Trustee shall not be bound to recognize any person as an Owner of any Bond or to take any action at his request unless the ownership of such Bond by such person shall be reflected on the Bond Registration Books.

(f) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely upon a Certificate of the City as sufficient evidence of the facts therein contained and prior to the occurrence of an Event of Default hereunder of which the Trustee has been given notice or is deemed to have notice, as provided in Section 6.02(h) hereof, shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed by it to be necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a Certificate of the City to the effect that an authorization in the form therein set forth has been adopted by the City, as conclusive evidence that such authorization has been duly adopted and is in full force and effect.

(g) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty and it shall not be answerable for other than its negligence or willful misconduct as finally determined by a court of competent jurisdiction. The immunities and exceptions from liability of the Trustee shall extend to its officers, directors, employees and agents.

(h) The Trustee shall not be required to take notice or be deemed to have notice of any Event of Default hereunder except failure by the City to make any of the payments to the Trustee required to be made by the City pursuant hereto or failure by the City to file with the Trustee any document required by this Indenture to be so filed subsequent to the issuance of the Bonds, unless the Trustee shall be specifically notified in writing of such default by the City or by the Owners of at least twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding and all notices or other instruments required by this Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the Principal Corporate Trust Office of the Trustee, and in the absence of such notice so delivered the Trustee may conclusively assume there is no Event of Default hereunder except as aforesaid.

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

(j) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(k) Notwithstanding anything elsewhere in this Indenture with respect to the execution of any Bonds, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of this Indenture, the Trustee shall have the right, but shall not be required, to demand any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, as may be deemed desirable for the purpose of establishing the right of the City to the execution of any Bonds, the withdrawal of any cash, or the taking of any other action by the Trustee.

(l) Before taking the action referred to in Section 8.03 the Trustee may require that an indemnity bond satisfactory in terms and amount be furnished for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is finally adjudicated by a court of competent jurisdiction to have been caused solely by its own negligence or willful misconduct in connection with any such action. The Trustee may consult with counsel with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

(m) All moneys received by the Trustee shall, until used or applied or invested as herein provided, be held in trust for the purposes for which they were received but need

not be segregated from other funds except to the extent required by law. The Trustee shall not be under any liability for interest on any moneys received hereunder except such as it may agree to in writing.

**SECTION 6.03. Fees, Charges and Expenses of Trustee.** The Trustee shall be entitled to payment and reimbursement for reasonable fees for its services rendered hereunder and all advances, counsel fees (including expenses) and other expenses reasonably and necessarily made or incurred by the Trustee in connection with such services. Upon the occurrence of an Event of Default hereunder, but only upon an Event of Default, the Trustee shall have a first lien with right of payment prior to payment of any Bond upon the amounts held hereunder for the foregoing fees, charges and expenses incurred by it respectively.

**SECTION 6.04. Notice to Bond Owners of Default.** If an Event of Default hereunder occurs with respect to any Bonds, of which the Trustee has been given or is deemed to have notice, as provided in Section 6.02(h) hereof, then the Trustee shall promptly give written notice thereof by first-class mail to the Owner of each such Bond, unless such Event of Default shall have been cured before the giving of such notice; provided, however, that unless such Event of Default consists of the failure by the City to make any payment when due, the Trustee may elect not to give such notice if and so long as the Trustee in good faith determines that it is in the best interests of the Bond Owners not to give such notice.

**SECTION 6.05. Intervention by Trustee.** In any judicial proceeding to which the City is a party which, in the opinion of the Trustee and its counsel, has a substantial bearing on the interests of Owners of any of the Bonds, the Trustee may intervene on behalf of such Bond Owners, and subject to Section 6.02 hereof, shall do so if requested in writing by the Owners of at least twenty-five percent (25%) in aggregate principal amount of such Bonds then Outstanding.

**SECTION 6.06. Removal of Trustee.** The Owners of a majority in aggregate principal amount of the Outstanding Bonds may at any time, and the City may so long as no Event of Default shall have occurred and then be continuing, remove the Trustee initially appointed, and any successor thereto, by an instrument or concurrent instruments in writing delivered to the Trustee (where applicable), whereupon the City or such Owners, as the case may be, shall appoint a successor or successors thereto; provided that any such successor shall be a bank or trust company meeting the requirements set forth in Section 6.01 hereof.

**SECTION 6.07. Resignation by Trustee.** The Trustee and any successor Trustee may at any time resign by giving thirty (30) days' written notice by registered or certified mail to the City. Upon receiving such notice of resignation, the City shall promptly appoint a successor Trustee. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. Upon such acceptance, the City shall cause notice thereof to be given by first class mail to the Bond Owners at their respective addresses set forth on the Bond Registration Books. No resignation of the Trustee shall take effect until a successor is appointed and has accepted.

**SECTION 6.08. Appointment of Successor Trustee.** In the event of the removal or resignation of the Trustee pursuant to Sections 6.06 or 6.07, respectively, the City shall promptly

appoint a successor Trustee. In the event the City shall for any reason whatsoever fail to appoint a successor Trustee within forty-five (45) days following the delivery to the Trustee of the instrument described in Section 6.06 or within forty-five (45) days following the receipt of notice by the City pursuant to Section 6.07, the Trustee may apply to a court of competent jurisdiction for the appointment of a successor Trustee meeting the requirements of Section 6.01 hereof. Any such successor Trustee appointed by such court shall become the successor Trustee hereunder notwithstanding any action by the City purporting to appoint a successor Trustee following the expiration of such forty-five-day period.

Notwithstanding any other provision of this Trust Indenture, no removal, resignation or termination of the Trustee shall take effect until a successor shall be appointed; provided, however, that if for any reason whatsoever no successor Trustee shall have been appointed within 45 days following receipt of notice by the City pursuant to Section 6.07 above, the Trustee may apply to a court of competent jurisdiction for the appointment of a successor Trustee which meets the requirements of Section 6.01 hereof.

**SECTION 6.09. Merger or Consolidation.** Any company into which the Trustee may be merged or converted or with which it may be consolidated, or any company resulting from any merger, conversion or consolidation to which it shall be a party, or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business (provided that such company shall be eligible under Section 6.01), shall be the successor to the Trustee and vested with all of the title to the trust estate and all of the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

**SECTION 6.10. Concerning any Successor Trustee.** Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to the City an instrument in writing accepting such appointment hereunder and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessors; but such predecessor shall, nevertheless, on the Request of the City, or of its successor, execute and deliver an instrument transferring to such successor all the estates, properties, rights, powers and trusts of such predecessor hereunder; and every predecessor Trustee shall deliver all securities and moneys held by it as the Trustee hereunder to its successor. Should any instrument in writing from the City be required by any successor Trustee for more fully and certainly vesting in such successor the estate, rights, powers and duties hereby vested or intended to be vested in the predecessor, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the City.

**SECTION 6.11. Appointment of Co-Trustee.** It is the purpose of this Indenture that there shall be no violation of any law of any jurisdiction (including particularly the law of the State) denying or restricting the right of banking corporations or associations to transact business as Trustee in such jurisdiction. It is recognized that in the case of litigation under this Indenture, and in particular in case of the enforcement of the rights of the Trustee on default, or in the case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies herein granted to the Trustee or hold title to the properties,

in trust, as herein granted, or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an additional individual or institution as a separate or co-trustee. The following provisions of this Section 6.11 are adopted to these ends.

In the event that the Trustee appoints an additional individual or institution as a separate or co-trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and vest in such separate or co-trustee but only to the extent necessary to enable such separate or co-trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary to the exercise thereof by such separate or co-trustee shall run to and be enforceable by either of them.

Should any instrument in writing from the City be required by the separate trustee or co-trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to it such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the City. In case any separate trustee or co-trustee, or a successor to either, shall become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate trustee or co-trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new trustee or successor to such separate trustee or co-trustee.

**SECTION 6.12. Indemnification; Limited Liability of Trustee.** The City shall indemnify and hold the Trustee harmless from and against all claims, losses, costs, expenses, liabilities and damages including legal fees and expenses arising from the exercise and performance of its duties hereunder and the termination of this Indenture. Such indemnity shall survive the resignation or removal of the Trustee hereunder. No provision in this Indenture shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability hereunder if it shall have reasonable grounds for believing repayment of such funds or adequate indemnity against such liability or risk is not assured to it. The Trustee shall not be liable for any action taken or omitted to be taken by it in accordance with the direction of a majority of the Owners of the principal amount of Bonds Outstanding relating to the time, method and place of conducting any proceeding or remedy available to the Trustee under this Indenture.

## ARTICLE VII

### MODIFICATION AND AMENDMENT OF THE INDENTURE

**SECTION 7.01. Amendment by Consent of Bond Owners.** This Indenture and the rights and obligations of the City and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Indenture which shall become binding when the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in Section 7.03 hereof, are filed with the Trustee. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the City to pay the principal, interest or redemption premiums at the time and place and at the rate and in the currency provided therein of any Bond

without the express written consent of the Owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

**SECTION 7.02. Amendment Without Consent of Bondholders.** This Indenture and the rights and obligations of the City and of the Owners of the Bonds may also be modified or amended at any time by a Supplemental Indenture which shall become binding upon execution and delivery, without consent of any Bond Owners, but only to the extent permitted by law and only for any one or more of the following purposes-

(a) to add to the covenants and agreements of the City in this Indenture contained, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the City; or

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in this Indenture, or in any other respect whatsoever as the City may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not adversely affect the interests of the Owners of the Bonds; or

(c) to make such additions, deletions or modifications as may be necessary or desirable to assure exemption from federal income taxation of interest on the Bonds.

**SECTION 7.03. Disqualified Bonds.** Bonds owned or held by or for the account of the City (but excluding Bonds held in any employees' retirement fund) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds in this article provided for, and shall not be entitled to consent to, or take any other action in this article provided for.

**SECTION 7.04. Endorsement or Replacement of Bonds After Amendment.** After the effective date of any action taken as hereinabove provided, the City may determine that the Bonds shall bear a notation, by endorsement in form approved by the City, as to such action, and in that case upon demand of the Owner of any Bond Outstanding at such effective date and presentation of his Bond for that purpose at the Principal Corporate Trust Office of the Trustee, a suitable notation as to such action shall be made on such Bond. If the City shall so determine, new Bonds so modified as, in the opinion of the City, shall be necessary to conform to such Bond Owners' action shall be prepared and executed, and in that case upon demand of the Owner of any Bond Outstanding at such effective date such new Bonds shall be exchanged at the Principal Corporate Trust Office of the Trustee, without cost to each Bond Owner, for Bonds then Outstanding, upon surrender of such Outstanding Bonds.

**SECTION 7.05. Amendment by Mutual Consent.** The provisions of this Article VII shall not prevent any Bond Owner from accepting any amendment as to the particular Bond held by him, provided that due notation thereof is made on such Bond. The Trustee may not enter into any amendment or supplement to this Indenture unless it shall have first received an opinion of Bond Counsel to the effect that such amendment or supplement will not adversely affect the

validity or enforceability of the Bonds or adversely affect any exemption for purposes of federal income taxation to which the interest paid on any Bonds would otherwise be entitled and that such amendment or supplement is authorized or permitted by this Indenture and complies with the terms hereof.

## ARTICLE VIII

### EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS

**SECTION 8.01. Events of Default and Acceleration of Maturities.** The following events shall be Events of Default hereunder:

- (a) Default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;
- (b) Default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;
- (c) Default by the City in the observance of any of the covenants, agreements or conditions on its part in this Indenture or in any Parity Debt Instrument or in the Bonds contained, and such default shall have continued for a period of sixty (60) days after the City shall have been given notice in writing of such default by the Trustee; or
- (d) The filing by the City of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the City, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property.

Upon the occurrence of an Event of Default, the Trustee may, and shall at the direction of the owners of a majority of the principal amount of the Bonds, by written notice to the City, declare the principal of the Bonds to be immediately due and payable, whereupon that portion of the principal of the Bonds thereby coming due and there interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in this Indenture or in the Bonds to the contrary notwithstanding. This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the City shall deposit with the Trustee a sum sufficient to pay all of the principal of and interest on the Bonds having come due prior to such declaration, with interest on such overdue principal and interest calculated at the rate of interest per annum then borne by the Outstanding Bonds, and the reasonable fees and expenses of the Trustee and those of its attorneys, and any and all other defaults known to the Trustee (other than in the payment of the principal of and interest on the Bonds having come due and payable solely by reason of such declaration) shall

have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding may, by written notice to the City and to the Trustee, on behalf of the Owners of all of the Outstanding Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

**SECTION 8.02. Application of Funds Upon Acceleration.** All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of this Indenture shall be applied by the Trustee in the following order upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid -

First, to the payment of the costs and expenses of the Trustee and of Bond Owners in declaring such Event of Default, including reasonable compensation to their agents, attorneys and counsel, and to the payment of the costs and expenses of the Trustee, if any, in carrying out the provisions of this Article VIII, including reasonable compensation to its agents, attorneys and counsel; and

Second, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on such overdue amounts to the extent permitted by law at the rate of interest then borne by the Outstanding Bonds, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably in proportion to the aggregate of such interest, principal and interest on overdue amounts.

**SECTION 8.03. Other Remedies; Rights of Bond Owners.** Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy, in addition to the remedy specified in Section 8.01, at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds, and to enforce any rights of the Trustee under or with respect to this Indenture.

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of at least twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds and indemnified as provided in Section 6.02 (1), the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by this Article VIII, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Bond Owners.

No remedy by the terms of this Indenture conferred upon or reserved to the Trustee (or to the Bond Owners) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bond Owners hereunder or now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

**SECTION 8.04. Power of Trustee to Control Proceedings.** In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Bonds hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation. Any suit, action or proceeding which any Owner of Bonds shall have the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds similarly situated and the Trustee is hereby appointed (and the successive respective Owners of the Bonds issued hereunder, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners of the Bonds for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

**SECTION 8.05. Appointment of Receivers.** Upon the occurrence of an Event of Default hereunder, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bond Owners under this Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Net Revenues and other amounts pledged hereunder, pending such proceedings, with such powers as the court making such appointment shall confer.

**SECTION 8.06. Non-Waiver.** Nothing in this Article VIII or in any other provision of this Indenture, or in the Bonds, shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners of the Bonds at the respective dates of maturity, as herein provided, out of the Net Revenues and other moneys herein pledged for such payment.

A waiver of any default or breach of duty or contract by the Trustee or any Bond Owners shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission of any Owner of any of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy conferred upon the Trustee or Bond Owners by the Bond Law or by this

Article VIII may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Bond Owners, as the case may be.

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

**SECTION 8.07. Rights and Remedies of Bond Owners.** No Owner of any Bond issued hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

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

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

**SECTION 8.08. Termination of Proceedings.** In case the Trustee shall have proceeded to enforce any right under this Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the City, the Trustee and the Bond Owners shall be restored to their former positions and rights hereunder, respectively, with regard to the property subject to this Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

## ARTICLE IX

### MISCELLANEOUS

**SECTION 9.01. Limited Liability of City.** Notwithstanding anything in this Indenture contained, the City shall not be required to advance any moneys derived from any source of income other than the Net Revenues for the payment of the principal of or interest on the Bonds, or any premiums upon the redemption thereof, or for the performance of any covenants herein contained (except to the extent any such covenants are expressly payable hereunder from the Gross Revenues). The City may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the City for such purpose without incurring indebtedness.

The obligation of the City to pay interest and principal on the Series 2017 Bonds is a special obligation of the City payable solely from the Net Revenues, and does not constitute a debt of the City or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

**SECTION 9.02. Parties Interested Herein.** Nothing in this Trust Indenture expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the City, the Trustee and the Owners any right, remedy or claim under or by reason of this Trust Indenture, or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Trust Indenture contained by and on behalf of the City shall be for the sole and exclusive benefit of the City, the Trustee and the Owners.

**SECTION 9.03. Discharge of Indenture.** If the City shall pay and discharge any or all of the Outstanding Bonds in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal of and interest and premium (if any) on such Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established pursuant to this Indenture, is fully sufficient to pay such Bonds, including all principal, interest and redemption premiums; or

(c) by depositing with a qualified escrow holder, in trust, Defeasance Obligations in such amount as the City (verified by an Independent Certified Public Accountant) shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the Funds and Accounts established pursuant to this Indenture, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums, if any) at or before their respective maturity dates;

and if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been mailed pursuant to Section 2.02(e) or provision satisfactory to the Trustee shall have been made for the mailing of such notice, then, at the election of the City, and notwithstanding that any of such Bonds shall not have been surrendered for payment, the pledge of the Net Revenues and other funds provided for in this Indenture with respect to such Bonds, and all other pecuniary obligations of the City under this Indenture with respect to all such Bonds, shall cease and terminate, except only the obligation of the City to pay or cause to be paid to the Owners of such Bonds not so surrendered and paid all sums due thereon from amounts set aside for such purpose as aforesaid, and all expenses and costs of the Trustee. Notice of such election shall be filed with the Trustee.

Any funds thereafter held by the Trustee, which are not required for said purposes, shall be paid over to the City.

Refunding bonds may be issued at any time without regard to whether an Event of Default exists.

**SECTION 9.04. Content of Certificates.** Every certificate with respect to compliance with a condition or covenant provided for in this Indenture shall include (a) a statement that the person or persons making or giving such certificate have read such covenant or condition and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such covenant or condition has been complied with; and (d) a statement as to whether, in the opinion of the signers, such condition or covenant has been complied with.

Any such certificate made or given by an officer of the City may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such officer knows that the certificate or opinion or representations with respect to the matters upon which his certificate may be based, as aforesaid, are erroneous, or in the exercise of reasonable care should have known that the same were erroneous. Any such certificate or opinion or representation made or given by counsel may be based, insofar as it relates to factual matters, on information with respect to which is in the possession of the City, upon the certificate or opinion of or representations by an officer or officers of the City, unless such counsel knows that the certificate or opinion or representations with respect to the matters upon which his certificate, opinion or representation may be based, as aforesaid, are erroneous, or in the exercise of reasonable care should have known that the same were erroneous.

**SECTION 9.05. Execution of Documents by Bond Owners.** Any request, consent or other instrument required by this Indenture to be signed and executed by Bond Owners may be in any number of concurrent writings of substantially similar tenor and may be signed or executed by such Bond Owners in person or by agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and of the City if made in the manner provided in this Section 9.05.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument or writing acknowledged to him the execution thereof.

The ownership of Bonds shall be provided by the Bond Registration Books.

Any request, consent or vote of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner of any Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the City in pursuance of such request, consent or vote.

In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, Bonds which are owned or held by or for the account of the City (but excluding Bonds held in any employees' retirement fund) shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, provided, however, that for the purpose of determining whether the Trustee shall be protected in relying on any such demand, request, direction, consent or waiver, only Bonds which the Trustee knows to be so owned or held shall be disregarded.

In lieu of obtaining any demand, request, direction, consent or waiver in writing, the Trustee may call and hold a meeting of the Bond Owners upon such notice and in accordance with such rules and obligations as the Trustee considers fair and reasonable for the purpose of obtaining any such action.

**SECTION 9.06. Waiver of Personal Liability.** No officer, agent or employee of the City shall be individually or personally liable for the payment of the interest on or principal of the Bonds; but nothing herein contained shall relieve any such officer, agent or employee from the performance of any official duty provided by law.

**SECTION 9.07. Partial Invalidity.** If any one or more of the covenants or agreements, or portions thereof, provided in this Indenture on the part of the City (or of the Trustee) to be performed should be contrary to law, then such covenant or covenants, such agreement or agreements, or such portions thereof, shall be null and void and shall be deemed separable from the remaining covenants and agreements or portions thereof and shall in no way affect the validity of this Indenture or of the Bonds; but the Bond Owners shall retain all rights and benefits accorded to them under the Bond Law or any other applicable provisions of law. The City hereby declares that it would have entered into this Indenture and each and every other section, paragraph, subdivision, sentence, clause and phrase hereof and would have authorized the issuance of the Bonds pursuant hereto irrespective of the fact that any one or more sections, paragraphs, subdivisions, sentences, clauses or phrases of this Indenture or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

**SECTION 9.08. Destruction of Cancelled Bonds.** Whenever in this Indenture provision is made for the surrender to the City of any Bonds which have been paid or cancelled pursuant to the provisions of this Indenture, the Trustee shall destroy such Bonds and furnish to the City a certificate of such destruction.

**SECTION 9.09. Funds and Accounts.** Any Fund or Account required by this Indenture to be established and maintained by the City or the Trustee may be established and maintained in the accounting records of the City or the Trustee, as the case may be, either as a Fund or an Account, and may, for the purpose of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a Fund or as an Account. All such records with respect to all such Funds and Accounts held by the City shall at all times be maintained in accordance with generally accepted accounting principles and all such records with respect to all such Funds and Accounts held by the Trustee shall be at all times maintained in accordance with industry practices; in each case with due regard for the protection of the security of the Bonds and the rights of every Owner thereof.

**SECTION 9.10. Notices.** Any notice, request, complaint, demand, communication or other paper shall be sufficiently given and shall be deemed given when delivered or mailed by fax or other electronic transmission, addressed as follows:

*If to the City:* City of Fortuna  
621 11th Street  
Fortuna, CA 95540  
Attention: City Manager  
Fax: (707) \_\_\_ - \_\_\_\_

*If to the Trustee:* U.S. Bank National Association  
Corporate Trust Services  
One California Street, Suite 1000  
San Francisco, CA 94111  
Fax: 415-677-3769

*If to the Insurer:*

The parties above may designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

**SECTION 9.12. Unclaimed Moneys.** Anything in this Indenture to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of any of the Bonds which remain unclaimed for two (2) years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee at such date, or for two (2) years after the date of deposit of such moneys if deposited with the Trustee after said date when such Bonds become due and payable, shall, at the Request of the City, be repaid by the Trustee to the City, as its absolute property and

free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Bond Owners shall look only to the City for the payment of such Bonds.

\* \* \* \* \*

**IN WITNESS WHEREOF**, the CITY OF FORTUNA has caused this Indenture to be signed in its name by its City Manager and attested by its City Clerk, and U.S. BANK NATIONAL ASSOCIATION, in token of its acceptance of the trust created hereunder, has caused this Indenture to be signed in its corporate name by its officer identified below, all as of the day and year first above written.

**CITY OF FORTUNA, CALIFORNIA**

\_\_\_\_\_  
City Manager

**Attest:**

\_\_\_\_\_  
City Clerk

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

By \_\_\_\_\_  
Authorized Officer



**EXHIBIT A**

**FORM OF SERIES 2017 BOND**

UNITED STATES OF AMERICA  
STATE OF CALIFORNIA  
COUNTY OF HUMBOLDT

CITY OF FORTUNA  
SERIES 2017 WATER REVENUE REFUNDING BONDS  
(WATER ENTERPRISE PROJECT)

NO. R-\_\_ \$ \_\_\_\_\_

INTEREST RATE                      MATURITY DATE                      DATED DATE                      CUSIP

June 1, \_\_\_\_\_                      September \_\_, 2017

REGISTERED OWNER:    CEDE & CO.

PRINCIPAL AMOUNT:    \_\_\_\_\_ DOLLARS

The City of Fortuna, a municipal corporation organized and existing under the laws of the State of California (the "City"), for value received, will (subject to any right of prior redemption hereinafter provided for), on the Maturity Date specified above, pay to the Registered Owner named above, or registered assigns (the "Owner"), the Principal Amount stated above, in lawful money of the United States of America, and pay interest thereon in like lawful money from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication of this Bond (unless (i) this Bond is authenticated on an Interest Payment Date, in which event it shall bear interest from such date of authentication, or (ii) this Bond is authenticated prior to November 15, 2017, in which event it shall bear interest from the Dated Date stated above; provided, however, that if at the time of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on this Bond) until payment of such Principal Amount in full, at the Interest Rate per annum stated above, payable on June 1 and December 1 in each year, commencing December 1, 2017 (each an "Interest Payment Date"), calculated on the basis of a 360-day year comprised of twelve 30-day months.

Principal hereof, whether at maturity or upon early redemption hereof, are payable at the corporate trust office of U.S. Bank National Association (the "Trustee"), in San Francisco, California. Interest hereon (including the final interest payment upon maturity or earlier redemption) is payable by check or draft of the Trustee mailed by first class mail to the Owner at

the Owner's address as it appears on the registration books maintained by the Trustee as of the close of business on the fifteenth (15th) day of the month next preceding such Interest Payment Date (the "Record Date"); provided, that at the option of any Owner of at least \$1,000,000 aggregate principal amount of the Bonds with respect to which written instructions have been filed with the Trustee prior to the Record Date, such interest may be paid by wire transfer.

This Bond is one of a duly authorized issue of bonds of the City designated as its "City of Fortuna, Series 2017 Water Revenue Refunding Bonds (Water Enterprise Project)" (the "Bonds") issued under and pursuant to an Indenture of Trust (the "Indenture") by and between the City and the Trustee, dated as of September 1, 2017, and approved by the City by a Resolution, adopted by the Council of the City on \_\_\_\_\_, 2017 (the "Resolution"), and the Resolution. Copies of the Indenture are on file at the office of the City Clerk and at the above-mentioned office of the Trustee, and reference to the Indenture and any and all supplements thereto and modifications and amendments thereof and to the Bond Law is made for a description of the terms on which the Bonds are issued, the provisions with regard to the nature and extent of the Net Revenues, as that term is defined in the Indenture, and the rights of the Owners of the Bonds. All the terms of the Indenture and the Bond Law are hereby incorporated herein and constitute a contract between the City and the Owner from time to time of this Bond, and to all the provisions thereof the Owner of this Bond, by acceptance hereof, consents and agrees. Each taker and subsequent Owner hereof shall have recourse to all of the provisions of the Bond Law and the Indenture and shall be bound by all of the terms and conditions thereof.

The Bonds are being issued to defease, redeem and prepay the City of Fortuna Public Financing Authority, Water Revenue Bonds, Series 2006 (the "2006 Bonds") and to discharge, in full, the City's obligations under 2006 Installment Sale Agreement dated as of October 1, 2006 (the "2006 Installment Sale Agreement") between the City and the Fortuna Public Financing Authority.

The Bonds are special obligations of the City and are secured by amounts held from time to time in the Debt Service Fund established and held by the Trustee under the Indenture and, subject to certain restrictions set forth in the Indenture, a pledge of and lien on certain Net Revenues (as defined in the Indenture) generated by the City's Water System.

**Neither the general fund, the full faith and credit, nor the taxing power of the City, the State of California or any other political subdivision thereof is pledged to the payment of the Bonds. The Bonds are not secured by a legal or equitable pledge of or charge, lien or encumbrance upon any property of the City or any of its income or receipts except the Net Revenues.**

The Bonds maturing on or before June 1, 20\_\_ shall not be subject to optional redemption prior to maturity. The Bonds maturing on or after June 1, 20\_\_ shall be subject to redemption prior to their respective maturity dates, at the option of the City, as a whole, or in part, as determined by the City, on any date on or after June 1, 20\_\_, from any source of available funds, at the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

The Bonds maturing on June 1, 20\_\_ and on June 1, 20\_\_ (collectively, the “Term Bonds”), are subject to mandatory redemption, in part by lot, from sinking fund payments made under the Indenture, at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest to the date of redemption, in the aggregate respective principal amounts and on June 1 in the respective years as set forth in the following tables:

**Term Bonds Maturing June 1, 20\_\_**

Sinking Fund Redemption Date ( <u>June 1</u> )	Principal <u>Amount</u>
--	----------------------------

**Term Bonds Maturing June 1, 20\_\_**

Sinking Fund Redemption Date ( <u>June 1</u> )	Principal <u>Amount</u>
--	----------------------------

Any Parity Debt issued pursuant to the Indenture may be made subject to redemption prior to maturity, as a whole or in part, at such time or times, and upon payment of the principal amount thereof and accrued interest thereon plus such premium or premiums, if any, as may be determined by the City in the applicable Parity Debt Instrument.

Unless waived by any Owner of Bonds to be redeemed, notice of any redemption of Bonds shall be given, at the expense of the City, by the Trustee by mailing a copy of a redemption notice by first class mail at least 30 days and not more than 60 days prior to the date fixed for redemption to the Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Registration Books; provided, that neither the failure to receive such notice nor any immaterial defect in any notice shall affect the sufficiency of the proceedings for the redemption of the Bonds. Any notice of an optional redemption may be rescinded as set forth in the Indenture.

If this Bond is called for redemption and payment is duly provided therefor as specified in the Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

The Bonds are issuable as fully registered Bonds, without coupons, in denominations of \$5,000 or any integral multiple thereof. Subject to the limitations and conditions and upon payment of the charges, if any, as provided in the Indenture, Bonds may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations and of the same maturity.

This Bond is transferable by the Owner hereof, in person, or by his attorney duly authorized in writing, at said office of the Trustee in San Francisco, California, but only in the manner and subject to the limitations provided in the Indenture, and upon surrender and cancellation of this Bond. Upon registration of such transfer a new Bond or Bonds, of any authorized denomination or denominations, for the same aggregate principal amount and of the same maturity will be issued to the transferee in exchange herefor.

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

The Indenture may be amended without the consent of the Owners of the Bonds to the extent set forth in the Indenture.

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

This Bond shall not become valid or obligatory for any purpose or be entitled to the benefits of the Indenture until the certificate of authentication and registration hereon shall have been manually signed by an authorized officer or signatory of the Trustee.

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

IN WITNESS WHEREOF, the City of Fortuna has caused this Bond to be executed in its name and on its behalf with the facsimile signatures of its City Manager and its seal to be reproduced hereon and attested by the facsimile signature of its City Clerk, all as of the \_\_\_ day of September, 2017.

CITY OF FORTUNA, CALIFORNIA

By \_\_\_\_\_  
City Manager

ATTEST:

By \_\_\_\_\_  
City Clerk

**CERTIFICATE OF AUTHENTICATION**

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

Dated: \_\_\_\_\_, 2017

\_\_\_\_\_,  
*as Trustee*

By: \_\_\_\_\_  
Authorized Signatory

**ASSIGNMENT**

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

Dated: \_\_\_\_\_

Signature Guaranteed:

Note: Signature(s) must be guaranteed by an eligible guarantor institution (banks, stockbrokers, saving and loan associations and credit unions with membership in an approved signature medallion program) pursuant to Securities and Exchange Agency Rule 17Ad-15.	Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Certificate in every particular without alteration or enlargement or any change whatsoever.
--	---

**EXHIBIT B**  
**FORM OF COST OF ISSUANCE FUND REQUISITION**

§[Par Amount]  
CITY OF FORTUNA  
SERIES 2017 WATER REVENUE REFUNDING BONDS  
(WATER ENTERPRISE PROJECT)

REQUISITION NO. 1 FOR  
DISBURSEMENT FROM COST OF ISSUANCE FUND

The undersigned, as City Manager of the City of Fortuna (the “City”), in connection with the above-captioned §[Par Amount] aggregate principal amount of the City of Fortuna, Series 2017 Water Revenue Refunding Bonds (Water Enterprise Project) (the “Bonds”), issued in accordance with the Indenture of Trust, dated as of September 1, 2017 (the “Indenture”), between the City and U.S. Bank National Association, as the trustee named therein (the “Trustee”), does hereby certify on behalf of the City that:

(i) the undersigned is an Authorized Representative (as defined in the Indenture) with authority to act on behalf of the City as necessary to disburse money from the Costs of Issuance Fund provided for in Section 3.04 of the Indenture (the “Costs of Issuance Fund”);

(ii) an obligation in the not-to-exceed amount stated for each of the payees set forth on Exhibit A, attached hereto and by this reference incorporated herein, has been properly incurred under and pursuant to the Indenture, and each such obligation is a proper charge against the Costs of Issuance Fund, and has not been the basis of any previous disbursement;

(iii) that pursuant to the Indenture, the Trustee is hereby requested to disburse this date, from the Cost of Issuance Fund, upon receipt of an invoice from each of the payees designated on Exhibit A, the amount set forth in such invoice (but no more than the amount set forth opposite each such payee), in payment of Costs of Issuance described on said Exhibit A; and

(iv) all payments shall be made by check or wire transfer in accordance with payment instructions contained in Exhibit A attached hereto, or in the invoice submitted in accordance herewith, and the Trustee may rely on such payment instructions as though given by the City with no duty to investigate or inquire as to the authenticity of the invoice or the payment instructions contained therein.

Dated: \_\_\_\_\_, 2017

CITY OF FORTUNA, CALIFORNIA

By: \_\_\_\_\_  
Authorized Representative

**ATTACHMENT 1**

**REQUISITION NO. 1 FOR  
DISBURSEMENTS FROM COST OF ISSUANCE FUND**

**Payee Name and Address**

**Purpose of Obligation**

**Amount\***

\_\_\_\_\_  
\* Represents a not-to-exceed amount

**INDENTURE OF TRUST**

**by and between the**

**CITY OF FORTUNA**

**and**

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

**Dated as of September 1, 2017**

**Relating to**

**[\$Par Amount]  
CITY OF FORTUNA  
SERIES 2017 WASTEWATER REVENUE REFUNDING BONDS  
(WASTEWATER ENTERPRISE PROJECT)**

---

---

**TABLE OF CONTENTS**

**ARTICLE I:  
DEFINITIONS; AUTHORIZATION AND PURPOSE OF BONDS;  
EQUAL SECURITY:**

SECTION 1.01. Definitions. ....2  
SECTION 1.02. Rules of Construction. ....13  
SECTION 1.03. Authorization and Purpose of Series 2017 Bonds.....13  
SECTION 1.04. Equal Security.....13

**ARTICLE II:  
ISSUANCE OF SERIES 2017 BONDS**

SECTION 2.01. Terms of Series 2017 Bonds. ....14  
SECTION 2.02. Redemption of Series 2017 Bonds.....15  
SECTION 2.03. Form of Series 2017 Bonds.....18  
SECTION 2.04. Execution of Series 2017 Bonds. ....18  
SECTION 2.05. Transfer of Series 2017 Bonds.....18  
SECTION 2.06. Exchange of Series 2017 Bonds.....19  
SECTION 2.07. Temporary Bonds.....19  
SECTION 2.08. Bond Registration Books. ....19  
SECTION 2.09. Bonds Mutilated, Lost, Destroyed or Stolen. ....19  
SECTION 2.13. Book Entry System .....20

**ARTICLE III:  
ISSUE OF SERIES 2017 BONDS; PARITY DEBT**

SECTION 3.01. Issuance of Series 2017 Bonds.....22  
SECTION 3.02. Application of Proceeds of Series 2017 Bonds; Bond Proceeds Fund.....22  
SECTION 3.03. Reserve Fund .....22  
SECTION 3.04. Cost of Issuance Fund.....23  
SECTION 3.05. Issuance of Parity Debt. ....23  
SECTION 3.06. Reserved.....23  
SECTION 3.07. Subordinate Bonds.....23  
SECTION 3.08. Validity of Bonds.....23

**ARTICLE IV:  
PLEDGE OF NET REVENUES; FUNDS AND ACCOUNTS:**

SECTION 4.01. Pledge of Net Revenues. ....24  
SECTION 4.02. Receipt and Deposit of Gross Revenues. ....24  
SECTION 4.03. Establishment of Funds and Accounts and Allocation of Gross Revenues.....24  
SECTION 4.04. Application of Debt Service Fund. ....26  
SECTION 4.05. Reserve Fund. ....26  
SECTION 4.06. Application of Redemption Account .....26  
SECTION 4.07. Establishment of Rate Stabilization Fund .....27  
SECTION 4.08. Investments .....27  
SECTION 4.09. Valuation; Investments .....28  
SECTION 4.10. Rebate Fund .....28

**ARTICLE V:  
COVENANTS OF THE CITY; SPECIAL TAX COVENANTS:**

SECTION 5.01. Punctual Payment; Compliance With Documents. ....29  
SECTION 5.02. Against Encumbrances.....29

SECTION 5.03. Discharge of Claims.....	30
SECTION 5.04. Acquisition, Construction or Financing of any Project and Improvements to the Wastewater System.....	30
SECTION 5.05. Maintenance and Operation of Sewer System in Efficient and Economical Manner.....	30
SECTION 5.06. Against Sale, Eminent Domain.....	30
SECTION 5.07. Insurance.....	30
SECTION 5.08. Records and Accounts.....	31
SECTION 5.09. Protection of Security and Rights of Owners.....	31
SECTION 5.10. Against Competitive Facilities.....	31
SECTION 5.11. Payment of Taxes, Etc.....	31
SECTION 5.12. Rates and Charges.....	32
SECTION 5.13. No Priority for Additional Obligations.....	32
SECTION 5.14. No Arbitrage.....	32
SECTION 5.15. Information Report.....	32
SECTION 5.16. Private Activity Bond Limitation.....	32
SECTION 5.17. Federal Guarantee Prohibition.....	32
SECTION 5.18. Further Assurances.....	32
SECTION 5.19. Continuing Disclosure.....	32
SECTION 5.20. Rebate Requirement.....	33
SECTION 5.21. Maintenance of Tax Exemption.....	33

**ARTICLE VI:  
THE TRUSTEE:**

SECTION 6.01. Appointment of Trustee.....	33
SECTION 6.02. Acceptance of Trusts.....	33
SECTION 6.03. Fees, Charges and Expenses of Trustee.....	36
SECTION 6.04. Notice to Bond Owners of Default.....	36
SECTION 6.05. Intervention by Trustee.....	36
SECTION 6.06. Removal of Trustee.....	36
SECTION 6.07. Resignation by Trustee.....	36
SECTION 6.08. Appointment of Successor Trustee.....	37
SECTION 6.09. Merger or Consolidation.....	37
SECTION 6.10. Concerning any Successor Trustee.....	37
SECTION 6.11. Appointment of Co-Trustee.....	37
SECTION 6.12. Indemnification; Limited Liability of Trustee.....	38

**ARTICLE VII:  
MODIFICATION AND AMENDMENT OF THE INDENTURE:**

SECTION 7.01. Amendment by Consent of Bond Owners.....	38
SECTION 7.02. Amendment Without Consent of Bondholders.....	39
SECTION 7.03. Disqualified Bonds.....	39
SECTION 7.04. Endorsement or Replacement of Bonds After Amendment.....	39
SECTION 7.05. Amendment by Mutual Consent.....	39

**ARTICLE VIII:  
EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS:**

SECTION 8.01. Events of Default and Acceleration of Maturities.....	40
SECTION 8.02. Application of Funds Upon Acceleration.....	41
SECTION 8.03. Other Remedies; Rights of Bond Owners.....	41
SECTION 8.04. Power of Trustee to Control Proceedings.....	42
SECTION 8.05. Appointment of Receivers.....	42
SECTION 8.06. Non-Waiver.....	42

SECTION 8.07. Rights and Remedies of Bond Owners. ....	43
SECTION 8.08. Termination of Proceedings. ....	43

**ARTICLE IX:  
MISCELLANEOUS:**

SECTION 9.01. Limited Liability of City. ....	44
SECTION 9.02. Parties Interested Herein. ....	44
SECTION 9.03. Discharge of Indenture. ....	44
SECTION 9.04. Content of Certificates. ....	45
SECTION 9.05. Execution of Documents by Bond Owners. ....	45
SECTION 9.06. Waiver of Personal Liability. ....	46
SECTION 9.07. Partial Invalidity. ....	46
SECTION 9.08. Destruction of Cancelled Bonds. ....	47
SECTION 9.09. Funds and Accounts. ....	47
SECTION 9.10. Notices. ....	47
SECTION 9.12. Unclaimed Moneys. ....	47

- EXHIBIT A: Form of Series 2017 Bond
- EXHIBIT B: Form of Cost of Issuance Fund Requisition

## INDENTURE OF TRUST

THIS INDENTURE OF TRUST, made and entered into as of September 1, 2017, by and between the CITY OF FORTUNA, a municipal corporation organized and existing under the constitution and laws of the State of California (the “City”), and U.S. Bank National Association, a national banking association organized and existing under the laws of the United State of America, with a corporate trust office in San Francisco, California, and being qualified to accept and administer the trusts hereby created, as trustee (the “Trustee”);

### WITNESSETH:

WHEREAS, the City owns and operates facilities for the collection, treatment and disposal of wastewater within the service area of the City (the “Wastewater System”); and

WHEREAS, the City previously entered into an Installment Sale Agreement, dated as of October 1, 2006 (the “2006 Installment Sale Agreement”) with the Fortuna Public Financing Authority (the “Authority”), pursuant to which the City agreed to make certain installment payments in the aggregate principal amount of \$13,820,000 (the “2006 Installment Payments”), and in connection therewith the Authority issued its Wastewater Revenue Bonds, Series 2006 (the “2006 Bonds”), pursuant to a Trust Agreement dated as of October 1, 2006 (the “2006 Trust Agreement”), between the Authority and Deutsche Bank National Trust Company, N.A. (which was later replaced by U.S. Bank National Association), as trustee (the “2006 Trustee”), all for the purpose of financing certain improvements to the Wastewater System, of the City, consisting generally of the expansion of the wastewater treatment and related facilities of the City; and

WHEREAS, the City, after due investigation and deliberation, has determined that it is in the interests of the City at this time to provide for the issuance of its \$[Par Amount] City of Fortuna, Series 2017 Wastewater Revenue Refunding Bonds (Wastewater Enterprise Project) (the “Series 2017 Bonds”) pursuant to Articles 10 (commencing with Section 53570) and 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, a Resolution adopted by the City Council of the City on \_\_\_\_\_, 2017 and this Indenture for the purpose of refinancing the 2006 Installment Sale Agreement, thereby refunding the 2006 Bonds, and paying the costs of issuing and selling the Series 2017 Bonds; and

WHEREAS, the Series 2017 Bonds will be secured by a pledge of the Net Revenues, as defined herein, of the Wastewater System and certain other moneys and securities held by the City and the Trustee hereunder; and

[WHEREAS, \_\_\_\_\_ (“Insurer”) is issuing its municipal bond debt service reserve policy in satisfaction of the obligation of the City to fund the Reserve Fund created under this Indenture to the Reserve Requirement for the Bonds; and]

WHEREAS, in order to provide for the authentication and delivery of the Series 2017 Bonds, to establish and declare the terms and conditions upon which the Series 2017 Bonds are to be issued and secured and to secure the payment of the principal thereof and of the interest and

premium, if any, thereon, the Council has authorized the execution and delivery of this Indenture; and

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

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

## ARTICLE I

### DEFINITIONS; AUTHORIZATION AND PURPOSE OF BONDS; EQUAL SECURITY

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

“Authority” means the Fortuna Public Financing Authority, a joint exercise of powers agency organized and existing under the laws of the State of California.

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

(a) Federal Securities;

(b) (i) obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America, including: Export-Import Bank, Farm Credit System Financial Assistance Corporation, Rural Economic Community Development Administration (formerly Farmers Home Administration), General Services Administration, U.S. Maritime Administration, Small Business Administration, Government National Mortgage Association, U.S. Department of Housing & Urban Development, Federal Housing Administration

and Federal Financing Bank. and (ii) direct obligations for any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: senior debt obligations rated “Aaa” by Moody’s and “AAA” by S&P issued by Fannie Mae or Federal Home Loan Mortgage Corporation (FHLMC); obligations of the Resolution Funding Corporation (REFCORP); senior debt obligations of the Federal Home Loan Bank System; and senior debt obligations of other Government Sponsored Agencies;

(c) U.S. dollar denominated deposit accounts federal funds and banker’s acceptances with domestic commercial banks, which may include the Trustee, its parent holding company, if any, and their affiliates, which have a rating on their short term certificates of deposit on the date of purchase of “P-1” by Moody’s and “A-1” or “A-1+” by S&P or are collateralized by Federal Securities and maturing no more than 360 days after the date of purchase, provided that ratings on holding companies are not considered as the rating of the bank;

(d) commercial paper which is rated at the time of purchase in the single highest classification, “P-1” by Moody’s and “A-1+” by S&P, and which matures not more than 270 calendar days after the date of purchase;

(e) investments in a money market fund, including those of an affiliate of the Trustee, rated “AAAm” or “AAAm-G” or better by S&P, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee or such holding company provide investment advisory or other management services;

(f) pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (i) which are rated, based upon an irrevocable escrow account or fund, in the highest rating category of Moody’s and S&P or any successors thereto; or (ii)(A) subject to the approval of S&P, which are fully secured as to principal and interest and prepayment premium, if any, by an escrow consisting only of Federal Securities, which escrow may be applied only to the payment of such principal of and interest and prepayment premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified prepayment date or dates pursuant to such irrevocable instructions, as appropriate, and (B) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and prepayment premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the prepayment date or dates specified in the irrevocable instructions referred to above, as appropriate; and

(g) the Local Agency Investment Fund of the State of California, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

“Authorized Representative” means the Mayor, City Manager, Finance Director, or the designee of the City Manager.

“Average Annual Debt Service” means the total aggregate Debt Service for the entire period during which the Bonds are Outstanding divided by the number of Fiscal Years or portions thereof during which the Bonds are Outstanding.

“Bond Counsel” means The Weist Law Firm or any other attorney at law or firm of attorneys, of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States of America.

“Bond Law” means Articles 10 (commencing with Section 53570) and 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California.

“Bond Registration Books” means the books maintained by the Trustee pursuant to Section 2.08 for the registration and transfer of ownership of the Series 2017 Bonds.

“Bond Proceeds Fund” means the fund established and held by the Trustee pursuant to Section 3.02.

“Bonds” means, collectively, the Series 2017 Bonds and any Parity Debt issued and at any time Outstanding hereunder.

“2006 Bonds” means the Authority’s Wastewater Revenue Bonds, Series 2006, issued in the original principal amount of \$13,820,000.

“Bond Year” means the twelve-month period beginning on June 2 in each year and ending on June 1 in the following year except that (i) the first Bond Year with respect to the Series 2017 Bonds shall begin on the Closing Date, and (ii) the last Bond Year with respect to the Series 2017 Bonds may end on a redemption date prior to maturity of the Series 2017 Bonds or the final maturity date of the Series 2017 Bonds.

“Business Day” means any day other than a Saturday, Sunday or a day on which the Trustee is authorized by law to remain closed.

“Certificate of the City” means a certificate in writing signed by the Authorized Representative or by any other officer of the City duly authorized by the Council for that purpose.

“Charges” means fees, tolls, assessments, rates and charges prescribed by the Council for the services and facilities of the Wastewater System furnished by the City.

“City” means the City of Fortuna, a municipal corporation organized and existing under the Constitution and laws of the State, and any successor thereto.

“Closing Date” means, with respect to the Series 2017 Bonds, the date upon which there is an exchange of the Series 2017 Bonds for the proceeds representing the purchase of such Series by the Original Purchaser thereof.

“Continuing Disclosure Certificate” means that certain Continuing Disclosure Certificate executed by the City and dated the date of original execution and delivery of the Series 2017 Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Cost of Issuance Fund” means the fund by that name established pursuant to Section 3.04.

“Costs of Issuance” means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Series 2017 Bonds, including but not limited to compensation, fees and expenses of the City and the Trustee and their respective counsel, compensation to any financial consultants and underwriters, legal fees and expenses, municipal bond insurance or surety bond premiums, filing and recording costs, rating City fees, costs of preparation and reproduction of documents and costs of printing.

“Council” means the City Council of the City.

“Debt Service” The term “Debt Service” means, for any period of calculation, the sum of:

(1) the interest payable during such period on all outstanding Bonds, assuming that all outstanding Serial Bonds are retired as scheduled and that all outstanding Term Bonds are redeemed or paid from Sinking Fund Installments as scheduled (except to the extent that such interest is capitalized or is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111 5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program);

(2) those portions of the principal amount of all Outstanding Serial Bonds maturing in such period; and

(3) those portions of the principal amount of all Outstanding Term Bonds required to be redeemed or paid in such period;

provided, as to any such Bonds bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be the greater of: (a) the actual interest rate on such Bonds on the date of calculation, or if the indebtedness is not yet outstanding, the initial interest rate (if established and binding); (b) if the Bonds have been outstanding for at least twelve months, the average rate over the twelve calendar months immediately preceding the date of calculation; and (c)(i) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Tax Code, the most recently published Securities Industry and Financial Markets Association Index for tax-exempt variable rate obligations; or (ii) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities plus 50 basis points; provided, however, that for purposes of any portion of Section 3.05 (Issuance of Parity Debt) and Section 5.12 (Rates and Charges), measuring actual debt service coverage during a test period, variable rate indebtedness shall be deemed to bear interest at the actual rate per annum applicable during the test period; and

provided further that, if any series or issue of such Bonds have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Debt Service shall be determined for the Fiscal Year of determination as if the principal of and interest on such series or issue of such Bonds were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty-five (25) years from the date of calculation; and

provided further that, as to any such Bonds or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Bonds or portions thereof, such accreted discount shall be treated as interest in the calculation of Debt Service; and

provided further that, the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Bonds for which such debt service reserve fund was established and in each preceding year until such amount is exhausted; and

provided further that, Debt Service shall not include interest which is paid from investment earnings on amounts on deposit in reserve funds and transferred to the Debt Service Fund.

“Debt Service Fund” means the fund by that name established and held by the Trustee pursuant to Section 4.03.

“Defeasance Obligations” means the Federal Securities listed in clause (a) of the definition thereof.

“Depository” means (a) initially, DTC, and (b) any other Securities Depositories acting as Depository pursuant to Section 2.11.

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

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

“Escrow Agent” means U.S. Bank National Association, acting as Escrow Agent under the Escrow Agreement.

“Escrow Agreement” means the Escrow Agreement, dated as of September 1, 2017, by and between the Authority and U.S. Bank National Association, as Escrow Agent.

“Event of Default” means any of the events described in Section 8.01.

“Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Tax Code) and, otherwise,

the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the City and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment.

“Federal Securities” means, with respect to the Bonds: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged; or (b) obligations of any agency, department or instrumentality of the United States of America, the timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America; specifically:

U.S. treasury Obligations,  
all direct or fully guaranteed obligations,  
Farmers Home Administration,  
General Services Administration,  
Guaranteed Title IX financing,  
Government National Mortgage Association (GNMA), and  
State and Local Government Series.

“Fiscal Year” means the period commencing on July 1 of each year and terminating on the next succeeding June 30.

“Gross Revenues” means all gross income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Wastewater System calculated in accordance with GAAP and deposited in the Wastewater Revenue Fund, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees (including but not limited to any developer impact fees to the extent permitted by law), charges, business interruption insurance proceeds or other moneys derived by the City from the sale, furnishing and supplying of wastewater or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Wastewater System, plus (2) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, or other moneys, including amounts in the Rate Stabilization Fund and City Wastewater System reserves, plus (3) the proceeds of any stand-by or sewer availability charges collected by the City, plus (4) all amounts transferred from the Rate Stabilization Fund to the Wastewater Revenue Fund during any Fiscal Year in accordance with Section 4.07 hereof, and (5) all other monies howsoever derived by the City from the operation of the Wastewater System or arising from the Wastewater System; but excluding (i) customer deposits or any other deposits or advances subject to refund until such

deposits or advances have become the property of the City, (ii) any proceeds of taxes restricted by law to be used by the City to pay the Series 2017 Bonds or Parity Debt, and (iii) any amounts transferred from the Wastewater Revenue Fund to the Rate Stabilization Fund during any Fiscal Year pursuant to Section 4.01(b)(iii) hereof.

“Improvement” means any addition, extension, improvement, equipment, machinery or other facilities to or for the Wastewater System.

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

“Independent Certified Public Accountant” means any certified public accountant or firm of such accountants appointed and paid by the City, and who, or each of whom-

(a) is in fact independent and not under domination of the City;

(b) does not have any substantial identity of interest, direct or indirect, with the City; and

(c) is not and no member of which is connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

“Independent Consultant” means any financial or engineering consultant (including without limitation any Independent Certified Public Accountant) with an established reputation in the field of municipal finance or firm of such consultants appointed and paid by the City, and who, or each of whom-

(a) is in fact independent and not under domination of the City;

(b) does not have any substantial identity of interest, direct or indirect, with the City; and

(c) is not and no member of which is connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

“Information Services” means in accordance with then-current guidelines of the Securities and Exchange Commission, the Electronic Municipal Market Access System (referred to as EMMA”), a facility of the Municipal Securities Rulemaking Board (at <http://emma.msrb.org>), or such service or services as the City may designate in a certificate delivered to the Trustee.

“2006 Installment Sale Agreement” means the Installment Sale Agreement, dated as of October 1, 2006 between the City and the Authority.

["Insurer"] means \_\_\_\_\_, or any successor thereto, as issuer of the Reserve Policy.]

"Interest Payment Date" means, with respect to the Series 2017 Bonds, December 1 and June 1 in each year, beginning December 1, 2017, and with respect to any Parity Debt, any date on which interest is due and payable thereon, and continuing so long as any Bonds or Parity Debt remain Outstanding.

"Interest Requirement" means, as of any particular date of calculation, the amount equal to any unpaid interest then due and payable, plus an amount that will on the next succeeding Interest Payment Date be equal to the interest to become due and payable on Bonds or other Parity Debt on such next succeeding Interest Payment Date or payment date for interest on Parity Debt.

"Maintenance and Operation Costs" means reasonable and necessary costs spent or incurred for maintenance and operation of the Wastewater System calculated in accordance with GAAP, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges, but excluding (i) transfers to other City departments, (ii) debt service payments or other similar payments on the Parity Debt or other obligations required to be paid by it to comply with the terms of this Indenture or any contract or resolution or indenture authorizing the issuance of any bonds or obligations, and (iii) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

"Maximum Annual Debt Service" means, as of the date of calculation, the maximum amount of Debt Service for the current or any future Fiscal Year.

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

"Net Revenues" means, with respect to the Wastewater System, for any period of computation, the amount of the Gross Revenues received from the Wastewater System during such period, less the amount of Maintenance and Operation Costs of the Wastewater System becoming payable during such period.

"Original Purchaser" means, in the case of the Series 2017 Bonds, Stifel, Nicolaus & Company, Incorporated.

“Outstanding”, when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 7.03) all Bonds theretofore executed, issued and delivered by the City under this Indenture except:

(a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(b) Bonds paid or deemed to have been paid within the meaning of Section 9.03; and

(c) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the City pursuant to this Indenture or any Parity Debt Instrument.

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

“Parity Debt” means any indebtedness or other obligations (including leases and installment sale agreements, bonds or contracts) hereafter issued or incurred and secured by a pledge of and lien upon any of the Net Revenues issued or incurred in compliance with Section 3.05 or 3.06.

“Parity Debt Instrument” means the resolution, trust indenture or installment sale agreement or other evidence of indebtedness adopted, entered into or executed and delivered by the City, and under which Parity Debt is issued.

“Participating Underwriter” has the meaning ascribed thereto in the Continuing Disclosure Certificate.

“Principal Corporate Trust Office” means the corporate trust office of the Trustee at the address set forth in Section 9.10, provided that for purposes of payment, cancellation, surrender, redemption, exchange and transfer of Bonds, such term means the corporate trust office of the Trustee in San Francisco, California or such other or additional offices as may be designated by the Trustee from time to time.

“Principal Installment” means with respect to any particular Principal Payment Date, an amount equal to the sum of (i) the aggregate principal amount of Outstanding Serial Bonds payable on such Principal Payment Date as determined by the applicable Parity Debt Instrument (but not including Sinking Fund Installments) and (ii) the aggregate of Sinking Fund Installments with respect to all Outstanding Term Bonds payable on such Principal Payment Date as determined hereby and by the applicable Parity Debt Instrument.

“Principal Payment Date” means the date on which Principal Payments are required to be made pursuant to Section 2.01, and with respect to any Parity Debt, any date on which principal is due and payable thereon, and continuing so long as any Parity Debt remains Outstanding.

“Rate Stabilization Fund” means the fund by that name established and held by the City pursuant to Section 4.07.

“Rebate Fund” means the fund by that name established and held by the Trustee pursuant to Section 4.10.

“Record Date” means, with respect to the Series 2017 Bonds, the fifteenth (15th) calendar day of the month immediately preceding an Interest Payment Date or, with respect to any Parity Debt, any other date established in the applicable Parity Debt Instrument.

“Redemption Account” means the Account by that name established and held by the Trustee pursuant to Section 4.03.

“Redemption Price” means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption thereof pursuant to this Indenture and the Parity Debt Instrument pursuant to which the same was issued.

“Request of the City” means a request in writing signed by an Authorized Representative, or by any other officer of the City duly authorized by the Council for that purpose.

“Reserve Fund” means the fund by that name established in Section 3.03.

[“Reserve Policy” means the Municipal Bond Debt Service Reserve Account Policy No. \_\_\_\_\_ issued by Insurer guaranteeing payments to be applied to the payment of principal and interest on the Bonds as provided in such policy, for the credit of the Reserve Fund.]

“Reserve Requirement” means an amount equal to the lesser of: (i) maximum annual debt service on the Outstanding Series 2017 Bonds; (ii) ten percent (10%) of the principal amount of the Series 2017 Bonds; or (iii) 125% of average annual debt service on the Outstanding Series 2017 Bonds.

“S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, and its successors or assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

“Securities Depositories” means The Depository Trust Company; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the City may designate in writing to the Trustee.

“Serial Bonds” means all Bonds other than Term Bonds.

“Series” when used with respect to less than all of the Bonds, means and refers to all of the Bonds delivered on original issuance in a simultaneous transaction, regardless of variations in

maturity, interest rate or other provisions, and any Bond thereafter delivered in lieu of or substitution for any of such Bonds pursuant to Sections 2.02, 2.05, 2.06, 2.07, 2.09 and 7.04.

“Series 2017 Bonds” means the \$[Par Amount] City of Fortuna, Series 2017 Wastewater Revenue Refunding Bonds (Wastewater Enterprise Project), issued and at any time Outstanding hereunder.

“Sinking Fund Installment” means, with respect to any particular date, the amount of money required hereby or by or pursuant to a Parity Debt Instrument to be paid by the City on such date toward the retirement of any particular Term Bonds prior to their respective stated maturities.

“State” means the State of California.

“Subordinate Bonds” means all bonds, notes or other obligations (including without limitation long-term contracts, loans, sub-leases or other legal financing arrangements) of the City payable from and secured by a pledge of and lien upon any of the Net Revenues issued or incurred pursuant to Section 3.07.

“Subordinate Bonds Instrument” means the resolution, trust indenture or installment sale agreement adopted, entered into or executed and delivered by the City, and under which Subordinate Bonds are issued.

“Supplemental Indenture” means any supplement or amendment to this Indenture which complies with the provisions of Section 7.01 or 7.02.

“Tax Certificate” means the tax certificate delivered by the City at the time of the issuance and delivery of the 2017 Bonds, as the same may be amended or supplemented in accordance with its terms.

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

“Tax Regulations” means temporary and permanent regulations promulgated under the Tax Code.

“Term Bonds” means, with respect to any Series 2017 Bonds or any Parity Debt, such Series 2017 Bonds or Parity Debt which are payable prior to their stated maturity by operation of Sinking Fund Installments.

“Trustee” means U.S. Bank National Association, appointed by the City to act as trustee hereunder pursuant to Section 6.01, and its assigns or any other corporation or association which may at any time be substituted in its place, as provided in Section 6.01.

“2006 Trustee” means U.S. Bank National Association, as trustee for the 2006 Bonds.

“Wastewater Revenue Fund” means the fund by that name established and held by the City pursuant to Section 4.02 hereof.

“Wastewater System” means the entire system of the City for the collection, treatment and disposal 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, treatment and disposal 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.

**SECTION 1.02. Rules of Construction.** All references in this Indenture to “Articles,” “Sections,” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; and the words “herein,” “hereof,” “hereunder,” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Unless the context shall otherwise indicate, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include corporations and associations, including public bodies, as well as natural persons.

**SECTION 1.03. Authorization and Purpose of Series 2017 Bonds.** The City has reviewed all proceedings heretofore taken relative to the authorization of the Series 2017 Bonds and has found, as a result of such review, and hereby finds and determines that all things, conditions, and acts required by law to exist, happen and/or be performed precedent to and in the issuance of the Series 2017 Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and the City is now authorized, as an exercise of the municipal affairs power of the City as a municipal corporation city under the constitution and laws of the State and pursuant to the Bond Law and each and every requirement of law, to issue the Series 2017 Bonds in the manner and form provided in this Indenture. Accordingly, the City hereby authorizes the issuance of the Series 2017 Bonds pursuant to the Bond Law and this Indenture for the purposes specified in this Indenture.

**SECTION 1.04. Equal Security.** In consideration of the acceptance of the Series 2017 Bonds by the Owners thereof, this Indenture shall be deemed to be and shall constitute a contract among the City, the Trustee and the Owners from time to time of the Series 2017 Bonds; and the covenants and agreements herein set forth to be performed on behalf of the City shall be for the equal and proportionate benefit, security and protection of all Owners of the Series 2017 Bonds without preference, priority or distinction as to security or otherwise of any of the Series 2017 Bonds over any of the others by reason of the number or date thereof or the time of sale, execution or delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or herein.

## ARTICLE II

### ISSUANCE OF SERIES 2017 BONDS

**SECTION 2.01. Terms of Series 2017 Bonds.** The Series 2017 Bonds authorized to be issued by the City under and subject to the Bond Law and the terms of this Indenture shall be designated the “City of Fortuna, Series 2017 Wastewater Revenue Refunding Bonds (Wastewater Enterprise Project),” and shall be issued in the original principal amount of \_\_\_\_\_ Dollars (\$[Par Amount]).

The Series 2017 Bonds shall be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof, so long as no Series 2017 Bond shall have more than one maturity date. The Series 2017 Bonds shall mature on June 1 in each of the years and in the amounts, and shall bear interest at the rates, as follows:

Maturity Date ( <u>June 1</u> )	Principal <u>Amount</u>	Interest Rate <u>Per Annum</u>
------------------------------------	----------------------------	-----------------------------------

Interest on the Series 2017 Bonds shall be payable on each Interest Payment Date to the person whose name appears on the Bond Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check or draft of the Trustee mailed by first class mail to the Owner or, at the option of any Owner of at least \$1,000,000 aggregate principal amount of the Bonds with respect to which written instructions have been filed with the Trustee prior to the Record Date, by wire transfer, at the address of such Owner as it appears on the Bond Registration Books.

In the event there exists a default in payment of interest due on such Interest Payment Date, such interest shall be payable on a payment date established by the Trustee to the persons in whose

names the Bonds are registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Trustee to the registered Owners of the Bonds not less than 15 days preceding such special record date. Principal of and premium (if any) on any Series 2017 Bond shall be paid upon presentation and surrender thereof at the Principal Corporate Trust Office of the Trustee in San Francisco, California. Both the principal of and interest and premium (if any) on the Series 2017 Bonds shall be payable in lawful money of the United States of America.

The Series 2017 Bonds shall be dated the Closing Date and bear interest based on a 360-day year comprised of twelve 30-day months from the Interest Payment Date next preceding the date of authentication thereof, unless said date of authentication is an Interest Payment Date, in which event such interest is payable from such date of authentication, and unless said date of authentication is prior to November 15, 2017, in which event such interest is payable from the Closing Date; provided, however, that if, as of the date of authentication of any Series 2017 Bond, interest thereon is in default, such Series 2017 Bond shall bear interest from the date to which interest has previously been paid or made available for payment thereon in full.

## **SECTION 2.02. Redemption of Series 2017 Bonds.**

### **(a) Optional Redemption.**

The Series 2017 Bonds maturing on or before June 1, 20\_\_ shall not be subject to optional redemption prior to maturity. The Series 2017 Bonds maturing on or after June 1, 20\_\_ shall be subject to redemption prior to their respective maturity dates, at the option of the City, as a whole, or in part, as determined by the City, on any date on or after June 1, 20\_\_, from any source of available funds, at the principal amount of the Series 2017 Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

The City shall be required to give the Trustee written notice of its intention to redeem Series 2017 Bonds under this subsection (a) at least forty-five (45) days prior to the date fixed for redemption (or such later date that is acceptable to the Trustee).

(b) **Mandatory Sinking Fund Redemption of Term Bonds.** The Series 2017 Bonds that are Term Bonds are subject to mandatory redemption in whole, or in part by lot, from Sinking Fund Installments made under Section 4.03(b), at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest to the date of redemption, in the aggregate respective principal amounts and on June 1 in the years as set forth in the following tables:

**Term Bonds Maturing June 1, 20\_\_**

Sinking Fund Redemption Date <u>(June 1)</u>	Principal <u>Amount</u>
--	----------------------------

(Maturity)

**Term Bonds Maturing June 1, 20\_\_**

Sinking Fund Redemption Date <u>(June 1)</u>	Principal <u>Amount</u>
--	----------------------------

(Maturity)

If some but not all of the Series 2017 Bonds that are Term Bonds have been redeemed under subsection (a) of this Section, the total amount of all future sinking fund payments will be reduced by the aggregate principal amount of such Series 2017 Bonds that are Term Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis as determined by the Authority, which shall notify the Trustee in writing of such determination.

(c) Additional Bonds. Any Parity Debt issued pursuant to Section 3.05 of this Indenture may be made subject to redemption prior to maturity, as a whole or in part, at such time or times, and upon payment of the principal amount thereof and accrued interest thereon plus such premium or premiums, if any, as may be determined by the City in the applicable Parity Debt Instrument.

(d) Reserved.

(e) Notice of Redemption. Unless waived by any Owner of Bonds to be redeemed, notice of any redemption of Bonds shall be given, at the expense of the City, by the Trustee by mailing a copy of a redemption notice by first class mail at least 30 days and not more than 60 days prior to the date fixed for redemption to the Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Registration Books; provided, that neither the failure to receive such notice nor any immaterial defect in any notice shall affect the sufficiency of the proceedings for the redemption of the Bonds. Any such notice also shall be given to the Securities Depositories and the Information Services on the same date that it is given to the Owner of the Bonds.

- (f) Contents of Notice. All notices of redemption shall be dated and shall state:
- (i) the CUSIP numbers of all Outstanding Bonds being redeemed;
  - (ii) the stated interest rate with respect to each Bond being redeemed;
  - (iii) the maturity date of each Bond being redeemed;
  - (iv) the Redemption Price;
  - (v) that on the redemption date the Redemption Price will become due and payable with respect to each such Bond or portion thereof called for redemption, and that interest with respect thereto shall cease to accrue from and after said date; and
  - (vi) the place or places where such Bonds are to be surrendered for payment of the Redemption Price, which places of payment may include the Principal Corporate Trust Office of the Trustee.

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

(g) Consequences of Notice. Notice of redemption having been given as aforesaid, the Bonds or portions of Bonds so to be redeemed shall, on the redemption date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the City shall default in the payment of the Redemption Price) such Bonds or portions of Bonds shall cease to have interest accrue thereon. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Trustee at the Redemption Price. Installments of interest due on or prior to the redemption date shall be payable as herein provided for payment of interest. Upon surrender for any partial redemption of any Bond, there shall be prepared for the Owner a new Bond or Bonds of the same maturity in the amount of the unredeemed principal. All Bonds which have been redeemed shall be cancelled and destroyed by the Trustee and shall not be redelivered. Neither the failure of any Bond Owner to receive any notice so mailed nor any defect therein shall affect the sufficiency of the proceedings for redemption of any Bonds nor the cessation of accrual of interest thereon.

(h) Partial Redemption of Bonds. In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond redeemed in part only, the City shall execute and the Trustee shall authenticate and deliver to the Owner, at the expense of the City, a new Bond or

Bonds, of the same maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

(i) Manner of Redemption. Whenever any Bonds are to be selected for redemption, the Trustee shall determine, by lot, the numbers of the Bonds to be redeemed, and shall notify the City thereof.

All Series 2017 Bonds redeemed pursuant to this Section and all Series 2017 Bonds purchased by the City pursuant to this subsection shall be cancelled and destroyed pursuant to Section 9.08.

**SECTION 2.03. Form of Series 2017 Bonds.** The Series 2017 Bonds, the Trustee's certificate of authentication, and the assignment to appear thereon, shall be substantially in the respective forms set forth in Exhibit A attached hereto and by this reference incorporated herein, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Indenture.

**SECTION 2.04. Execution of Series 2017 Bonds.** The Series 2017 Bonds shall be signed in the name and on behalf of the City with the manual or facsimile signatures of an Authorized Representative and attested by the manual or facsimile signature of its City Clerk under the seal of the City. Such seal may be in the form of a facsimile of the City's seal and shall be imprinted or impressed upon the Series 2017 Bonds. The Series 2017 Bonds shall then be delivered to the Trustee for authentication by it. In case any officer who shall have signed any of the Series 2017 Bonds shall cease to be such officer before the Series 2017 Bonds so signed shall have been authenticated or delivered by the Trustee or issued by the City, such Series 2017 Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the City as though the individual who signed the same had continued to be such officer of the City. Also, any Series 2017 Bond may be signed on behalf of the City by any individual who on the actual date of the execution of such Series 2017 Bond shall be the proper officer although on the nominal date of such Series 2017 Bond such individual shall not have been such officer.

Only such of the Series 2017 Bonds as shall bear thereon a certificate of authentication in substantially the form set forth in Exhibit A, manually executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee shall be conclusive evidence that the Series 2017 Bonds so authenticated have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

**SECTION 2.05. Transfer of Series 2017 Bonds.** Any Series 2017 Bond may, in accordance with its terms, be transferred upon the Bond Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Series 2017 Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed. Whenever any Series 2017 Bond shall be surrendered for transfer, the City shall execute and the Trustee shall thereupon authenticate and deliver to the transferee a new Bond or Bonds of like tenor, maturity and aggregate principal amount. No Series

2017 Bonds, the notice of redemption of which has been mailed pursuant to Section 2.02(e), shall be subject to transfer pursuant to this Section.

**SECTION 2.06. Exchange of Series 2017 Bonds.** Series 2017 Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee, for Series 2017 Bonds of the same tenor and maturity and of other authorized denominations. No Series 2017 Bonds the notice of redemption of which has been mailed pursuant to Section 2.02(e) shall be subject to exchange pursuant to this Section.

**SECTION 2.07. Temporary Bonds.** The Series 2017 Bonds may be issued initially in temporary form exchangeable for definitive Series 2017 Bonds when ready for delivery. The temporary Series 2017 Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the City and may contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Series 2017 Bond shall be executed by the City and be registered and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Series 2017 Bonds. If the City issues temporary Series 2017 Bonds, it will execute and furnish definitive Bonds without delay, and thereupon the temporary Series 2017 Bonds may be surrendered, for cancellation, in exchange therefor at the Principal Corporate Trust Office of the Trustee, and the Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Series 2017 Bonds of authorized denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds authenticated and delivered hereunder.

**SECTION 2.08. Bond Registration Books.** The Trustee will keep or cause to be kept at its trust office sufficient Bond Registration Books for the registration and transfer of the Bonds, which shall at all times during regular business hours, and upon reasonable notice, be open to inspection by the City; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as hereinbefore provided.

**SECTION 2.09. Bonds Mutilated, Lost, Destroyed or Stolen.** If any Bond shall become mutilated, the City, at the expense of the Owner of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like maturity and principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled by it and delivered to, or upon the order of, the City. If any Bond issued hereunder shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City and the Trustee and, if such evidence be satisfactory to them and indemnity satisfactory to them shall be given, the City, at the expense of the Bond Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like maturity and principal amount in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been called for redemption, instead of issuing a substitute Bond the Trustee may pay the same without surrender thereof upon receipt of indemnity satisfactory to the Trustee). The City may require payment of a reasonable fee for each new Bond issued under this Section and of the expenses which may be incurred by the City and the Trustee.

Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original contractual obligation on the part of the City whether or not the Bond alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Indenture with all other Bonds secured by this Indenture.

**SECTION 2.10. Book Entry System.**

(a) Original Delivery. The Bonds shall be initially delivered in the form of a separate single fully registered Bond (which may be typewritten) for each maturity of the Bonds. Upon initial delivery, the ownership of each such Bond shall be registered on the Bond Registration Books maintained by the Trustee pursuant to Section 2.08 hereof in the name of the Nominee. Except as provided in subsection (c), the ownership of all of the Outstanding Bonds shall be registered in the name of the Nominee on such Bond Registration Books.

With respect to Bonds the ownership of which shall be registered in the name of the Nominee, the City and the Trustee shall have no responsibility or obligation to any Depository System Participant or to any person on behalf of which the City holds an interest in the Bonds. Without limiting the generality of the immediately preceding sentence, the City and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Depository System Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any notice with respect to the Bonds, including any notice of redemption, (iii) the selection by the Depository of the beneficial interests in the Bonds to be redeemed in the event the City elects to redeem the Bonds in part, (iv) the payment to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any amount with respect to principal, premium, if any, or interest represented by the Bonds or (v) any consent given or other action taken by the Depository as Owner of the Bonds. The City and the Trustee may treat and consider the person in whose name each Bond is registered as the absolute owner of such Bond for the purpose of payment of principal, premium, if any, and interest represented by such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers of ownership of such Bond, and for all other purposes whatsoever. The Trustee shall pay the principal, interest and premium, if any, represented by the Bonds only to the respective Owners or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge all obligations with respect to payment of principal, interest and premium, if any, represented by the Bonds to the extent of the sum or sums so paid. No person other than a Bond Owner shall receive a Bond evidencing the obligation of the City to make payments of principal, interest and premium, if any, pursuant to this Trust Indenture. Upon delivery by the Depository to the Nominee of written notice to the effect that the Depository has determined to substitute a new Nominee in its place, such new nominee shall become the Nominee hereunder for all purposes; and upon receipt of such a notice the City shall promptly deliver a copy of the same to the Trustee.

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

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

In the event the City determines that it is in the best interests of the beneficial owners of the Bonds that they be able to obtain certificated Bonds, the City may notify the Depository System Participants of the availability of such certificated Bonds through the Depository. In such event, the Trustee will execute, transfer and exchange Bonds as required by the Depository and others in appropriate amounts; and whenever the Depository requests, the Trustee and the City shall cooperate with the Depository in taking appropriate action (y) to make available one or more separate certificates evidencing the Bonds to any Depository System Participant having Bonds credited to its account with the Depository, or (z) to arrange for another Securities Depository to maintain custody of a single certificate evidencing such Bonds, all at the City's expense.

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

## ARTICLE III

### ISSUE OF SERIES 2017 BONDS; PARITY DEBT

**SECTION 3.01. Issuance of Series 2017 Bonds.** Upon the execution and delivery of this Indenture, the City shall execute and deliver Series 2017 Bonds in the aggregate principal amount of \_\_\_\_\_ Dollars (\$[Par Amount]) to the Trustee for authentication and delivery to the Original Purchaser thereof upon the Request of the City.

**SECTION 3.02. Application of Proceeds of Series 2017 Bonds; Bond Proceeds Fund.** On the Closing Date, the Trustee shall apply the proceeds of the sale of the Series 2017 Bonds received or deemed to have been received from the Original Purchaser on the Closing Date, being an amount equal to \$\_\_\_\_\_ (being an amount equal to the par amount of the Series 2017 Bonds (\$\_\_\_\_\_) [plus] [less] net original issue [premium] [discount] of \$\_\_\_\_\_, and less an Underwriter's discount of \$\_\_\_\_\_, as follows (the Trustee may, in its discretion, establish one or more temporary funds or accounts to account for or facilitate the following transfers and deposits). [At the request of the City, on the Closing Date the Underwriter will wire the Reserve Policy premium of \$\_\_\_\_\_ to the Insurer.] As a result, the net amount to be wired to the Trustee will be \$\_\_\_\_\_, whereupon the Trustee shall deposit such proceeds into the Bond Proceeds Fund, which is hereby established as a separate fund to be held by the Trustee in trust. The Trustee shall apply moneys in the Bond Proceeds Fund as follows:

(a) The Trustee will deposit the amount of \$\_\_\_\_\_ in the Costs of Issuance Fund;

(b) The Trustee will transfer the amount of \$\_\_\_\_\_, constituting the remainder of such proceeds, to the Escrow Agent for deposit into the Escrow Fund established under the Escrow Agreement to prepay the 2006 Installment Sale Agreement and cause the redemption of the 2006 Bonds; and

[(c) In addition, the Trustee shall credit the Reserve Policy to the Reserve Fund in satisfaction of the Reserve Requirement upon delivery of the Bonds. The parties hereto acknowledge that on the Closing Date from the proceeds of the Bonds, the Underwriter paid on behalf of the Authority to Insurer \$\_\_\_\_\_ as payment of the premium for the Reserve Policy.]

After making the transfers from the Bond Proceeds Fund described in Section 3.02, and after transferring any moneys that remain in the Bond Proceeds Fund to the Debt Service Fund, the Trustee shall close the Bond Proceeds Fund.

**SECTION 3.03. Reserve Fund.** The Trustee shall establish and maintain a separate fund to be known as City of Fortuna Series 2017 Wastewater Revenue Refunding Bonds, Reserve Fund (the "Reserve Fund"), which shall be administered as provided in Section 4.05 hereof.

**SECTION 3.04. Cost of Issuance Fund.** There is hereby created a fund to be known as the “City of Series 2017 Fortuna Wastewater Revenue Refunding Bonds, Cost of Issuance Fund,” which the City hereby covenants and agrees to cause to be maintained and which shall be held in trust by the Trustee. The moneys in the Cost of Issuance Fund shall be used in the manner provided by law solely for the purpose of the payment of Costs of Issuance upon receipt by the Trustee of one or more Requests of the City therefor, on or after the Closing Date, in the form of Exhibit B. Any funds remaining in the Cost of Issuance Fund on \_\_\_\_ 1, 2017, shall be transferred by the Trustee to the Debt Service Fund.

**SECTION 3.05. Issuance of Parity Debt.** In addition to the Series 2017 Bonds, the City may at any time issue or incur additional Parity Debt under applicable law which are secured by a pledge of Net Revenues on parity with the payments by the City under this Indenture; provided that the Net Revenues (excluding any amounts transferred from a Rate Stabilization Fund) for the Fiscal Year or any consecutive 12-month period in the 18 months next preceding the date of the adoption by the City of the resolution authorizing the issuance of such Parity Debt or the execution of such Parity Debt, as the case may be, as evidenced by a calculation prepared by the City upon which the Trustee may conclusively rely; plus an allowance for Net Revenues that would have been derived from any increase in the rates and charges fixed and prescribed for the Wastewater System which was enacted prior to the adoption of such resolution or the execution of such Parity Debt, as the case may be, but which, during all or any part of said Fiscal Year or 12-month period, was not in effect, in an amount equal to the estimated additional Net Revenues that would have been derived from such increase in rates and charges if it had been in effect prior to the beginning of said Fiscal Year or 12-month period, as shown by the Certificate of an Authorized Representative of the City shall have produced an amount equal to at least the sum of 125% of Maximum Annual Debt Service on the Series 2017 Bonds and all Parity Debt outstanding after the issuance of such Parity Debt.

Furthermore, in order to issue such Parity Debt the City may not be in default with respect to its obligations under this Indenture or any Parity Debt Instrument and must provide for repayment on the same interest and principal payment dates.

**SECTION 3.06. Reserved.**

**SECTION 3.07. Subordinate Bonds.** Nothing in this Indenture shall prohibit or impair the authority of the City to issue bonds or other obligations secured by a lien on Gross Revenues or Net Revenues which is subordinate to the lien established hereunder, upon such terms and in such principal amounts as the City may determine.

**SECTION 3.08. Validity of Bonds.** The validity of the authorization and issuance of the Bonds shall not be affected in any way by any proceedings taken by the City in connection with the Wastewater System, and the recital contained in the Bonds that the same are issued pursuant to the Bond Law shall be conclusive evidence of their validity and of the regularity of their issuance.

## ARTICLE IV

### PLEDGE OF NET REVENUES; FUNDS AND ACCOUNTS

#### **SECTION 4.01. Pledge of Net Revenues.**

(a) The City hereby transfers, places a charge upon, assigns and sets over to the Trustee, for the benefit of the Owners, that portion of the Net Revenues which is necessary to pay the principal or Redemption Price of and interest on the Bonds in any Fiscal Year, together with all moneys on deposit in the Debt Service Fund, and such portion of the Net Revenues is hereby irrevocably pledged to the punctual payment of the principal or Redemption Price of and interest on the Bonds. The Net Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding, except that out of Net Revenues there may be apportioned and paid such sums for such purposes, as are expressly permitted by this Article and by provisions of this Indenture applicable to Parity Debt. Said pledge shall constitute a first, direct and exclusive charge and lien on the Net Revenues for the payment of the principal or Redemption Price of and interest on the Bonds in accordance with the terms thereof.

(b) The Net Revenues constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the Bonds. The general fund of the City is not liable and the credit or taxing power of the City is not pledged for the payment of the principal or Redemption Price of and interest on the Bonds. The Owner of the Bonds shall not compel the exercise of the taxing power by the City or the forfeiture of its property. The principal or Redemption Price of and interest on the Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Net Revenues of the Wastewater System.

**SECTION 4.02. Receipt and Deposit of Gross Revenues.** The City covenants and agrees that all Gross Revenues, when and as received, will be received and held by the City in trust hereunder and will be deposited by the City in a Wastewater Revenue Fund to be established and held by the City, and will be accounted for through and held in trust in the Wastewater Revenue Fund, and the City shall only have such beneficial right or interest in any of such money as in this Indenture provided. All such Gross Revenues shall be transferred, disbursed, allocated and applied solely to the uses and purposes hereinafter in this Article set forth, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the City.

**SECTION 4.03. Establishment of Funds and Accounts and Allocation of Gross Revenues.** The Debt Service Fund, as a special fund, and the Redemption Account, as a special account therein, are hereby created.

The Debt Service Fund and the Redemption Account therein shall be held and maintained by the Trustee.

All Gross Revenues shall be held in trust by the Finance Director in the Wastewater Revenue Fund and shall be applied, transferred, used and withdrawn only for the purposes hereinafter authorized in this Article.

(a) Operating Costs. The Finance Director shall first pay from the moneys in the Wastewater Revenue Fund the budgeted Maintenance and Operation Costs as such Costs become due and payable.

(b) Debt Service Fund. On or before the second Business Day prior to each Interest Payment Date, the Finance Director shall transfer from the Wastewater Revenue Fund to the Trustee for deposit in the Debt Service Fund (i) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding Series 2017 Bonds on the next succeeding Interest Payment Date, plus (ii) an amount equal to the aggregate amount of Principal Installments (including any Sinking Fund Installments) becoming due and payable on all Outstanding Series 2017 Bonds on the next succeeding Principal Payment Date.

(c) Debt Service Funds for Parity Debt. On or before the second Business Day prior to each Interest Payment Date, the Finance Director shall also cause to be transferred from the Wastewater Revenue Fund to the Trustee (or other party as appropriate relative to each Parity Debt) for deposit in the debt service fund created for each issue of Parity Debt (or if no debt service fund was created for an issue of Parity Debt, otherwise set-aside for the payment of Parity Debt) (i) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding Parity Debt on the next succeeding Interest Payment Date (or, as to Parity Debt with annual interest payments, for a 6-month period), plus (ii) an amount equal to the aggregate amount of Principal Installments (including any Sinking Fund Installments) becoming due and payable on all Outstanding Parity Debt on the next succeeding Principal Payment Date (or, as to Parity Debt with annual principal payments, one-half of the annual principal payment amount).

All interest earnings and profits or losses on the investment of amounts in the Debt Service Fund shall be deposited in or charged to the Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Payment Date upon all Outstanding Series 2017 Bonds and Parity Debt.

(d) Reserve Accounts. After making the payments, allocations and transfers provided for in subsections (a), (b) and (c) above, if the balance on hand in the Reserve Fund for the Series 2017 Bonds or a reserve account for any issue of Parity Debt is less than the Reserve Requirement or the reserve requirement applicable to such Parity Debt, such deficiency (or payment due to the provider of a reserve policy or surety) shall be restored by transfers from the first moneys which become available in the Wastewater Revenue Fund to the appropriate party to replenish the Reserve Fund, repay the provider of a reserve policy or surety, or to satisfy a reserve requirement established for any issue of Parity Debt, on a pro rata basis.

(e) Surplus. As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner set forth above in subsections (a) to (d), inclusive, any moneys remaining in the Wastewater Revenue Fund may at any time be treated as surplus and applied for any lawful purpose.

**SECTION 4.04. Application of Debt Service Fund.**

(a) The Trustee shall withdraw from the Debt Service Fund, prior to each Interest Payment Date, an amount equal to the Interest Requirement payable on such Interest Payment Date, and shall cause the same to be applied to the payment of said interest when due and is hereby authorized to apply the same to the payment of such interest.

(b) The Trustee shall withdraw from the Debt Service Fund, prior to each Principal Payment Date, an amount equal to the principal amount due on said Principal Payment Date (including any Sinking Fund Installments due and payable on said Principal Payment Date), and shall cause the same to be applied to the payment of such principal.

(c) All withdrawals and transfers under the provisions of subsection (a) or subsection (b) of this Section shall be made not earlier than one (1) day prior to the Interest Payment Date or Principal Payment Date to which they relate, and the amount so withdrawn or transferred shall, for the purposes of this Indenture, be deemed to remain in and be part of the appropriate fund or account until such Interest Payment Date or Principal Payment Date.

**SECTION 4.05. Reserve Fund.**

The Reserve Requirement for the Series 2017 Bonds shall [be satisfied by the delivery of the Reserve Policy by the Insurer to the Trustee on the Closing Date. The Trustee shall draw on the Reserve Policy in accordance with its terms and conditions and the terms of this Indenture].

[The amounts available under the Reserve Policy shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Debt Service Fund for payment of the Series 2017 Bonds (and not any Parity Debt), in the event of any deficiency at any time in such fund.]

[The Trustee shall comply with all documentation relating to the Reserve Policy as shall be required to maintain the Reserve Policy in full force and effect and as shall be required to receive payments thereunder in the event and to the extent required to make any payment when and as required under this Section 4.05.]

[The City shall have no obligation to replace the Reserve Policy or to fund the Reserve Fund with cash or any other security if, at any time that the Series 2017 Bonds are Outstanding, amounts are not available under the Reserve Policy.]

[With respect to the Reserve Policy, notwithstanding anything to the contrary set forth herein, the City and the Trustee agree to comply with the following provisions: [To be determine if necessary]

**SECTION 4.06. Application of Redemption Account.** There is hereby established with the Trustee the Redemption Account. On or before the date which is at least one day prior to any Interest Payment Date on which Series 2017 Bonds are subject to redemption pursuant to Section 2.02(a), the City shall transfer from the Wastewater Revenue Fund to the Trustee for deposit in the

Redemption Account an amount at least equal to the Redemption Price (excluding accrued interest, which is payable from the Debt Service Fund) of such Series 2017 Bonds to be redeemed on such date. In addition, the City shall transfer to the Trustee for deposit in the Redemption Account all amounts required to redeem any Series 2017 Bonds which are subject to redemption pursuant to Section 2.02(c), when and as such amounts become available. Amounts in the Redemption Account shall be applied by the Trustee solely for the purpose of paying the Redemption Price of Bonds to be redeemed pursuant to Sections 2.02 (a) or (c). If after all of the Series 2017 Bonds have been paid or deemed to have been paid, there are moneys remaining in the Redemption Account, such moneys shall be transferred by the Trustee to the Finance Director for deposit in the Wastewater Revenue Fund.

**SECTION 4.07. Establishment of Rate Stabilization Fund.** The City has the right at any time to establish a rate stabilization fund (the “Rate Stabilization Fund”) to be held by it and administered in accordance with this Section 4.07, for the purpose of stabilizing the rates and charges imposed by the City with respect to the Wastewater System. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues that are released from the pledge and lien which secures the Bonds and any Parity Debt, as the City may determine.

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

**SECTION 4.08. Investments.** All moneys in the Wastewater Revenue Fund and the Rate Stabilization Fund may be invested by the City from time to time in any investments authorized by law, consistent with the City’s investment policy.

All moneys in the Debt Service Fund and Cost of Issuance Fund shall be invested by the Trustee solely in Authorized Investments, as directed pursuant to a Request of the City. In the absence of any such Request of the City, the Trustee will invest any such moneys in money market funds whose investments are restricted to Federal Securities, provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a written direction from the City specifying a specific money market fund and, if no such written direction is so received, the Trustee shall hold such moneys uninvested. Obligations purchased as an investment of moneys in any Fund or Account shall be deemed to be part of such Fund or Account, and all interest or gain derived from the investment of amounts in any of the Funds or Accounts established hereunder shall be deposited in the Fund or Account from which such investment was made; and shall be accounted for and

applied as provided in Section 4.04(c) (with respect to the Debt Service Fund). For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it hereunder with the written approval of the City. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of any investment, and shall be entitled to its customary fees therefor. The Trustee shall incur no liability for losses arising from any investments made pursuant to this Section.

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

#### **SECTION 4.09. Valuation; Investments.**

In computing the amount in any Fund or Account, Authorized Investments shall be valued at Fair Market Value. With respect to all Funds and Accounts, valuation shall occur annually.

Except as otherwise provided in the following sentence, the City covenants that all investments of amounts deposited in any fund or account created by or pursuant to this Indenture, or otherwise containing gross proceeds of the Series 2017 Bonds (within the meaning of section 148 of the Tax Code) shall be acquired, disposed of, and valued (as of the date that valuation is required by this Indenture or the Tax Code) at Fair Market Value. Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Tax Code shall be valued at their present value (within the meaning of section 148 of the Tax Code).

#### **SECTION 4.10. Rebate Fund.**

(a) In addition to the other funds and accounts created pursuant hereto, the Trustee shall establish and maintain a fund separate from any other fund or account established and maintained hereunder designated the "Rebate Fund" (the "Rebate Fund") in connection with the 2017 Bonds. Within the Rebate Fund, the Trustee shall maintain such accounts or subaccounts as are specified in a Certificate of the City to the Trustee pursuant to the Tax Certificate. The Trustee shall deposit moneys in the Rebate Fund pursuant to a Certificate of the City. Subject to the transfer provisions provided below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the federal government of the United States of America, and none of the City, the Trustee or the Owner of any 2017 Bond shall have any right in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Section and by the Tax Certificate (which is incorporated herein by reference). The Trustee shall be deemed conclusively to have complied with the provisions of this Section 4.10 and the Tax Certificate if it follows the Certificate of the City, including supplying all necessary information in the manner requested by the City, and except as otherwise expressly provided herein, shall not be required to take any actions hereunder

in the absence of written directions by the City, and shall have no liability or responsibility to enforce compliance by the City with the terms of the Tax Certificate or this Section. The Trustee agrees to comply with all Certificate of the City given pursuant to the Tax Certificate.

(1) Upon a Certificate of the City, an amount shall be deposited into the Rebate Fund by the Trustee from deposits by the City, if and to the extent required, so that the balance of the amount on deposit thereto shall be equal to the Rebate Requirement. Computations of the Rebate Requirement shall be furnished by or on behalf of the City in accordance with the Tax Certificate. The City shall provide the Trustee with a Certificate of the City evidencing that the computation of the Rebate Requirement has been made.

(2) The Trustee shall have no obligation to rebate any amounts required to be rebated pursuant to this Section, other than from moneys held in the funds and accounts created hereunder or from other moneys provided to it by the City.

(3) The Trustee shall invest all amounts held in the Rebate Fund in Authorized Investments as directed by a Certificate of the City. Money, including investment earnings, shall not be transferred from the Rebate Fund except as provided in subparagraph (4) below.

(4) Upon receipt of a Certificate of the City, the Trustee shall remit part or all of the amounts in the Rebate Fund to the United States of America, as so directed. In addition, if the City so directs, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or fund as directed by the Certificate of the City. Any funds remaining in the Rebate Fund in excess of the Rebate Requirement (as defined in the Tax Certificate) as of the end of any Bond Year shall be transferred to the Interest Account.

Notwithstanding any other provision hereof, including, in particular, Section 9.03, the obligation to remit the Rebate Requirement to the United States and to comply with all other requirements of this Section and the Tax Certificate shall survive the defeasance or payment in full of the 2017 Bonds.

## ARTICLE V

### COVENANTS OF THE CITY; SPECIAL TAX COVENANTS

**SECTION 5.01. Punctual Payment; Compliance With Documents.** The City shall punctually pay or cause to be paid the interest and principal to become due with respect to all of the Bonds in strict conformity with the terms of the Bonds and of this Indenture, and will faithfully observe and perform all of the conditions, covenants and requirements of this Indenture and all Parity Debt Instruments.

**SECTION 5.02. Against Encumbrances.** The City will not mortgage or otherwise encumber, pledge or place any charge upon the Wastewater System or any part thereof, or upon any of the Net Revenues, except as provided in the Indenture.

**SECTION 5.03. Discharge of Claims.** The City covenants that in order to fully preserve and protect the priority and security of the Bonds the City shall pay from the Net Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Wastewater System which, if unpaid, may become a lien or charge upon the Net Revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The City shall also pay from the Net Revenues all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Wastewater System or upon any part thereof or upon any of the Net Revenues therefrom.

**SECTION 5.04. Acquisition, Construction or Financing of any Improvements to the Wastewater System.** The City will acquire, construct, or finance Improvements to the Wastewater System to be financed with the proceeds of any Parity Debt with all practicable dispatch, and such Improvements will be made in an expeditious manner and in conformity with laws so as to complete the same as soon as possible.

**SECTION 5.05. Maintenance and Operation of Wastewater System in Efficient and Economical Manner.** The City covenants and agrees to maintain and operate the Wastewater System in an efficient and economical manner and to operate, maintain and preserve the Wastewater System in good repair and working order.

**SECTION 5.06. Against Sale, Eminent Domain.**

(a) The City will not sell, lease or otherwise dispose of the Wastewater System or any part thereof essential to the proper operation of the Wastewater System or to the maintenance of the Net Revenues except as herein expressly permitted. The City will not enter into any lease or agreement which impairs the operation of the Wastewater System or any part thereof necessary to secure adequate Net Revenues for the payment of the interest on and principal or Redemption Price, if any, on the Bonds, or which would otherwise impair the rights of the Owners with respect to the Net Revenues or the operation of the Wastewater System. Any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Wastewater System, or any material or equipment which has worn out, may be sold at not less than the market value thereof without the consent of the Owners if such sale will not reduce Net Revenues and if all of the net proceeds of such sale are deposited in the Wastewater Revenue Fund.

(b) If all or any part of the Wastewater System shall be taken by eminent domain proceedings, the net proceeds realized by the City therefrom shall, at the option of the City, either (a) be used for the acquisition or construction of improvements to the Wastewater System, or (b) be applied to prepay the Series 2017 Bonds and Parity Debt on a pro rata basis.

**SECTION 5.07. Insurance.** The City covenants that it shall at all times maintain such insurance on the Wastewater System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Wastewater System shall be damaged or destroyed, such part shall be restored to use. The net proceeds of insurance against accident to or destruction of the physical

Wastewater System shall be used for repairing or rebuilding the damaged or destroyed portions of the Wastewater System.

Any such insurance shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the City, or may be in the form of self-insurance by the City. The City shall establish such fund or funds or reserves as it determines, in its sole judgment, are necessary to provide for its share of any such self-insurance.

**SECTION 5.08. Records and Accounts.** The City covenants that it shall keep proper books of record and accounts of the Wastewater System, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Wastewater System. Said books shall, upon reasonable request, be subject to the inspection of the Owners of not less than ten percent (10%) of the Outstanding Bonds or their representatives authorized in writing.

The City covenants that it will cause the books and accounts of the Wastewater System to be audited annually by an Independent Certified Public Accountant and will make available for inspection by the Bond Owners at the office of the Trustee in San Francisco, California, upon reasonable request, a copy of the report of such Independent Certified Public Accountant.

The City covenants that it will cause to be prepared annually, not more than one hundred eighty (180) days after the close of each Fiscal Year, as a part of its regular annual financial report, a summary statement showing the amount of Gross Revenues and the amount of all other funds collected which are required to be pledged or otherwise made available as security for payment of principal of and interest on the Bonds, the disbursements from the Gross Revenues and other funds in reasonable detail. The City shall furnish a copy of the statement to the Trustee, and upon written request, to any Bond Owner.

**SECTION 5.09. Protection of Security and Rights of Owners.** The City will preserve and protect the security of the Bonds and the rights of the Owners, and will warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of any Parity Debt by the City, such Parity Debt shall be incontestable by the City.

**SECTION 5.10. Against Competitive Facilities.** The City will not acquire, construct, operate or maintain the Wastewater System or utility within the service area of the City that would be competitive with the Wastewater System.

**SECTION 5.11. Payment of Taxes, Etc.** The City will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Wastewater System or any part thereof or upon any Revenues when the same shall become due. The City will duly observe and conform with all valid requirements of any governmental authority relative to the Wastewater System or any part thereof, and will comply with all requirements with respect to any state or federal grants received to assist in paying for the costs of the acquisition, construction or financing of any Improvements to the Wastewater System.

**SECTION 5.12. Rates and Charges.** (a) The City shall, to the extent permitted by law, fix, prescribe and collect rates, fees and charges for the Wastewater System which will be at least sufficient to yield Net Revenues equal to one hundred twenty-five percent (125%) of Debt Service coming due and payable during such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of this section.

For the purpose of computing the amount of Wastewater Revenues for any Fiscal Year or the amount of Net Revenues for any Fiscal Year for purposes of the preceding paragraph, the City shall be permitted to transfer amounts on deposit in the Rate Stabilization Fund for purposes of such computation, such transfers may be made until (but not after) one hundred twenty (120) days after the end of such Fiscal Year.

**SECTION 5.13. No Priority for Additional Obligations.** The City covenants that no additional bonds or other obligations shall be issued or incurred having any priority in payment of principal or interest out of the Net Revenues over the Bonds.

**SECTION 5.14. No Arbitrage.** The City shall not take, nor permit nor suffer to be taken any action with respect to the proceeds of any of the Series 2017 Bonds which would cause any of the Bonds to be “arbitrage bonds” within the meaning of the Tax Code.

**SECTION 5.15. Information Report.** The Finance Director is hereby directed to assure the filing of an information report for the Series 2017 Bonds in compliance with Section 149 (e) of the Tax Code.

**SECTION 5.16. Private Activity Bond Limitation.** The City shall assure that the proceeds of the Series 2017 Bonds are not so used as to cause the Series 2017 Bonds to satisfy the private business tests of section 141(b) of the Tax Code or the private loan financing test of section 141(c) of the Tax Code.

**SECTION 5.17. Federal Guarantee Prohibition.** The City shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Series 2017 Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Tax Code.

**SECTION 5.18. Further Assurances.** The City will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture, and for the better assuring and confirming unto the Owners of the Bonds the rights and benefits provided in this Indenture.

**SECTION 5.19. Continuing Disclosure.** The City hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Indenture, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, any holder

or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

**SECTION 5.20. Rebate Requirement.** The City shall take any and all actions necessary to assure compliance with section 148(f) of the Tax Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Series 2017 Bonds.

**SECTION 5.21. Maintenance of Tax-Exemption.** The City shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Series 2017 Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the date of issuance of the Bonds.

## ARTICLE VI

### THE TRUSTEE

**SECTION 6.01. Appointment of Trustee.** U.S. Bank National Association, with an office in San Francisco, California, a banking association organized and existing under and by virtue of the laws of the United States of America, is hereby appointed Trustee by the City for the purpose of receiving all moneys required to be deposited with the Trustee hereunder and to allocate, use and apply the same as provided in this Indenture. The City agrees that it will maintain a Trustee having a corporate trust office in California, with a combined capital and surplus of at least Fifty Million Dollars (\$50,000,000), and subject to supervision or examination by federal or State authority, so long as any Bonds are Outstanding. If such bank or trust company publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this Section 5.01 the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee is hereby authorized to pay the Bonds when duly presented for payment at maturity, or on redemption or purchase prior to maturity, and to cancel all Bonds upon payment thereof. The Trustee shall keep accurate records of all funds administered by it and of all Bonds paid and discharged.

**SECTION 6.02. Acceptance of Trusts.** The Trustee hereby accepts the trusts imposed upon it by this Indenture, and agrees to perform said trusts, but only upon and subject to the following express terms and conditions:

- (a) The Trustee, prior to the occurrence of an Event of Default and after curing all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default hereunder has occurred (which has not been cured or waived) the Trustee may exercise such of the rights and powers vested in it by this Indenture, and shall use the same degree

of care and skill in their exercise, as a prudent and reasonable man would exercise or use under the circumstances in the conduct of his own affairs.

(b) The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents, or receivers but shall be answerable for the selection of the same in accordance with the standard specified above, and shall be entitled to rely conclusively on advice of counsel of its choice concerning all matters of trust and its duty hereunder.

(c) The Trustee shall not be responsible for any recital herein, or in the Bonds, or for the validity of this Indenture or any of the supplements thereto or instruments of further assurance, or for the sufficiency of the security for the Bonds issued hereunder or intended to be secured hereby and the Trustee shall not be bound to ascertain or inquire as to the observance or performance of any covenants, conditions or agreements on the part of the City hereunder. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with Section 4.08.

(d) The Trustee shall not be accountable for the use of any proceeds of sale of the Bonds delivered hereunder. The Trustee may become the Owner of Bonds secured hereby with the same rights which it would have if not the Trustee; may acquire and dispose of other bonds or evidence of indebtedness of the City with the same rights it would have if it were not the Trustee; and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners of Bonds, whether or not such committee shall represent the Owners of the majority in principal amount of the Bonds then Outstanding.

(e) In the absence of bad faith on its part, the Trustee shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document believed by it to be genuine and to have been signed or sent by the proper person or persons. Any action taken or omitted to be taken by the Trustee pursuant to this Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the Owner of any Bond, shall be conclusive and binding upon all future Owners of the same Bond and upon Bonds issued in exchange therefor or in place thereof. The Trustee shall not be bound to recognize any person as an Owner of any Bond or to take any action at his request unless the ownership of such Bond by such person shall be reflected on the Bond Registration Books.

(f) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely upon a Certificate of the City as sufficient evidence of the facts therein contained and prior to the occurrence of an Event of Default hereunder of which the Trustee has been given notice or is deemed to have notice, as provided in Section 6.02(h) hereof, shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed by it to be necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a Certificate of the City to the effect that an authorization in the form

therein set forth has been adopted by the City, as conclusive evidence that such authorization has been duly adopted and is in full force and effect.

(g) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty and it shall not be answerable for other than its negligence or willful misconduct as finally determined by a court of competent jurisdiction. The immunities and exceptions from liability of the Trustee shall extend to its officers, directors, employees and agents.

(h) The Trustee shall not be required to take notice or be deemed to have notice of any Event of Default hereunder except failure by the City to make any of the payments to the Trustee required to be made by the City pursuant hereto or failure by the City to file with the Trustee any document required by this Indenture to be so filed subsequent to the issuance of the Bonds, unless the Trustee shall be specifically notified in writing of such default by the City or by the Owners of at least twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding and all notices or other instruments required by this Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the Principal Corporate Trust Office of the Trustee, and in the absence of such notice so delivered the Trustee may conclusively assume there is no Event of Default hereunder except as aforesaid.

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

(j) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(k) Notwithstanding anything elsewhere in this Indenture with respect to the execution of any Bonds, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of this Indenture, the Trustee shall have the right, but shall not be required, to demand any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, as may be deemed desirable for the purpose of establishing the right of the City to the execution of any Bonds, the withdrawal of any cash, or the taking of any other action by the Trustee.

(l) Before taking the action referred to in Section 8.03 the Trustee may require that an indemnity bond satisfactory in terms and amount be furnished for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is finally adjudicated by a court of competent jurisdiction to have been caused solely by its own negligence or willful misconduct in connection with any such action. The Trustee may consult with counsel with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

(m) All moneys received by the Trustee shall, until used or applied or invested as herein provided, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required by law. The Trustee shall not be under any liability for interest on any moneys received hereunder except such as it may agree to in writing.

**SECTION 6.03. Fees, Charges and Expenses of Trustee.** The Trustee shall be entitled to payment and reimbursement for reasonable fees for its services rendered hereunder and all advances, counsel fees (including expenses) and other expenses reasonably and necessarily made or incurred by the Trustee in connection with such services. Upon the occurrence of an Event of Default hereunder, but only upon an Event of Default, the Trustee shall have a first lien with right of payment prior to payment of any Bond upon the amounts held hereunder for the foregoing fees, charges and expenses incurred by it respectively.

**SECTION 6.04. Notice to Bond Owners of Default.** If an Event of Default hereunder occurs with respect to any Bonds, of which the Trustee has been given or is deemed to have notice, as provided in Section 6.02(h) hereof, then the Trustee shall promptly give written notice thereof by first-class mail to the Owner of each such Bond, unless such Event of Default shall have been cured before the giving of such notice; provided, however, that unless such Event of Default consists of the failure by the City to make any payment when due, the Trustee may elect not to give such notice if and so long as the Trustee in good faith determines that it is in the best interests of the Bond Owners not to give such notice.

**SECTION 6.05. Intervention by Trustee.** In any judicial proceeding to which the City is a party which, in the opinion of the Trustee and its counsel, has a substantial bearing on the interests of Owners of any of the Bonds, the Trustee may intervene on behalf of such Bond Owners, and subject to Section 6.02 hereof, shall do so if requested in writing by the Owners of at least twenty-five percent (25%) in aggregate principal amount of such Bonds then Outstanding.

**SECTION 6.06. Removal of Trustee.** The Owners of a majority in aggregate principal amount of the Outstanding Bonds may at any time, and the City may so long as no Event of Default shall have occurred and then be continuing, remove the Trustee initially appointed, and any successor thereto, by an instrument or concurrent instruments in writing delivered to the Trustee (where applicable), whereupon the City or such Owners, as the case may be, shall appoint a successor or successors thereto; provided that any such successor shall be a bank or trust company meeting the requirements set forth in Section 6.01 hereof.

**SECTION 6.07. Resignation by Trustee.** The Trustee and any successor Trustee may at any time resign by giving thirty (30) days' written notice by registered or certified mail to the City. Upon receiving such notice of resignation, the City shall promptly appoint a successor Trustee. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. Upon such acceptance, the City shall cause notice thereof to be given by first class mail to the Bond Owners at their respective addresses set forth on the Bond Registration Books. No resignation of the Trustee shall take effect until a successor is appointed and has accepted.

**SECTION 6.08. Appointment of Successor Trustee.** In the event of the removal or resignation of the Trustee pursuant to Sections 6.06 or 6.07, respectively, the City shall promptly appoint a successor Trustee. In the event the City shall for any reason whatsoever fail to appoint a successor Trustee within forty-five (45) days following the delivery to the Trustee of the instrument described in Section 6.06 or within forty-five (45) days following the receipt of notice by the City pursuant to Section 6.07, the Trustee may apply to a court of competent jurisdiction for the appointment of a successor Trustee meeting the requirements of Section 6.01 hereof. Any such successor Trustee appointed by such court shall become the successor Trustee hereunder notwithstanding any action by the City purporting to appoint a successor Trustee following the expiration of such forty-five-day period.

Notwithstanding any other provision of this Trust Indenture, no removal, resignation or termination of the Trustee shall take effect until a successor shall be appointed; provided, however, that if for any reason whatsoever no successor Trustee shall have been appointed within 45 days following receipt of notice by the City pursuant to Section 6.07 above, the Trustee may apply to a court of competent jurisdiction for the appointment of a successor Trustee which meets the requirements of Section 6.01 hereof.

**SECTION 6.09. Merger or Consolidation.** Any company into which the Trustee may be merged or converted or with which it may be consolidated, or any company resulting from any merger, conversion or consolidation to which it shall be a party, or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business (provided that such company shall be eligible under Section 6.01), shall be the successor to the Trustee and vested with all of the title to the trust estate and all of the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

**SECTION 6.10. Concerning any Successor Trustee.** Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to the City an instrument in writing accepting such appointment hereunder and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessors; but such predecessor shall, nevertheless, on the Request of the City, or of its successor, execute and deliver an instrument transferring to such successor all the estates, properties, rights, powers and trusts of such predecessor hereunder; and every predecessor Trustee shall deliver all securities and moneys held by it as the Trustee hereunder to its successor. Should any instrument in writing from the City be required by any successor Trustee for more fully and certainly vesting in such successor the estate, rights, powers and duties hereby vested or intended to be vested in the predecessor, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the City.

**SECTION 6.11. Appointment of Co-Trustee.** It is the purpose of this Indenture that there shall be no violation of any law of any jurisdiction (including particularly the law of the State) denying or restricting the right of banking corporations or associations to transact business as Trustee in such jurisdiction. It is recognized that in the case of litigation under this Indenture,

and in particular in case of the enforcement of the rights of the Trustee on default, or in the case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies herein granted to the Trustee or hold title to the properties, in trust, as herein granted, or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an additional individual or institution as a separate or co-trustee. The following provisions of this Section 6.11 are adopted to these ends.

In the event that the Trustee appoints an additional individual or institution as a separate or co-trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and vest in such separate or co-trustee but only to the extent necessary to enable such separate or co-trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary to the exercise thereof by such separate or co-trustee shall run to and be enforceable by either of them.

Should any instrument in writing from the City be required by the separate trustee or co-trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to it such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the City. In case any separate trustee or co-trustee, or a successor to either, shall become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate trustee or co-trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new trustee or successor to such separate trustee or co-trustee.

**SECTION 6.12. Indemnification; Limited Liability of Trustee.** The City shall indemnify and hold the Trustee harmless from and against all claims, losses, costs, expenses, liabilities and damages including legal fees and expenses arising from the exercise and performance of its duties hereunder and the termination of this Indenture. Such indemnity shall survive the resignation or removal of the Trustee hereunder. No provision in this Indenture shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability hereunder if it shall have reasonable grounds for believing repayment of such funds or adequate indemnity against such liability or risk is not assured to it. The Trustee shall not be liable for any action taken or omitted to be taken by it in accordance with the direction of a majority of the Owners of the principal amount of Bonds Outstanding relating to the time, method and place of conducting any proceeding or remedy available to the Trustee under this Indenture.

## ARTICLE VII

### MODIFICATION AND AMENDMENT OF THE INDENTURE

**SECTION 7.01. Amendment by Consent of Bond Owners.** This Indenture and the rights and obligations of the City and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Indenture which shall become binding when the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in Section 7.03 hereof, are filed with the Trustee. No such

modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the City to pay the principal, interest or redemption premiums at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

**SECTION 7.02. Amendment Without Consent of Bondholders.** This Indenture and the rights and obligations of the City and of the Owners of the Bonds may also be modified or amended at any time by a Supplemental Indenture which shall become binding upon execution and delivery, without consent of any Bond Owners, but only to the extent permitted by law and only for any one or more of the following purposes-

(a) to add to the covenants and agreements of the City in this Indenture contained, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the City; or

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in this Indenture, or in any other respect whatsoever as the City may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not adversely affect the interests of the Owners of the Bonds; or

(c) to make such additions, deletions or modifications as may be necessary or desirable to assure exemption from federal income taxation of interest on the Bonds.

**SECTION 7.03. Disqualified Bonds.** Bonds owned or held by or for the account of the City (but excluding Bonds held in any employees' retirement fund) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds in this article provided for, and shall not be entitled to consent to, or take any other action in this article provided for.

**SECTION 7.04. Endorsement or Replacement of Bonds After Amendment.** After the effective date of any action taken as hereinabove provided, the City may determine that the Bonds shall bear a notation, by endorsement in form approved by the City, as to such action, and in that case upon demand of the Owner of any Bond Outstanding at such effective date and presentation of his Bond for that purpose at the Principal Corporate Trust Office of the Trustee, a suitable notation as to such action shall be made on such Bond. If the City shall so determine, new Bonds so modified as, in the opinion of the City, shall be necessary to conform to such Bond Owners' action shall be prepared and executed, and in that case upon demand of the Owner of any Bond Outstanding at such effective date such new Bonds shall be exchanged at the Principal Corporate Trust Office of the Trustee, without cost to each Bond Owner, for Bonds then Outstanding, upon surrender of such Outstanding Bonds.

**SECTION 7.05. Amendment by Mutual Consent.** The provisions of this Article VII shall not prevent any Bond Owner from accepting any amendment as to the particular Bond held

by him, provided that due notation thereof is made on such Bond. The Trustee may not enter into any amendment or supplement to this Indenture unless it shall have first received an opinion of Bond Counsel to the effect that such amendment or supplement will not adversely affect the validity or enforceability of the Bonds or adversely affect any exemption for purposes of federal income taxation to which the interest paid on any Bonds would otherwise be entitled and that such amendment or supplement is authorized or permitted by this Indenture and complies with the terms hereof.

## ARTICLE VIII

### EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS

**SECTION 8.01. Events of Default and Acceleration of Maturities.** The following events shall be Events of Default hereunder:

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

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

(c) Default by the City in the observance of any of the covenants, agreements or conditions on its part in this Indenture or in any Parity Debt Instrument or in the Bonds contained, and such default shall have continued for a period of sixty (60) days after the City shall have been given notice in writing of such default by the Trustee; or

(d) The filing by the City of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the City, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property.

Upon the occurrence of an Event of Default, the Trustee may, and shall at the direction of the owners of a majority of the principal amount of the Bonds, by written notice to the City, declare the principal of the Bonds to be immediately due and payable, whereupon that portion of the principal of the Bonds thereby coming due and there interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in this Indenture or in the Bonds to the contrary notwithstanding. This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the City shall deposit with the Trustee a sum sufficient to pay all of the principal of and interest on the Bonds having come due prior to such declaration, with interest on such overdue principal and interest calculated at the rate of interest per annum then borne by the

Outstanding Bonds, and the reasonable fees and expenses of the Trustee and those of its attorneys, and any and all other defaults known to the Trustee (other than in the payment of the principal of and interest on the Bonds having come due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding may, by written notice to the City and to the Trustee, on behalf of the Owners of all of the Outstanding Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

**SECTION 8.02. Application of Funds Upon Acceleration.** All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of this Indenture shall be applied by the Trustee in the following order upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid -

First, to the payment of the costs and expenses of the Trustee and of Bond Owners in declaring such Event of Default, including reasonable compensation to their agents, attorneys and counsel, and to the payment of the costs and expenses of the Trustee, if any, in carrying out the provisions of this Article VIII, including reasonable compensation to its agents, attorneys and counsel; and

Second, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on such overdue amounts to the extent permitted by law at the rate of interest then borne by the Outstanding Bonds, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably in proportion to the aggregate of such interest, principal and interest on overdue amounts.

**SECTION 8.03. Other Remedies; Rights of Bond Owners.** Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy, in addition to the remedy specified in Section 8.01, at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds, and to enforce any rights of the Trustee under or with respect to this Indenture.

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of at least twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds and indemnified as provided in Section 6.02 (1), the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by this Article VIII, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Bond Owners.

No remedy by the terms of this Indenture conferred upon or reserved to the Trustee (or to the Bond Owners) is intended to be exclusive of any other remedy, but each and every such remedy

shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bond Owners hereunder or now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

**SECTION 8.04. Power of Trustee to Control Proceedings.** In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Bonds hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation. Any suit, action or proceeding which any Owner of Bonds shall have the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds similarly situated and the Trustee is hereby appointed (and the successive respective Owners of the Bonds issued hereunder, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners of the Bonds for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

**SECTION 8.05. Appointment of Receivers.** Upon the occurrence of an Event of Default hereunder, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bond Owners under this Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Net Revenues and other amounts pledged hereunder, pending such proceedings, with such powers as the court making such appointment shall confer.

**SECTION 8.06. Non-Waiver.** Nothing in this Article VIII or in any other provision of this Indenture, or in the Bonds, shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners of the Bonds at the respective dates of maturity, as herein provided, out of the Net Revenues and other moneys herein pledged for such payment.

A waiver of any default or breach of duty or contract by the Trustee or any Bond Owners shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission of any Owner of any of the Bonds to exercise any right or power accruing upon any default shall impair any such right or

power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy conferred upon the Trustee or Bond Owners by the Bond Law or by this Article VIII may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Bond Owners, as the case may be.

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

**SECTION 8.07. Rights and Remedies of Bond Owners.** No Owner of any Bond issued hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

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

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

**SECTION 8.08. Termination of Proceedings.** In case the Trustee shall have proceeded to enforce any right under this Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the City, the Trustee and the Bond Owners shall be restored to their former positions and rights hereunder, respectively, with regard to the property subject to this Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

## ARTICLE IX

### MISCELLANEOUS

**SECTION 9.01. Limited Liability of City.** Notwithstanding anything in this Indenture contained, the City shall not be required to advance any moneys derived from any source of income other than the Net Revenues for the payment of the principal of or interest on the Bonds, or any premiums upon the redemption thereof, or for the performance of any covenants herein contained (except to the extent any such covenants are expressly payable hereunder from the Gross Revenues). The City may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the City for such purpose without incurring indebtedness.

The obligation of the City to pay interest and principal on the Series 2017 Bonds is a special obligation of the City payable solely from the Net Revenues, and does not constitute a debt of the City or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

**SECTION 9.02. Parties Interested Herein.** Nothing in this Trust Indenture expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the City, the Trustee and the Owners any right, remedy or claim under or by reason of this Trust Indenture, or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Trust Indenture contained by and on behalf of the City shall be for the sole and exclusive benefit of the City, the Trustee and the Owners.

**SECTION 9.03. Discharge of Indenture.** If the City shall pay and discharge any or all of the Outstanding Bonds in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal of and interest and premium (if any) on such Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established pursuant to this Indenture, is fully sufficient to pay such Bonds, including all principal, interest and redemption premiums; or

(c) by depositing with a qualified escrow holder, in trust, Defeasance Obligations in such amount as the City (verified by an Independent Certified Public Accountant) shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the Funds and Accounts established pursuant to this Indenture, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums, if any) at or before their respective maturity dates;

and if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been mailed pursuant to Section 2.02(e) or provision satisfactory to the Trustee shall have been made for the mailing of such notice, then, at the election of the City, and notwithstanding that any of such Bonds shall not have been surrendered for payment, the pledge of the Net Revenues and other funds provided for in this Indenture with respect to such Bonds, and all other pecuniary obligations of the City under this Indenture with respect to all such Bonds, shall cease and terminate, except only the obligation of the City to pay or cause to be paid to the Owners of such Bonds not so surrendered and paid all sums due thereon from amounts set aside for such purpose as aforesaid, and all expenses and costs of the Trustee. Notice of such election shall be filed with the Trustee.

Any funds thereafter held by the Trustee, which are not required for said purposes, shall be paid over to the City.

Refunding bonds may be issued at any time without regard to whether an Event of Default exists.

**SECTION 9.04. Content of Certificates.** Every certificate with respect to compliance with a condition or covenant provided for in this Indenture shall include (a) a statement that the person or persons making or giving such certificate have read such covenant or condition and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such covenant or condition has been complied with; and (d) a statement as to whether, in the opinion of the signers, such condition or covenant has been complied with.

Any such certificate made or given by an officer of the City may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such officer knows that the certificate or opinion or representations with respect to the matters upon which his certificate may be based, as aforesaid, are erroneous, or in the exercise of reasonable care should have known that the same were erroneous. Any such certificate or opinion or representation made or given by counsel may be based, insofar as it relates to factual matters, on information with respect to which is in the possession of the City, upon the certificate or opinion of or representations by an officer or officers of the City, unless such counsel knows that the certificate or opinion or representations with respect to the matters upon which his certificate, opinion or representation may be based, as aforesaid, are erroneous, or in the exercise of reasonable care should have known that the same were erroneous.

**SECTION 9.05. Execution of Documents by Bond Owners.** Any request, consent or other instrument required by this Indenture to be signed and executed by Bond Owners may be in any number of concurrent writings of substantially similar tenor and may be signed or executed by such Bond Owners in person or by agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and of the City if made in the manner provided in this Section 9.05.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument or writing acknowledged to him the execution thereof.

The ownership of Bonds shall be provided by the Bond Registration Books.

Any request, consent or vote of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner of any Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the City in pursuance of such request, consent or vote.

In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, Bonds which are owned or held by or for the account of the City (but excluding Bonds held in any employees' retirement fund) shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, provided, however, that for the purpose of determining whether the Trustee shall be protected in relying on any such demand, request, direction, consent or waiver, only Bonds which the Trustee knows to be so owned or held shall be disregarded.

In lieu of obtaining any demand, request, direction, consent or waiver in writing, the Trustee may call and hold a meeting of the Bond Owners upon such notice and in accordance with such rules and obligations as the Trustee considers fair and reasonable for the purpose of obtaining any such action.

**SECTION 9.06. Waiver of Personal Liability.** No officer, agent or employee of the City shall be individually or personally liable for the payment of the interest on or principal of the Bonds; but nothing herein contained shall relieve any such officer, agent or employee from the performance of any official duty provided by law.

**SECTION 9.07. Partial Invalidity.** If any one or more of the covenants or agreements, or portions thereof, provided in this Indenture on the part of the City (or of the Trustee) to be performed should be contrary to law, then such covenant or covenants, such agreement or agreements, or such portions thereof, shall be null and void and shall be deemed separable from the remaining covenants and agreements or portions thereof and shall in no way affect the validity of this Indenture or of the Bonds; but the Bond Owners shall retain all rights and benefits accorded to them under the Bond Law or any other applicable provisions of law. The City hereby declares that it would have entered into this Indenture and each and every other section, paragraph, subdivision, sentence, clause and phrase hereof and would have authorized the issuance of the Bonds pursuant hereto irrespective of the fact that any one or more sections, paragraphs, subdivisions, sentences, clauses or phrases of this Indenture or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

**SECTION 9.08. Destruction of Cancelled Bonds.** Whenever in this Indenture provision is made for the surrender to the City of any Bonds which have been paid or cancelled pursuant to the provisions of this Indenture, the Trustee shall destroy such Bonds and furnish to the City a certificate of such destruction.

**SECTION 9.09. Funds and Accounts.** Any Fund or Account required by this Indenture to be established and maintained by the City or the Trustee may be established and maintained in the accounting records of the City or the Trustee, as the case may be, either as a Fund or an Account, and may, for the purpose of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a Fund or as an Account. All such records with respect to all such Funds and Accounts held by the City shall at all times be maintained in accordance with generally accepted accounting principles and all such records with respect to all such Funds and Accounts held by the Trustee shall be at all times maintained in accordance with industry practices; in each case with due regard for the protection of the security of the Bonds and the rights of every Owner thereof.

**SECTION 9.10. Notices.** Any notice, request, complaint, demand, communication or other paper shall be sufficiently given and shall be deemed given when delivered or mailed by fax or other electronic transmission, addressed as follows:

*If to the City:* City of Fortuna  
621 11th Street  
Fortuna, CA 95540  
Attention: City Manager  
Fax: (707) \_\_\_ - \_\_\_\_

*If to the Trustee:* U.S. Bank National Association  
Corporate Trust Services  
One California Street, Suite 1000  
San Francisco, CA 94111  
Fax: 415-677-3769

*If to the Insurer:*

The parties above may designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

**SECTION 9.12. Unclaimed Moneys.** Anything in this Indenture to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of any of the Bonds which remain unclaimed for two (2) years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee at such date, or for two (2) years after the date of deposit of such moneys if deposited with the Trustee after said date when such Bonds become due and payable, shall, at the Request of the City, be repaid by the Trustee to the City, as its absolute property and

free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Bond Owners shall look only to the City for the payment of such Bonds.

\* \* \* \* \*

**IN WITNESS WHEREOF**, the CITY OF FORTUNA has caused this Indenture to be signed in its name by its City Manager and attested by its City Clerk, and U.S. BANK NATIONAL ASSOCIATION, in token of its acceptance of the trust created hereunder, has caused this Indenture to be signed in its corporate name by its officer identified below, all as of the day and year first above written.

**CITY OF FORTUNA, CALIFORNIA**

\_\_\_\_\_  
City Manager

**Attest:**

\_\_\_\_\_  
City Clerk

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

By \_\_\_\_\_  
Authorized Officer



**EXHIBIT A**

**FORM OF SERIES 2017 BOND**

UNITED STATES OF AMERICA  
STATE OF CALIFORNIA  
COUNTY OF HUMBOLDT

CITY OF FORTUNA  
SERIES 2017 WASTEWATER REVENUE REFUNDING BONDS  
(WASTEWATER ENTERPRISE PROJECT)

NO. R-\_\_ \$ \_\_\_\_\_

INTEREST RATE                      MATURITY DATE                      DATED DATE                      CUSIP

June 1, \_\_\_\_\_                      September \_\_, 2017

REGISTERED OWNER:    CEDE & CO.

PRINCIPAL AMOUNT:    \_\_\_\_\_ DOLLARS

The City of Fortuna, a municipal corporation organized and existing under the laws of the State of California (the "City"), for value received, will (subject to any right of prior redemption hereinafter provided for), on the Maturity Date specified above, pay to the Registered Owner named above, or registered assigns (the "Owner"), the Principal Amount stated above, in lawful money of the United States of America, and pay interest thereon in like lawful money from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication of this Bond (unless (i) this Bond is authenticated on an Interest Payment Date, in which event it shall bear interest from such date of authentication, or (ii) this Bond is authenticated prior to November 15, 2017, in which event it shall bear interest from the Dated Date stated above; provided, however, that if at the time of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on this Bond) until payment of such Principal Amount in full, at the Interest Rate per annum stated above, payable on June 1 and December 1 in each year, commencing December 1, 2017 (each an "Interest Payment Date"), calculated on the basis of a 360-day year comprised of twelve 30-day months.

Principal hereof, whether at maturity or upon early redemption hereof, are payable at the corporate trust office of U.S. Bank National Association (the "Trustee"), in San Francisco, California. Interest hereon (including the final interest payment upon maturity or earlier redemption) is payable by check or draft of the Trustee mailed by first class mail to the Owner at

the Owner's address as it appears on the registration books maintained by the Trustee as of the close of business on the fifteenth (15th) day of the month next preceding such Interest Payment Date (the "Record Date"); provided, that at the option of any Owner of at least \$1,000,000 aggregate principal amount of the Bonds with respect to which written instructions have been filed with the Trustee prior to the Record Date, such interest may be paid by wire transfer.

This Bond is one of a duly authorized issue of bonds of the City designated as its "City of Fortuna, Series 2017 Wastewater Revenue Refunding Bonds (Wastewater Enterprise Project)" (the "Bonds") issued under and pursuant to an Indenture of Trust (the "Indenture") by and between the City and the Trustee, dated as of September 1, 2017, and approved by the City by a Resolution, adopted by the Council of the City on \_\_\_\_\_, 2017 (the "Resolution"), and the Resolution. Copies of the Indenture are on file at the office of the City Clerk and at the above-mentioned office of the Trustee, and reference to the Indenture and any and all supplements thereto and modifications and amendments thereof and to the Bond Law is made for a description of the terms on which the Bonds are issued, the provisions with regard to the nature and extent of the Net Revenues, as that term is defined in the Indenture, and the rights of the Owners of the Bonds. All the terms of the Indenture and the Bond Law are hereby incorporated herein and constitute a contract between the City and the Owner from time to time of this Bond, and to all the provisions thereof the Owner of this Bond, by acceptance hereof, consents and agrees. Each taker and subsequent Owner hereof shall have recourse to all of the provisions of the Bond Law and the Indenture and shall be bound by all of the terms and conditions thereof.

The Bonds are being issued to defease, redeem and prepay the City of Fortuna Public Financing Authority, Wastewater Revenue Bonds, Series 2006 (the "2006 Bonds") and to discharge, in full, the City's obligations under 2006 Installment Sale Agreement dated as of October 1, 2006 (the "2006 Installment Sale Agreement") between the City and the Fortuna Public Financing Authority.

The Bonds are special obligations of the City and are secured by amounts held from time to time in the Debt Service Fund established and held by the Trustee under the Indenture and, subject to certain restrictions set forth in the Indenture, a pledge of and lien on certain Net Revenues (as defined in the Indenture) generated by the City's Wastewater System.

**Neither the general fund, the full faith and credit, nor the taxing power of the City, the State of California or any other political subdivision thereof is pledged to the payment of the Bonds. The Bonds are not secured by a legal or equitable pledge of or charge, lien or encumbrance upon any property of the City or any of its income or receipts except the Net Revenues.**

The Bonds maturing on or before June 1, 20\_\_ shall not be subject to optional redemption prior to maturity. The Bonds maturing on or after June 1, 20\_\_ shall be subject to redemption prior to their respective maturity dates, at the option of the City, as a whole, or in part, as determined by the City, on any date on or after June 1, 20\_\_, from any source of available funds, at the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

The Bonds maturing on June 1, 20\_\_ and on June 1, 20\_\_ (collectively, the “Term Bonds”), are subject to mandatory redemption, in part by lot, from sinking fund payments made under the Indenture, at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest to the date of redemption, in the aggregate respective principal amounts and on June 1 in the respective years as set forth in the following tables:

**Term Bonds Maturing June 1, 20\_\_**

Sinking Fund Redemption Date ( <u>June 1</u> )	Principal <u>Amount</u>
--	----------------------------

**Term Bonds Maturing June 1, 20\_\_**

Sinking Fund Redemption Date ( <u>June 1</u> )	Principal <u>Amount</u>
--	----------------------------

Any Parity Debt issued pursuant to the Indenture may be made subject to redemption prior to maturity, as a whole or in part, at such time or times, and upon payment of the principal amount thereof and accrued interest thereon plus such premium or premiums, if any, as may be determined by the City in the applicable Parity Debt Instrument.

Unless waived by any Owner of Bonds to be redeemed, notice of any redemption of Bonds shall be given, at the expense of the City, by the Trustee by mailing a copy of a redemption notice by first class mail at least 30 days and not more than 60 days prior to the date fixed for redemption to the Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Registration Books; provided, that neither the failure to receive such notice nor any immaterial defect in any notice shall affect the sufficiency of the proceedings for the redemption of the Bonds. Any notice of an optional redemption may be rescinded as set forth in the Indenture.

If this Bond is called for redemption and payment is duly provided therefor as specified in the Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

The Bonds are issuable as fully registered Bonds, without coupons, in denominations of \$5,000 or any integral multiple thereof. Subject to the limitations and conditions and upon payment of the charges, if any, as provided in the Indenture, Bonds may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations and of the same maturity.

This Bond is transferable by the Owner hereof, in person, or by his attorney duly authorized in writing, at said office of the Trustee in San Francisco, California, but only in the manner and subject to the limitations provided in the Indenture, and upon surrender and cancellation of this Bond. Upon registration of such transfer a new Bond or Bonds, of any authorized denomination or denominations, for the same aggregate principal amount and of the same maturity will be issued to the transferee in exchange herefor.

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

The Indenture may be amended without the consent of the Owners of the Bonds to the extent set forth in the Indenture.

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

This Bond shall not become valid or obligatory for any purpose or be entitled to the benefits of the Indenture until the certificate of authentication and registration hereon shall have been manually signed by an authorized officer or signatory of the Trustee.

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

IN WITNESS WHEREOF, the City of Fortuna has caused this Bond to be executed in its name and on its behalf with the facsimile signatures of its City Manager and its seal to be reproduced hereon and attested by the facsimile signature of its City Clerk, all as of the \_\_\_ day of September, 2017.

CITY OF FORTUNA, CALIFORNIA

By \_\_\_\_\_  
City Manager

ATTEST:

By \_\_\_\_\_  
City Clerk

**CERTIFICATE OF AUTHENTICATION**

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

Dated: \_\_\_\_\_, 2017

\_\_\_\_\_,  
*as Trustee*

By: \_\_\_\_\_  
Authorized Signatory

**ASSIGNMENT**

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

Dated: \_\_\_\_\_

Signature Guaranteed:

Note: Signature(s) must be guaranteed by an eligible guarantor institution (banks, stockbrokers, saving and loan associations and credit unions with membership in an approved signature medallion program) pursuant to Securities and Exchange City Rule 17Ad-15.	Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Certificate in every particular without alteration or enlargement or any change whatsoever.
--	---

**EXHIBIT B**  
**FORM OF COST OF ISSUANCE FUND REQUISITION**

[\$[Par Amount]  
CITY OF FORTUNA  
SERIES 2017 WASTEWATER REVENUE REFUNDING BONDS  
(WASTEWATER ENTERPRISE PROJECT)

REQUISITION NO. 1 FOR  
DISBURSEMENT FROM COST OF ISSUANCE FUND

The undersigned, as City Manager of the City of Fortuna (the “City”), in connection with the above-captioned \$[Par Amount] aggregate principal amount of the City of Fortuna, Series 2017 Wastewater Revenue Refunding Bonds (Wastewater Enterprise Project) (the “Bonds”), issued in accordance with the Indenture of Trust, dated as of September 1, 2017 (the “Indenture”), between the City and U.S. Bank National Association, as the trustee named therein (the “Trustee”), does hereby certify on behalf of the City that:

(i) the undersigned is an Authorized Representative (as defined in the Indenture) with authority to act on behalf of the City as necessary to disburse money from the Costs of Issuance Fund provided for in Section 3.04 of the Indenture (the “Costs of Issuance Fund”);

(ii) an obligation in the not-to-exceed amount stated for each of the payees set forth on Exhibit A, attached hereto and by this reference incorporated herein, has been properly incurred under and pursuant to the Indenture, and each such obligation is a proper charge against the Costs of Issuance Fund, and has not been the basis of any previous disbursement;

(iii) that pursuant to the Indenture, the Trustee is hereby requested to disburse this date, from the Cost of Issuance Fund, upon receipt of an invoice from each of the payees designated on Exhibit A, the amount set forth in such invoice (but no more than the amount set forth opposite each such payee), in payment of Costs of Issuance described on said Exhibit A; and

(iv) all payments shall be made by check or wire transfer in accordance with payment instructions contained in Exhibit A attached hereto, or in the invoice submitted in accordance herewith, and the Trustee may rely on such payment instructions as though given by the City with no duty to investigate or inquire as to the authenticity of the invoice or the payment instructions contained therein.

Dated: \_\_\_\_\_, 2017

CITY OF FORTUNA, CALIFORNIA

By: \_\_\_\_\_  
Authorized Representative

**ATTACHMENT 1**

**REQUISITION NO. 1 FOR  
DISBURSEMENTS FROM COST OF ISSUANCE FUND**

**Payee Name and Address**

**Purpose of Obligation**

**Amount\***

\_\_\_\_\_  
\* Represents a not-to-exceed amount

**ESCROW AGREEMENT**

**by and between the**

**FORTUNA PUBLIC FINANCING AUTHORITY**

**and**

**U.S. BANK NATIONAL ASSOCIATION,  
as ESCROW AGENT**

**Dated as of September 1, 2017**

**Relating to the Prepayment and Defeasance of:**

**\$8,085,000 (Original Par Amount)  
FORTUNA PUBLIC FINANCING AUTHORITY  
WATER REVENUE BONDS  
SERIES 2006**

## ESCROW AGREEMENT

This ESCROW AGREEMENT (this “Agreement”), made and entered into as of this 1st day of September, 2017 by and between the FORTUNA PUBLIC FINANCING AUTHORITY a joint powers authority duly organized an existing under the laws of the State of California (the “Authority”) and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, acting as Prior Trustee (the “Prior Trustee”) for the 2006 Bonds (as defined below), hereinafter referred to and acting as escrow holder hereunder (the “Escrow Agent”);

### WITNESSETH:

**WHEREAS**, the Authority is a joint powers authority duly organized and existing under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Act”), and is authorized pursuant to Article 4 of the Act (the “Bond Law”) to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations to provide financing or refinancing for public capital improvements of local agencies within the State of California; and

**WHEREAS**, the Authority has heretofore issued its Fortuna Public Financing Authority, Series 2006 Water Revenue Bonds in the original aggregate principal amount of \$8,085,000 (the “2006 Bonds”), pursuant to (i) an Installment Sale Agreement, dated as of October 1, 2006, by and between the Authority and the City of Fortuna (the “City”) (the “2006 Installment Sale Agreement”), and (ii) a Trust Agreement, dated as of October 1, 2006, by and between Deutsche Bank National Trust Company (as predecessor to the Prior Trustee), as trustee thereunder, and the Authority (the “2006 Trust Agreement,” and together with the 2006 Installment Sale Agreement, the “2006 Bond Documents”); and

**WHEREAS**, the 2006 Bonds maturing on or after October 1, 2017, are subject to redemption in whole, or in part, at the option of the Authority, on any date on or after October 1, 2016, at a redemption price equal to 100% of the principal amount of the 2006 Bonds called for redemption, plus accrued interest to the date of redemption, without premium; and

**WHEREAS**, in order to take advantage of prevailing bond market conditions, the City desires to issue City of Fortuna, Series 2017 Water Revenue Refunding Bonds (the “2017 Bonds”) to refinance its payment obligations under the 2006 Installment Sale Agreement which in turn will provide moneys to defease the 2006 Bonds in advance of their scheduled maturities, on \_\_\_\_\_, 2017 (the “Redemption Date”); and

**WHEREAS**, the Authority wishes to appoint the Escrow Agent for the purpose of establishing an irrevocable escrow fund to be funded, invested, held and administered for the purpose of receiving the payment in full of the 2006 Installment Payments and providing for the payment in full of the principal and interest and premium (if any) with respect to the outstanding 2006 Bonds, and to provide certain directions to the 2006 Trustee with respect to the 2006 Bonds; and

**WHEREAS**, as a result of the deposit and investment of funds in accordance with this Agreement, the 2006 Installment Payments will be deemed prepaid and discharged under Sections

3.03 and 7.01 of the 2006 Installment Sale Agreement, and the 2006 Bonds will be discharged and defeased in accordance with the provisions of Section 9.01 of the 2006 Trust Agreement and prepaid in accordance with the provisions of Section 2.03(c) of the 2006 Trust Agreement; and

**WHEREAS**, the Escrow Agent has full power to act with respect to the irrevocable escrow created herein and to perform the duties and obligations to be undertaken pursuant to this Agreement; and

**WHEREAS**, the Escrow Agent acknowledges that this Agreement constitutes irrevocable instructions to apply the monies deposited hereunder to the payment of principal, interest and premium, if any, with respect to the 2006 Bonds, as set forth herein.

**NOW, THEREFORE**, in consideration of the above premises and of the mutual promises and covenants therein contained and for other valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

**Section 1. Appointment of Escrow Agent.**

The Authority hereby appoints U.S. Bank National Association, a national banking association, as Escrow Agent for all purposes of this Agreement and in accordance with the terms and provisions of this Agreement, and the Escrow Agent hereby accepts such appointments.

**Section 2. Establishment of Escrow Fund.**

There is hereby created an escrow fund designated the “Fortuna Public Financing Authority, 2006 Bonds Escrow Fund” (the “Escrow Fund”) to be held by the Escrow Agent as an irrevocable escrow securing the payment of the 2006 Bonds, separate and apart from all other funds of the Escrow Agent as hereinafter set forth. The Escrow Agent shall administer the Escrow Fund as provided in this Agreement.

All cash and Securities in the Escrow Fund are hereby irrevocably pledged as a special fund for the payment of the principal of and interest and premium, if any, on the 2006 Bonds in accordance with the provisions of this Agreement and the 2006 Bond Documents.

**Section 3. Deposits into the Escrow Fund.**

On \_\_\_\_\_, 2017 (the “Closing Date”), the Authority, pursuant to the Indenture, will cause to be transferred to the Escrow Agent for deposit into the Escrow Fund the amount of \$ \_\_\_\_\_ in immediately available funds, to be derived from the proceeds of the 2017 Bonds.

In addition, the Authority hereby directs the Prior Trustee to transfer to the Escrow Agent for deposit into the Escrow Fund the amount of \$ \_\_\_\_\_, to be derived from moneys on deposit with the Prior Trustee, that are related to the 2006 Bonds and available as a result of the defeasance of the 2006 Bonds, comprised of the following: \$ \_\_\_\_\_ on deposit in the Revenue Fund, and \$ \_\_\_\_\_ on deposit in the Reserve Account.

#### **Section 4. Investment of Amounts in the Escrow Fund.**

As used herein, the term “Federal Securities” means the Federal Securities set forth in Exhibit A hereto. The deposits into the Escrow Fund shall be applied solely as provided in this Agreement.

Such moneys are at least equal to an amount sufficient to purchase the principal amount of Federal Securities set forth in Exhibit A hereto, and the Escrow Agent is hereby instructed to purchase the Federal Securities, which, together with all interest due or to become due on such Federal Securities, and \$\_.\_\_ to be held as cash, will be sufficient to prepay and redeem the entire issue of outstanding 2006 Bonds in advance of their scheduled maturities, on the Redemption Date. The Escrow Agent shall assert no lien upon or right of off-set against the Federal Securities and cash at any time on deposit in the Escrow Fund.

[If the Escrow Agent learns that the Department of the Treasury or the Bureau of Fiscal Service will not, for any reason, accept a subscription of state and local government series securities (“SLGS”) that is to be submitted pursuant to this Agreement, the Escrow Agent shall promptly request alternative written investment instructions from the Authority with respect to funds which were to be invested in SLGS. The Escrow Agent shall follow such instructions and, upon the maturity of any such alternative investment, the Escrow Agent shall hold such funds uninvested and without liability for interest until receipt of further written instructions from the Authority. In the absence of investment instructions from the Authority, the Escrow Agent shall not be responsible for the investment of such funds or interest thereon. The Escrow Agent may conclusively rely upon the Authority’s selection of an alternative investment as a determination of the alternative investment's legality and suitability and shall not be liable for any losses related to the alternative investments or for compliance with any yield restriction applicable thereto.]

#### **Section 5. Instructions as to Escrow Agent.**

The Authority hereby irrevocably directs the Escrow Agent, and the Escrow Agent hereby agrees, to apply the amounts on deposit in the Escrow Fund to pay and redeem the 2006 Bonds in accordance with the schedule set forth in Exhibit B attached hereto and by this reference incorporated herein.

Following the payment and redemption of the 2006 Bonds in full on the Redemption Date, any remaining amounts on deposit in the Escrow Fund shall be transferred by the Escrow Agent to U.S. Bank National Association, as trustee for the 2017 Bonds (the “2017 Trustee”), for deposit in the Debt Service Fund established under the Indenture, to be applied to pay interest next coming due and payable on the 2017 Bonds.

#### **Section 6. Additional Instructions as to Escrow Agent.**

In addition, any investment earnings on funds held by the Prior Trustee under the 2006 Bond Documents which are posted after the date of the foregoing transfers or otherwise, shall be remitted by the Prior Trustee to the 2017 Trustee for deposit in the Debt Service Fund established under the Indenture, to be applied to pay interest next coming due and payable on the 2017 Bonds. The Escrow Agent may utilize its corporate affiliate as a depository agent to hold any uninvested moneys in accordance with the provisions of this Agreement.

If at any time the Escrow Agent shall receive actual knowledge that the cash in the Escrow Fund will not be sufficient to make any payment required by Section 4 hereof, the Escrow Agent shall notify the Authority of such fact and the Authority shall immediately cure such deficiency from any source of legally available funds. The Escrow Agent shall have no obligation whatsoever to use its own funds to cure any such deficiency.

#### **Section 7. Application of Certain Terms of 2006 Bond Documents.**

All of the terms of the 2006 Bond Documents relating to the making of payments of the principal of and interest and premium on the 2006 Bonds are incorporated in this Agreement as if set forth in full herein.

#### **Section 8. Irrevocable Election to Prepay 2006 Bonds; Redemption Notice.**

The Authority hereby irrevocably elects to redeem all of the outstanding 2006 Bonds in full on the Redemption Date pursuant to the provisions of the 2006 Bond Documents. The Prior Trustee is hereby instructed by the Authority that at least 30 days, but not more than 60 days, prior to the Redemption Date, it is to provide the owners of the 2006 Bonds with notice of redemption, in the manner provided by, and meeting the requirements of the Prior Bond Documents, a form sample of which is attached hereto as Exhibit C.

Promptly following the effectiveness of this Agreement, the Escrow Agent is hereby instructed to provide the owners of the 2006 Bonds with notice of the defeasance of the 2006 Bonds in the form attached as Exhibit D.

#### **Section 9. Compensation to Escrow Agent.**

The Authority shall pay the Escrow Agent full compensation for its duties under the Agreement, including out-of-pocket costs such as publication costs, redemption expenses, legal fees (including fees of outside counsel and the allocated costs of internal attorneys) and other costs and expenses relating hereto and, in addition, all fees, costs and expenses relating to the purchase of any Federal Securities after the date hereof.

Under no circumstances shall amounts deposited in and credited to the Escrow Fund be deemed to be available for said purposes. The obligation of the Authority under this Section 9 to pay compensation already earned by the Escrow Agent and to pay costs and expenses already incurred shall survive termination of this Agreement and shall survive the resignation or removal of the Escrow Agent.

#### **Section 10. Liabilities and Obligations of Escrow Agent.**

The Escrow Agent shall have no obligation to make any payment or disbursement of any type unless the Authority shall have deposited sufficient funds therefore with the Escrow Agent. The Escrow Agent shall have no obligation to incur any financial liability in the performance of its duties under this Agreement, and the Escrow Agent may rely and shall be fully protected in acting upon the written instructions of the Authority or its agents relating to any matter or action as Escrow Agent under this Agreement.

The Authority, to the extent permitted by law, covenants to indemnify, defend and hold harmless the Escrow Agent and its officers, employees, directors, and agents, against any loss, liability or expense, including legal fees (including fees of outside counsel and the allocated costs of internal attorneys), incurred in connection with the performance of any of the duties of Escrow Agent hereunder, except the Escrow Agent shall not be indemnified against any loss, liability or expense resulting from its negligence or willful misconduct. Such indemnity shall survive the termination of this Agreement and shall survive the resignation or removal of the Escrow Agent.

The Escrow Agent shall have such duties as are expressly set forth herein and no implied duties shall be read into this Agreement against the Escrow Agent. The Escrow Agent shall not be liable for any act or omission of the Authority under this Agreement or the 2006 Bond Documents. The Escrow Agent shall not be liable for the accuracy of any calculations as to the sufficiency of moneys deposited with it to pay the principal, interest or premiums, if any, on the 2006 Bonds.

The Escrow Agent shall incur no liability for losses arising from any investment or other disposition made pursuant to and in accordance with this Agreement. Any bank, federal savings association or trust company into which the Escrow Agent may be merged or with which it may be consolidated shall become the Escrow Agent without any action of the Authority.

The Escrow Agent may conclusively rely, as to the trust of the statements and correctness of the opinions expressed therein, on any certificate or opinion furnished to it in accordance with this Agreement or the 2006 Bond Documents.

Any entity succeeding to all or substantially all of the corporate trust business of the Escrow Agent shall be the successor of the Escrow Agent hereunder, without the execution or filing of any paper or any further act on the part of the any of the parties hereto.

The Escrow Agent shall have the right to accept and act upon instructions, including funds transfer instructions (“Instructions”) given pursuant to this Escrow Agreement and delivered using Electronic Means (“Electronic Means” shall mean the following communications methods: S.W.I.F.T., e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Escrow Agent, or another method or system specified by the Escrow Agent as available for use in connection with its services hereunder); provided, however, that the Authority shall provide to the Escrow Agent an incumbency certificate listing the authorized representatives of the Authority with the authority to provide such Instructions (“Authorized Representatives”) and containing specimen signatures of such Authorized Representatives, which incumbency certificate shall be amended by the Authority whenever a person is to be added or deleted from the listing. If the Authority elects to give the Escrow Agent Instructions using Electronic Means and the Escrow Agent in its discretion elects to act upon such Instructions, the Escrow Agent’s understanding of such Instructions shall be deemed controlling. The Authority understands and agrees that the Escrow Agent cannot determine the identity of the actual sender of such Instructions and that the Escrow Agent shall conclusively presume that directions that purport to have been sent by an Authorized Representative listed on the incumbency certificate provided to the Escrow Agent have been sent by such Authorized Representative. The Authority shall be responsible for ensuring that only Authorized Representatives transmit such Instructions to the Escrow Agent and that the Authority and all Authorized Representatives are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or

authentication keys upon receipt by the Authority. The Escrow Agent shall not be liable for any losses, costs or expenses arising directly or indirectly from the Escrow Agent's good faith reliance upon and compliance with such Instructions notwithstanding such directions conflict or are inconsistent with a subsequent written instruction. The Authority agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Escrow Agent, including without limitation the risk of the Escrow Agent acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Escrow Agent and that there may be more secure methods of transmitting Instructions than the method(s) selected by the Authority; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Escrow Agent immediately upon learning of any compromise or unauthorized use of the security procedures.

If the Escrow Agent learns that the Department of the Treasury or the Bureau of Public Debt will not, for any reason, accept a subscription of Securities that is to be submitted pursuant to this Escrow Agreement, the Escrow Agent shall promptly request alternative written investment instructions from the Authority with respect to escrowed funds which were to be invested in securities. The Escrow Agent shall follow such instructions and, upon the maturity of any such alternative investment, the Escrow Agent shall hold funds uninvested and without liability for interest until receipt of further written instructions from the Authority. In the absence of investment instructions from the Authority, the Escrow Agent shall not be responsible for the investment of such funds or interest thereon. The Escrow Agent may conclusively rely upon the Authority's selection of an alternative investment as a determination of the alternative investment's legality and suitability and shall not be liable for any losses related to the alternative investments or for compliance with any yield restriction applicable thereto.

The Escrow Agent shall furnish the Authority periodic cash transaction statements which include detail for all investment transactions effected by the Escrow Agent or brokers selected by the Authority. Upon the Authority's election, such statements will be delivered via the Escrow Agent's online service and upon electing such service, paper statements will be provided only upon request. The Authority waives the right to receive brokerage confirmations of security transactions effected by the Escrow Agent as they occur, to the extent permitted by law. The Authority further understands that trade confirmations for securities transactions effected by the Escrow Agent will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

#### **Section 11. Resignation of Escrow Agent.**

The Escrow Agent may at any time resign by giving written notice to the Authority, which notice shall indicate the date on which the resignation is to be effective (the "resignation date"). Resignation of the Escrow Agent will be effective upon acceptance of appointment by a successor Escrow Agent. If the Authority does not appoint a successor Escrow Agent by the resignation date, the Escrow Agent may, at the expense of the Authority, petition any court of competent jurisdiction for the appointment of a successor Escrow Agent, which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor Escrow Agent.

## **Section 12. Amendment.**

This Agreement shall not be repealed, revoked, rescinded, altered, amended or supplemented in whole or in part without the written consent of (i) the holders of one hundred percent (100%) in principal amount of the unpaid 2006 Bonds at the time such consent is requested and (ii) the Escrow Agent; provided, however, that the Authority and the Escrow Agent may, without the consent of or notice to the holders of the 2006 Bonds, enter into such agreements supplemental to this Agreement as shall not adversely affect the rights of such holders and shall not be inconsistent with the terms and provisions of this Agreement:

- (1) to cure ambiguity or formal defect or omission in this Agreement;
- (2) to grant to or confer upon the Escrow Agent for the benefit of the holders of the 2006 Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Escrow Agent; and
- (3) to provide for the deposit of additional moneys or Federal Securities to the credit of the Escrow Fund.

The Escrow Agent shall be entitled to rely conclusively upon an unqualified opinion of a nationally recognized firm of municipal bond attorneys with respect to compliance with this Section 12, including the extent, if any, to which any change, modification, addition elimination affects the rights of such holders of the 2006 Bonds or that any instrument executed hereunder complies with the conditions or provisions of this Section 12.

## **Section 13. Unclaimed Moneys.**

Anything contained herein to the contrary notwithstanding, any moneys held by the Escrow Agent for the payment and discharge of the principal of, and the interest and any premium on, the 2006 Bonds which remain unclaimed for two (2) years after the date when the payment of such principal, interest and premium have become payable, if such moneys were held by the Escrow Agent at such date, shall be repaid by the Escrow Agent shall thereupon be released and discharged with respect thereto and the owners of such 2006 Bonds shall look only to the Authority for the payment of the principal of, and interest and any premium on, such 2006 Bonds.

Any right of any owner of any 2006 Bond to look to the Authority for such payment shall survive only so long as required under applicable law.

## **Section 14. Applicable Law.**

This Agreement shall be governed by and constructed in accordance with the laws of the State of California.

**Section 15. Execution in Counterparts.**

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

IN WITNESS WHEREOF, the Authority and the Escrow Agent have each caused this Agreement to be executed by their duly authorized officers all as of the date first above written.

**FORTUNA PUBLIC FINANCING AUTHORITY**

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

**U.S. BANK NATIONAL ASSOCIATION,**  
As Escrow Agent

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

Title: \_\_\_\_\_

**EXHIBIT A**

**SCHEDULE OF FEDERAL SECURITIES**

Federal Security	Maturity Date	Par Amount	Interest Rate	Price	Cost	Accrued Interest	Total Cost
<hr/>							

**EXHIBIT B**

**SCHEDULE OF PAYMENTS OF 2006 BONDS**

Period Ending	Principal	Interest	Redeemed Principal	Redemption Premium	Totals
<hr/>					
<hr/>					

## EXHIBIT C

### NOTICE OF FULL OPTIONAL REDEMPTION to the Holders of

### FORTUNA PUBLIC FINANCING AUTHORITY WATER REVENUE BONDS SERIES 2006

**NOTICE IS HEREBY GIVEN** pursuant to the terms of the Trust Agreement dated as of October 1, 2006, between Fortuna Public Financing Authority, as Issuer, and U.S. Bank National Association, as Trustee, that the bonds listed below have been selected for Full Redemption on \_\_\_\_\_, 2017 (the Redemption Date) at the price listed below of the principal amount (the Redemption Price) together with interest accrued to the Redemption Date.

<b>Maturity Date (October 1)</b>	<b>Principal Amount</b>	<b>Redemption Price</b>	<b>CUSIP Number (____)*</b>
--	-----------------------------	-----------------------------	-------------------------------------

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

#### **Delivery Instructions**

**U.S. Bank**  
**Global Corporate Trust Services**  
111 Fillmore Ave E  
St. Paul, MN 55107

Bondholders presenting their bonds in person for same day payment **must** surrender their bond(s) by 1:00 P.M. CST on the Redemption Date and a check will be available for pick up after 2:00 P.M. CST. Checks not picked up by 4:30 P.M. CST. will be mailed out to the bondholder via first class mail. If payment of the Redemption Price is to be made to the registered owner of the Bond, you are not required to endorse the Bond to collect the Redemption Price.

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

#### **REQUIREMENT INFORMATION**

For a list of redemption requirements please visit our website at [www.usbank.com/corporatetrust](http://www.usbank.com/corporatetrust) and click on the “**Bondholder Information**” link for Redemption instructions. You may also contact our Bondholder Communications team at 1-800-934-6802 Monday through Friday from 8 AM to 6 PM CST.

**IMPORTANT NOTICE**

Federal law requires the Paying Agent to withhold taxes at the applicable rate from the payment if an IRS Form W-9 or applicable IRS Form W-8 is not provided. Please visit [www.irs.gov](http://www.irs.gov) for additional information on the tax forms and instructions..

*\*The Trustee shall not be held responsible for the selection or use of the CUSIP number in this Redemption Notice, nor is any representation made as to its correctness. It is included solely for the convenience of the Holders.*

**Dated:** \_\_\_\_\_ \_\_, 2017

**By: U.S. Bank National Association,  
as Trustee**

**EXHIBIT D**

**MATERIAL EVENT NOTICE**

**NOTICE OF DEFEASANCE AND  
TERMINATION OF REPORTING OBLIGATION  
to the Holders of**

**FORTUNA PUBLIC FINANCING AUTHORITY  
WATER REVENUE BONDS  
SERIES 2006**

NOTICE IS HEREBY GIVEN that the above-referenced bonds identified in the table below have been defeased (the “Refunded Bonds”), and the Refunded Bonds, maturing on and after October 1, 2017, will be called for redemption on \_\_\_\_\_, 2017 (the “Redemption Date”). The Refunded Bonds more specifically include the following bonds:

<b><u>Maturity Date (October 1)</u></b>	<b><u>Principal Amount</u></b>	<b><u>Redemption Price</u></b>	<b><u>CUSIP Number (72433L)*</u></b>
---	------------------------------------	------------------------------------	--

The Refunded Bonds have been defeased by actions of the City of Fortuna (the “City”) and the Fortuna Public Financing Authority (the “Authority”), with monies on deposit with U.S. Bank National Association, as trustee for the Refunded Bonds, on deposit with U.S. Bank National Association, as escrow agent (the “Escrow Agent”), under an Escrow Agreement by and between the Authority and the Escrow Agent (the “Escrow Agreement”), which proceeds have been invested in obligations, the principal of and interest on which are guaranteed by the United States of America, the maturing principal of and interest on which, together with cash held in escrow, will be sufficient to pay the principal of and interest on the Refunded Bonds in accordance with their terms until the Redemption Date, on which date the Refunded Bonds that have not otherwise matured shall be called for optional redemption, and to pay the redemption price of the Refunded Bonds on the Redemption Date, which amount is equal to the principal amount of each Refunded Bond, plus accrued interest to the Redemption Date, without redemption premium.

Pursuant to the provisions of the Trust Agreement, dated as of October 1, 2006, providing for the issuance of the Refunded Bonds (the “Trust Agreement”), the Refunded Bonds are secured by the funds held for the payment thereof pursuant to the Escrow Agreement through and including the Redemption Date, and are no longer deemed Outstanding within the meaning of the Trust Agreement.

On \_\_\_\_\_, 2017, the City's and the Authority's respective obligations under the Continuing Disclosure Certificate for the Refunded Bonds (the "Disclosure Certificate") will terminate as a result of the defeasance of the Refunded Bonds as of \_\_\_\_\_, 2017. No further annual reports or notices will be made pursuant to the Disclosure Certificate.

The information in this Material Event Notice is provided solely to comply with the contractual commitment to provide such notice pursuant to the Continuing Disclosure Certificate. This Material Event Notice does not, and is not intended to, provide disclosure as to the financial condition or operations of the City or Authority, and no representation is made as to the materiality of the information provided in this Material Event Notice. Neither the City nor the Authority make any representation that this Material Event Notice contains all information material to a decision to purchase or sell Refunded Bonds.

Dated: \_\_\_\_\_, 2017

*\* Neither the City nor the Authority shall be responsible for the use of the CUSIP numbers referenced above, nor is any representation made as to their correctness in this Material Event Notice or as printed on any of the Refunded Bonds. The CUSIP numbers are included in this Material Event Notice solely for the convenience of the holders of the Refunded Bonds.*

**ESCROW AGREEMENT**

**by and between the**

**FORTUNA PUBLIC FINANCING AUTHORITY**

**and**

**U.S. BANK NATIONAL ASSOCIATION,  
as ESCROW AGENT**

**Dated as of September 1, 2017**

**Relating to the Prepayment and Defeasance of:**

**\$13,820,000 (Original Par Amount)  
FORTUNA PUBLIC FINANCING AUTHORITY  
WASTEWATER REVENUE BONDS  
SERIES 2006**

## ESCROW AGREEMENT

This ESCROW AGREEMENT (this “Agreement”), made and entered into as of this 1st day of September, 2017 by and between the FORTUNA PUBLIC FINANCING AUTHORITY a joint powers authority duly organized an existing under the laws of the State of California (the “Authority”) and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, acting as Prior Trustee (the “Prior Trustee”) for the 2006 Bonds (as defined below), hereinafter referred to and acting as escrow holder hereunder (the “Escrow Agent”);

### WITNESSETH:

**WHEREAS**, the Authority is a joint powers authority duly organized and existing under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Act”), and is authorized pursuant to Article 4 of the Act (the “Bond Law”) to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations to provide financing or refinancing for public capital improvements of local agencies within the State of California; and

**WHEREAS**, the Authority has heretofore issued its Fortuna Public Financing Authority, Series 2006 Wastewater Revenue Bonds in the original aggregate principal amount of \$13,820,000 (the “2006 Bonds”), pursuant to (i) an Installment Sale Agreement, dated as of October 1, 2006, by and between the Authority and the City of Fortuna (the “City”) (the “2006 Installment Sale Agreement”), and (ii) a Trust Agreement, dated as of October 1, 2006, by and between Deutsche Bank National Trust Company (as predecessor to the Prior Trustee), as trustee thereunder, and the Authority (the “2006 Trust Agreement,” and together with the 2006 Installment Sale Agreement, the “2006 Bond Documents”); and

**WHEREAS**, the 2006 Bonds maturing on or after October 1, 2017, are subject to redemption in whole, or in part, at the option of the Authority, on any date on or after October 1, 2016, at a redemption price equal to 100% of the principal amount of the 2006 Bonds called for redemption, plus accrued interest to the date of redemption, without premium; and

**WHEREAS**, in order to take advantage of prevailing bond market conditions, the City desires to issue City of Fortuna, Series 2017 Wastewater Revenue Refunding Bonds (the “2017 Bonds”) to refinance its payment obligations under the 2006 Installment Sale Agreement which in turn will provide moneys to defease the 2006 Bonds in advance of their scheduled maturities, on \_\_\_\_\_, 2017 (the “Redemption Date”); and

**WHEREAS**, the Authority wishes to appoint the Escrow Agent for the purpose of establishing an irrevocable escrow fund to be funded, invested, held and administered for the purpose of receiving the payment in full of the 2006 Installment Payments and providing for the payment in full of the principal and interest and premium (if any) with respect to the outstanding 2006 Bonds, and to provide certain directions to the 2006 Trustee with respect to the 2006 Bonds; and

**WHEREAS**, as a result of the deposit and investment of funds in accordance with this Agreement, the 2006 Installment Payments will be deemed prepaid and discharged under Sections

3.03 and 7.01 of the 2006 Installment Sale Agreement, and the 2006 Bonds will be discharged and defeased in accordance with the provisions of Section 9.01 of the 2006 Trust Agreement and prepaid in accordance with the provisions of Section 2.03(c) of the 2006 Trust Agreement; and

**WHEREAS**, the Escrow Agent has full power to act with respect to the irrevocable escrow created herein and to perform the duties and obligations to be undertaken pursuant to this Agreement; and

**WHEREAS**, the Escrow Agent acknowledges that this Agreement constitutes irrevocable instructions to apply the monies deposited hereunder to the payment of principal, interest and premium, if any, with respect to the 2006 Bonds, as set forth herein.

**NOW, THEREFORE**, in consideration of the above premises and of the mutual promises and covenants therein contained and for other valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

**Section 1. Appointment of Escrow Agent.**

The Authority hereby appoints U.S. Bank National Association, a national banking association, as Escrow Agent for all purposes of this Agreement and in accordance with the terms and provisions of this Agreement, and the Escrow Agent hereby accepts such appointments.

**Section 2. Establishment of Escrow Fund.**

There is hereby created an escrow fund designated the “Fortuna Public Financing Authority, 2006 Bonds Escrow Fund” (the “Escrow Fund”) to be held by the Escrow Agent as an irrevocable escrow securing the payment of the 2006 Bonds, separate and apart from all other funds of the Escrow Agent as hereinafter set forth. The Escrow Agent shall administer the Escrow Fund as provided in this Agreement.

All cash and Securities in the Escrow Fund are hereby irrevocably pledged as a special fund for the payment of the principal of and interest and premium, if any, on the 2006 Bonds in accordance with the provisions of this Agreement and the 2006 Bond Documents.

**Section 3. Deposits into the Escrow Fund.**

On \_\_\_\_\_, 2017 (the “Closing Date”), the Authority, pursuant to the Indenture, will cause to be transferred to the Escrow Agent for deposit into the Escrow Fund the amount of \$ \_\_\_\_\_ in immediately available funds, to be derived from the proceeds of the 2017 Bonds.

In addition, the Authority hereby directs the Prior Trustee to transfer to the Escrow Agent for deposit into the Escrow Fund the amount of \$ \_\_\_\_\_, to be derived from moneys on deposit with the Prior Trustee, that are related to the 2006 Bonds and available as a result of the defeasance of the 2006 Bonds, comprised of the following: \$ \_\_\_\_\_ on deposit in the Revenue Fund, and \$ \_\_\_\_\_ on deposit in the Reserve Account.

#### **Section 4. Investment of Amounts in the Escrow Fund.**

As used herein, the term “Federal Securities” means the Federal Securities set forth in Exhibit A hereto. The deposits into the Escrow Fund shall be applied solely as provided in this Agreement.

Such moneys are at least equal to an amount sufficient to purchase the principal amount of Federal Securities set forth in Exhibit A hereto, and the Escrow Agent is hereby instructed to purchase the Federal Securities, which, together with all interest due or to become due on such Federal Securities, and \$\_.\_\_ to be held as cash, will be sufficient to prepay and redeem the entire issue of outstanding 2006 Bonds in advance of their scheduled maturities, on the Redemption Date. The Escrow Agent shall assert no lien upon or right of off-set against the Federal Securities and cash at any time on deposit in the Escrow Fund.

[If the Escrow Agent learns that the Department of the Treasury or the Bureau of Fiscal Service will not, for any reason, accept a subscription of state and local government series securities (“SLGS”) that is to be submitted pursuant to this Agreement, the Escrow Agent shall promptly request alternative written investment instructions from the Authority with respect to funds which were to be invested in SLGS. The Escrow Agent shall follow such instructions and, upon the maturity of any such alternative investment, the Escrow Agent shall hold such funds uninvested and without liability for interest until receipt of further written instructions from the Authority. In the absence of investment instructions from the Authority, the Escrow Agent shall not be responsible for the investment of such funds or interest thereon. The Escrow Agent may conclusively rely upon the Authority’s selection of an alternative investment as a determination of the alternative investment's legality and suitability and shall not be liable for any losses related to the alternative investments or for compliance with any yield restriction applicable thereto.]

#### **Section 5. Instructions as to Escrow Agent.**

The Authority hereby irrevocably directs the Escrow Agent, and the Escrow Agent hereby agrees, to apply the amounts on deposit in the Escrow Fund to pay and redeem the 2006 Bonds in accordance with the schedule set forth in Exhibit B attached hereto and by this reference incorporated herein.

Following the payment and redemption of the 2006 Bonds in full on the Redemption Date, any remaining amounts on deposit in the Escrow Fund shall be transferred by the Escrow Agent to U.S. Bank National Association, as trustee for the 2017 Bonds (the “2017 Trustee”), for deposit in the Debt Service Fund established under the Indenture, to be applied to pay interest next coming due and payable on the 2017 Bonds.

#### **Section 6. Additional Instructions as to Escrow Agent.**

In addition, any investment earnings on funds held by the Prior Trustee under the 2006 Bond Documents which are posted after the date of the foregoing transfers or otherwise, shall be remitted by the Prior Trustee to the 2017 Trustee for deposit in the Debt Service Fund established under the Indenture, to be applied to pay interest next coming due and payable on the 2017 Bonds. The Escrow Agent may utilize its corporate affiliate as a depository agent to hold any uninvested moneys in accordance with the provisions of this Agreement.

If at any time the Escrow Agent shall receive actual knowledge that the cash in the Escrow Fund will not be sufficient to make any payment required by Section 4 hereof, the Escrow Agent shall notify the Authority of such fact and the Authority shall immediately cure such deficiency from any source of legally available funds. The Escrow Agent shall have no obligation whatsoever to use its own funds to cure any such deficiency.

#### **Section 7. Application of Certain Terms of 2006 Bond Documents.**

All of the terms of the 2006 Bond Documents relating to the making of payments of the principal of and interest and premium on the 2006 Bonds are incorporated in this Agreement as if set forth in full herein.

#### **Section 8. Irrevocable Election to Prepay 2006 Bonds; Redemption Notice.**

The Authority hereby irrevocably elects to redeem all of the outstanding 2006 Bonds in full on the Redemption Date pursuant to the provisions of the 2006 Bond Documents. The Prior Trustee is hereby instructed by the Authority that at least 30 days, but not more than 60 days, prior to the Redemption Date, it is to provide the owners of the 2006 Bonds with notice of redemption, in the manner provided by, and meeting the requirements of the Prior Bond Documents, a form sample of which is attached hereto as Exhibit C.

Promptly following the effectiveness of this Agreement, the Escrow Agent is hereby instructed to provide the owners of the 2006 Bonds with notice of the defeasance of the 2006 Bonds in the form attached as Exhibit D.

#### **Section 9. Compensation to Escrow Agent.**

The Authority shall pay the Escrow Agent full compensation for its duties under the Agreement, including out-of-pocket costs such as publication costs, redemption expenses, legal fees (including fees of outside counsel and the allocated costs of internal attorneys) and other costs and expenses relating hereto and, in addition, all fees, costs and expenses relating to the purchase of any Federal Securities after the date hereof.

Under no circumstances shall amounts deposited in and credited to the Escrow Fund be deemed to be available for said purposes. The obligation of the Authority under this Section 9 to pay compensation already earned by the Escrow Agent and to pay costs and expenses already incurred shall survive termination of this Agreement and shall survive the resignation or removal of the Escrow Agent.

#### **Section 10. Liabilities and Obligations of Escrow Agent.**

The Escrow Agent shall have no obligation to make any payment or disbursement of any type unless the Authority shall have deposited sufficient funds therefore with the Escrow Agent. The Escrow Agent shall have no obligation to incur any financial liability in the performance of its duties under this Agreement, and the Escrow Agent may rely and shall be fully protected in acting upon the written instructions of the Authority or its agents relating to any matter or action as Escrow Agent under this Agreement.

The Authority, to the extent permitted by law, covenants to indemnify, defend and hold harmless the Escrow Agent and its officers, employees, directors, and agents, against any loss, liability or expense, including legal fees (including fees of outside counsel and the allocated costs of internal attorneys), incurred in connection with the performance of any of the duties of Escrow Agent hereunder, except the Escrow Agent shall not be indemnified against any loss, liability or expense resulting from its negligence or willful misconduct. Such indemnity shall survive the termination of this Agreement and shall survive the resignation or removal of the Escrow Agent.

The Escrow Agent shall have such duties as are expressly set forth herein and no implied duties shall be read into this Agreement against the Escrow Agent. The Escrow Agent shall not be liable for any act or omission of the Authority under this Agreement or the 2006 Bond Documents. The Escrow Agent shall not be liable for the accuracy of any calculations as to the sufficiency of moneys deposited with it to pay the principal, interest or premiums, if any, on the 2006 Bonds.

The Escrow Agent shall incur no liability for losses arising from any investment or other disposition made pursuant to and in accordance with this Agreement. Any bank, federal savings association or trust company into which the Escrow Agent may be merged or with which it may be consolidated shall become the Escrow Agent without any action of the Authority.

The Escrow Agent may conclusively rely, as to the trust of the statements and correctness of the opinions expressed therein, on any certificate or opinion furnished to it in accordance with this Agreement or the 2006 Bond Documents.

Any entity succeeding to all or substantially all of the corporate trust business of the Escrow Agent shall be the successor of the Escrow Agent hereunder, without the execution or filing of any paper or any further act on the part of the any of the parties hereto.

The Escrow Agent shall have the right to accept and act upon instructions, including funds transfer instructions (“Instructions”) given pursuant to this Escrow Agreement and delivered using Electronic Means (“Electronic Means” shall mean the following communications methods: S.W.I.F.T., e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Escrow Agent, or another method or system specified by the Escrow Agent as available for use in connection with its services hereunder); provided, however, that the Authority shall provide to the Escrow Agent an incumbency certificate listing the authorized representatives of the Authority with the authority to provide such Instructions (“Authorized Representatives”) and containing specimen signatures of such Authorized Representatives, which incumbency certificate shall be amended by the Authority whenever a person is to be added or deleted from the listing. If the Authority elects to give the Escrow Agent Instructions using Electronic Means and the Escrow Agent in its discretion elects to act upon such Instructions, the Escrow Agent’s understanding of such Instructions shall be deemed controlling. The Authority understands and agrees that the Escrow Agent cannot determine the identity of the actual sender of such Instructions and that the Escrow Agent shall conclusively presume that directions that purport to have been sent by an Authorized Representative listed on the incumbency certificate provided to the Escrow Agent have been sent by such Authorized Representative. The Authority shall be responsible for ensuring that only Authorized Representatives transmit such Instructions to the Escrow Agent and that the Authority and all Authorized Representatives are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or

authentication keys upon receipt by the Authority. The Escrow Agent shall not be liable for any losses, costs or expenses arising directly or indirectly from the Escrow Agent's good faith reliance upon and compliance with such Instructions notwithstanding such directions conflict or are inconsistent with a subsequent written instruction. The Authority agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Escrow Agent, including without limitation the risk of the Escrow Agent acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Escrow Agent and that there may be more secure methods of transmitting Instructions than the method(s) selected by the Authority; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Escrow Agent immediately upon learning of any compromise or unauthorized use of the security procedures.

If the Escrow Agent learns that the Department of the Treasury or the Bureau of Public Debt will not, for any reason, accept a subscription of Securities that is to be submitted pursuant to this Escrow Agreement, the Escrow Agent shall promptly request alternative written investment instructions from the Authority with respect to escrowed funds which were to be invested in securities. The Escrow Agent shall follow such instructions and, upon the maturity of any such alternative investment, the Escrow Agent shall hold funds uninvested and without liability for interest until receipt of further written instructions from the Authority. In the absence of investment instructions from the Authority, the Escrow Agent shall not be responsible for the investment of such funds or interest thereon. The Escrow Agent may conclusively rely upon the Authority's selection of an alternative investment as a determination of the alternative investment's legality and suitability and shall not be liable for any losses related to the alternative investments or for compliance with any yield restriction applicable thereto.

The Escrow Agent shall furnish the Authority periodic cash transaction statements which include detail for all investment transactions effected by the Escrow Agent or brokers selected by the Authority. Upon the Authority's election, such statements will be delivered via the Escrow Agent's online service and upon electing such service, paper statements will be provided only upon request. The Authority waives the right to receive brokerage confirmations of security transactions effected by the Escrow Agent as they occur, to the extent permitted by law. The Authority further understands that trade confirmations for securities transactions effected by the Escrow Agent will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

#### **Section 11. Resignation of Escrow Agent.**

The Escrow Agent may at any time resign by giving written notice to the Authority, which notice shall indicate the date on which the resignation is to be effective (the "resignation date"). Resignation of the Escrow Agent will be effective upon acceptance of appointment by a successor Escrow Agent. If the Authority does not appoint a successor Escrow Agent by the resignation date, the Escrow Agent may, at the expense of the Authority, petition any court of competent jurisdiction for the appointment of a successor Escrow Agent, which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor Escrow Agent.

## **Section 12. Amendment.**

This Agreement shall not be repealed, revoked, rescinded, altered, amended or supplemented in whole or in part without the written consent of (i) the holders of one hundred percent (100%) in principal amount of the unpaid 2006 Bonds at the time such consent is requested and (ii) the Escrow Agent; provided, however, that the Authority and the Escrow Agent may, without the consent of or notice to the holders of the 2006 Bonds, enter into such agreements supplemental to this Agreement as shall not adversely affect the rights of such holders and shall not be inconsistent with the terms and provisions of this Agreement:

- (1) to cure ambiguity or formal defect or omission in this Agreement;
- (2) to grant to or confer upon the Escrow Agent for the benefit of the holders of the 2006 Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Escrow Agent; and
- (3) to provide for the deposit of additional moneys or Federal Securities to the credit of the Escrow Fund.

The Escrow Agent shall be entitled to rely conclusively upon an unqualified opinion of a nationally recognized firm of municipal bond attorneys with respect to compliance with this Section 12, including the extent, if any, to which any change, modification, addition elimination affects the rights of such holders of the 2006 Bonds or that any instrument executed hereunder complies with the conditions or provisions of this Section 12.

## **Section 13. Unclaimed Moneys.**

Anything contained herein to the contrary notwithstanding, any moneys held by the Escrow Agent for the payment and discharge of the principal of, and the interest and any premium on, the 2006 Bonds which remain unclaimed for two (2) years after the date when the payment of such principal, interest and premium have become payable, if such moneys were held by the Escrow Agent at such date, shall be repaid by the Escrow Agent shall thereupon be released and discharged with respect thereto and the owners of such 2006 Bonds shall look only to the Authority for the payment of the principal of, and interest and any premium on, such 2006 Bonds.

Any right of any owner of any 2006 Bond to look to the Authority for such payment shall survive only so long as required under applicable law.

## **Section 14. Applicable Law.**

This Agreement shall be governed by and constructed in accordance with the laws of the State of California.

**Section 15. Execution in Counterparts.**

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

IN WITNESS WHEREOF, the Authority and the Escrow Agent have each caused this Agreement to be executed by their duly authorized officers all as of the date first above written.

**FORTUNA PUBLIC FINANCING AUTHORITY**

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

**U.S. BANK NATIONAL ASSOCIATION,**  
As Escrow Agent

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

Title: \_\_\_\_\_

**EXHIBIT A**

**SCHEDULE OF FEDERAL SECURITIES**

Federal Security	Maturity Date	Par Amount	Interest Rate	Price	Cost	Accrued Interest	Total Cost
<hr/>							

**EXHIBIT B**

**SCHEDULE OF PAYMENTS OF 2006 BONDS**

Period Ending	Principal	Interest	Redeemed Principal	Redemption Premium	Totals
<hr/>					
<hr/>					

**EXHIBIT C**

**NOTICE OF FULL OPTIONAL REDEMPTION  
to the Holders of**

**FORTUNA PUBLIC FINANCING AUTHORITY  
WASTEWATER REVENUE BONDS  
SERIES 2006**

**NOTICE IS HEREBY GIVEN** pursuant to the terms of the Trust Agreement dated as of October 1, 2006, between Fortuna Public Financing Authority, as Issuer, and U.S. Bank National Association, as Trustee, that the bonds listed below have been selected for Full Redemption on \_\_\_\_\_, 2017 (the Redemption Date) at the price listed below of the principal amount (the Redemption Price) together with interest accrued to the Redemption Date.

<b>Maturity Date (October 1)</b>	<b>Principal Amount</b>	<b>Redemption Price</b>	<b>CUSIP Number (____)*</b>
--	-----------------------------	-----------------------------	-------------------------------------

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

**Delivery Instructions**

**U.S. Bank**  
**Global Corporate Trust Services**  
111 Fillmore Ave E  
St. Paul, MN 55107

Bondholders presenting their bonds in person for same day payment **must** surrender their bond(s) by 1:00 P.M. CST on the Redemption Date and a check will be available for pick up after 2:00 P.M. CST. Checks not picked up by 4:30 P.M. CST. will be mailed out to the bondholder via first class mail. If payment of the Redemption Price is to be made to the registered owner of the Bond, you are not required to endorse the Bond to collect the Redemption Price.

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

**REQUIREMENT INFORMATION**

For a list of redemption requirements please visit our website at [www.usbank.com/corporatetrust](http://www.usbank.com/corporatetrust) and click on the “**Bondholder Information**” link for Redemption instructions. You may also contact our Bondholder Communications team at 1-800-934-6802 Monday through Friday from 8 AM to 6 PM CST.

**IMPORTANT NOTICE**

Federal law requires the Paying Agent to withhold taxes at the applicable rate from the payment if an IRS Form W-9 or applicable IRS Form W-8 is not provided. Please visit [www.irs.gov](http://www.irs.gov) for additional information on the tax forms and instructions..

*\*The Trustee shall not be held responsible for the selection or use of the CUSIP number in this Redemption Notice, nor is any representation made as to its correctness. It is included solely for the convenience of the Holders.*

**Dated:** \_\_\_\_\_ \_\_, 2017

**By: U.S. Bank National Association,  
as Trustee**

**EXHIBIT D**

**MATERIAL EVENT NOTICE**

**NOTICE OF DEFEASANCE AND  
TERMINATION OF REPORTING OBLIGATION  
to the Holders of**

**FORTUNA PUBLIC FINANCING AUTHORITY  
WASTEWATER REVENUE BONDS  
SERIES 2006**

NOTICE IS HEREBY GIVEN that the above-referenced bonds identified in the table below have been defeased (the “Refunded Bonds”), and the Refunded Bonds, maturing on and after October 1, 2017, will be called for redemption on \_\_\_\_\_, 2017 (the “Redemption Date”). The Refunded Bonds more specifically include the following bonds:

<b><u>Maturity Date (October 1)</u></b>	<b><u>Principal Amount</u></b>	<b><u>Redemption Price</u></b>	<b><u>CUSIP Number (72433L)*</u></b>
---	------------------------------------	------------------------------------	--

The Refunded Bonds have been defeased by actions of the City of Fortuna (the “City”) and the Fortuna Public Financing Authority (the “Authority”), with monies on deposit with U.S. Bank National Association, as trustee for the Refunded Bonds, on deposit with U.S. Bank National Association, as escrow agent (the “Escrow Agent”), under an Escrow Agreement by and between the Authority and the Escrow Agent (the “Escrow Agreement”), which proceeds have been invested in obligations, the principal of and interest on which are guaranteed by the United States of America, the maturing principal of and interest on which, together with cash held in escrow, will be sufficient to pay the principal of and interest on the Refunded Bonds in accordance with their terms until the Redemption Date, on which date the Refunded Bonds that have not otherwise matured shall be called for optional redemption, and to pay the redemption price of the Refunded Bonds on the Redemption Date, which amount is equal to the principal amount of each Refunded Bond, plus accrued interest to the Redemption Date, without redemption premium.

Pursuant to the provisions of the Trust Agreement, dated as of October 1, 2006, providing for the issuance of the Refunded Bonds (the “Trust Agreement”), the Refunded Bonds are secured by the funds held for the payment thereof pursuant to the Escrow Agreement through and including the Redemption Date, and are no longer deemed Outstanding within the meaning of the Trust Agreement.

On \_\_\_\_\_, 2017, the City’s and the Authority’s respective obligations under the Continuing Disclosure Certificate for the Refunded Bonds (the “Disclosure Certificate”) will terminate as a result

of the defeasance of the Refunded Bonds as of \_\_\_\_\_, 2017. No further annual reports or notices will be made pursuant to the Disclosure Certificate.

The information in this Material Event Notice is provided solely to comply with the contractual commitment to provide such notice pursuant to the Continuing Disclosure Certificate. This Material Event Notice does not, and is not intended to, provide disclosure as to the financial condition or operations of the City or Authority, and no representation is made as to the materiality of the information provided in this Material Event Notice. Neither the City nor the Authority make any representation that this Material Event Notice contains all information material to a decision to purchase or sell Refunded Bonds.

Dated: \_\_\_\_\_, 2017

*\* Neither the City nor the Authority shall be responsible for the use of the CUSIP numbers referenced above, nor is any representation made as to their correctness in this Material Event Notice or as printed on any of the Refunded Bonds. The CUSIP numbers are included in this Material Event Notice solely for the convenience of the holders of the Refunded Bonds.*

NEW ISSUE – BOOK-ENTRY ONLY

RATING: S&P: “\_\_”  
(See “RATING” herein)

*In the opinion of The Weist Law Firm, Scotts Valley, California, Bond Counsel, subject, however to certain qualifications described in this Official Statement, under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See “TAX MATTERS” herein.*

**§[Par Amount]\***  
**CITY OF FORTUNA**  
**SERIES 2017 WATER REVENUE REFUNDING BONDS**  
**(WATER ENTERPRISE PROJECT)**

**Dated: Date of Delivery****Due: June 1, as shown on the inside cover page**

The above-captioned §[Par Amount]\* aggregate principal amount of Series 2017 Water Revenue Refunding Bonds (Water Enterprise Project) (the “Bonds”) are being issued by the City of Fortuna (the “City”) pursuant to (i) provisions of an Indenture of Trust, dated as of September 1, 2017 (the “Indenture”), by and between the City and U.S. Bank National Association, as trustee (the “Trustee”), and (ii) Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570. Capitalized terms used on this cover page and not otherwise defined will have the meanings ascribed to them elsewhere in this Official Statement. See in particular “APPENDIX A – Summary of Indenture – Definitions” herein.

The Bonds are being issued in fully registered form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Individual purchases of Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof for each maturity. Purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased. See “APPENDIX F – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM” herein.

Payments of interest on the Bonds will be made by the Trustee to DTC, which will in turn remit such interest to its participants for subsequent disbursement to beneficial owners of the Bonds as described herein. Interest on the Bonds is paid semiannually on June 1 and December 1 of each year (each an “Interest Payment Date”), commencing December 1, 2017, until the maturity or the earlier redemption thereof. Principal and any redemption premiums with respect to each Bond will be paid upon surrender of such Bond at the principal corporate office of the Trustee upon maturity or the earlier redemption thereof.

The Bonds are payable from the net revenues (the “Net Revenues”), derived primarily from charges and revenues received by the City from the operation of the Water System, less the costs of the maintenance and operation of the Water System. The Net Revenues are pledged, as a first and prior lien thereon, to pay the principal of and interest on the Bonds on parity, as to payment and security, with certain outstanding State Loans (as defined herein) and any parity debt issued or incurred by the City in accordance with the Indenture (the “Parity Debt”). The City has covenanted to set rates and charges for the service and facilities of the Water System sufficient to provide Net Revenues in each fiscal year equal to at least 1.25 times the aggregate annual amount of principal of and interest due on the Bonds and all Parity Debt.

**The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See “THE BONDS – Optional Redemption of Bonds, and – Mandatory Sinking Fund Redemption of Bonds” herein.**

The Bonds are being issued to (i) prepay the City’s outstanding obligations under a certain 2006 installment sale agreement, (ii) purchase a debt service reserve policy for deposit in the reserve fund for the Bonds, and (iii) to pay costs of issuance of the Bonds, all as more fully described herein. See “THE REFINANCING PLAN” herein.

The scheduled payment of the principal of and interest on the Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Bonds by \_\_\_\_\_ (the “Insurer”). See “BOND INSURANCE” herein.

[Insurer Logo]

**This cover page contains certain information for quick reference only. It is not a summary of the security or terms of this issue. Potential investors are advised to read the entire Official Statement, including the section entitled “RISK FACTORS,” for a discussion of special factors which should be considered, in addition to the other matters set forth herein, to obtain information essential to the making of an informed investment decision with respect to the purchase of the Bonds.**

**MATURITY SCHEDULE**  
*(See Inside Cover Page)*

**NONE OF THE CITY, THE STATE OF CALIFORNIA, NOR ANY OF ITS POLITICAL SUBDIVISIONS WILL BE DIRECTLY, INDIRECTLY, OR CONTINGENTLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS TO PAY ALL OR ANY PORTION OF THE DEBT SERVICE DUE ON THE BONDS, TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATSOEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE BONDS ARE NOT SECURED BY A LIEN ON THE PHYSICAL ASSETS OF THE CITY. THE BONDS ARE NOT A PLEDGE OF THE FAITH AND CREDIT OF THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS, NOR DO THEY CONSTITUTE INDEBTEDNESS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. NO PERSON EXECUTING THE BONDS IS SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THEIR ISSUANCE.**

*The Bonds will be offered when, as and if issued and accepted by the Underwriter, subject to approval as to legality by The Weist Law Firm, Scotts Valley, California, Bond Counsel. Certain legal matters will be passed upon for the City by The Weist Law Firm, as Disclosure Counsel. Certain other legal matters will be passed on for the City by the City Attorney of the City, and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Underwriter’s Counsel. It is anticipated that the Bonds in book-entry form will be available for delivery to DTC in New York, New York on or about September \_\_, 2017.*

**[STIFEL LOGO]**

Dated: September \_\_, 2017

\* Preliminary, subject to change.

**MATURITY SCHEDULE**

**[\$Par Amount]  
CITY OF FORTUNA  
SERIES 2017 WATER REVENUE REFUNDING BONDS  
(WATER ENTERPRISE PROJECT)**

(Base CUSIP<sup>†</sup> \_\_\_\_\_)

<b>Maturity (June 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>Price</b>	<b>CUSIP<sup>†</sup></b>
------------------------------	-----------------------------	--------------------------	--------------	--------------	--------------------------

\$ \_\_\_\_\_ . \_\_\_\_ % Term Bond due June 1, 20\_\_ Yield: . \_\_\_\_ % – Price \_\_\_\_ . \_\_\_\_ % CUSIP<sup>†</sup> No. \_\_\_\_  
\$ \_\_\_\_\_ . \_\_\_\_ % Term Bond due June 1, 20\_\_ Yield: . \_\_\_\_ % – Price \_\_\_\_ . \_\_\_\_ % CUSIP<sup>†</sup> No. \_\_\_\_

(c) Priced to first optional redemption date of June 1, 20\_\_; callable at par.

† CUSIP® A registered trademark of the American Bankers Association. Copyright © 1999-2017 American Bankers Association. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP® numbers are provided for convenience of reference only. Neither the City nor the Underwriter take any responsibility for the accuracy of such numbers.

**CITY OF FORTUNA**  
**County of Humboldt, California**

---

**CITY COUNCIL**

Sue Long, *Mayor*  
Tami Trent, *Vice-Mayor*  
Doug Strehl, *Councilmember*  
Tiara Brown, *Councilmember*  
Dean Glaser, *Councilmember*

**CITY STAFF**

Mark Wheatley, *City Manager*  
Aaron Felmlee, *Finance Director*  
Merritt Perry, *Public Works Director*  
Siana Emmons, *City Clerk*  
David Tranberg, Esq., *City Attorney*

---

**PROFESSIONAL SERVICES**

**Bond Counsel and Disclosure Counsel**

The Weist Law Firm  
*Scotts Valley, California*

**Municipal Advisor**

Public Financial Management Inc.  
*San Francisco, California*

**Trustee and Escrow Agent**

U.S. Bank National Association  
*San Francisco, California*

**Verification Agent**

---

\_\_\_\_\_

In making an investment decision investors must rely on their own examination of the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, neither the foregoing authorities nor Bond Counsel or Disclosure Counsel have confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

No dealer, broker, salesperson or other person has been authorized by the City to provide any information or to make any representations in connection with the offering or sale of the Bonds other than as contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. All references to and summaries of the Indenture or other documents contained in this Official Statement are subject to the provisions of those documents and do not purport to be complete statements of those documents. This Official Statement has been deemed final, as of its date, by the City for the purpose of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matter of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts. 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. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of its responsibilities to investors under the federal securities laws applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information set forth herein has been obtained from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness. The information and expression of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made under the Indenture shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

## TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION.....	1
In General.....	1
Authority for Issuance of the Bonds .....	1
The City .....	2
The Water System.....	2
Description of the Bonds .....	2
Sources of Payment for the Bonds.....	3
Parity Debt .....	3
Risk Factors .....	4
Limited Obligations .....	4
Continuing Disclosure .....	4
Tax Matters .....	4
Forward-Looking Statements.....	5
Other Matters .....	5
THE REFINANCING PLAN.....	6
Refunding of the 2006 Bonds .....	6
Sources and Uses of Funds .....	7
Debt Service Requirements.....	8
THE BONDS.....	9
Authority for Issuance.....	9
General Description .....	9
Optional Redemption of Bonds.....	10
Mandatory Sinking Fund Redemption of Bonds .....	10
Selection of Bonds for Redemption.....	11
Partial Redemption of Bonds .....	11
Notice of Redemption; Rescission.....	11
Effect of Redemption.....	12
SECURITY FOR THE BONDS .....	12
Limited Obligations .....	12
Pledge of Net Revenues .....	12
Receipt and Deposit of Gross Revenues .....	14
Allocation of Gross Revenues .....	14
Application of Debt Service Fund .....	15
Application of Reserve Fund .....	15
Rate Stabilization Fund.....	16
Rate Covenant .....	16
No Outstanding Parity Debt.....	17
Issuance of Parity Debt.....	17
Subordinate Debt .....	17
Eminent Domain Proceeds.....	17
Insurance .....	18

## TABLE OF CONTENTS

	<u>Page</u>
THE CITY .....	18
General .....	18
Governance and Management.....	18
City Investments .....	19
Risk Management .....	20
Labor Contracts.....	21
Other City and Financial Information.....	27
THE WATER SYSTEM .....	28
General.....	28
Water Supply and Storage Capacity .....	28
Water Treatment System.....	28
Distribution System .....	29
Environmental Regulation .....	29
Water System Users .....	29
Water System Rates and Charges .....	29
Operation, Management and Governance.....	30
Rate Setting and Collection Process .....	31
Comparative Rates .....	32
Delinquent Accounts.....	33
CONSTITUTIONAL LIMITATIONS ON TAXES AND .....	36
RATES AND CHARGES .....	36
California Constitution Articles XIII A and XIII B.....	36
California Constitution Articles XIII C and XIII D.....	36
Proposition 26 .....	38
Future Initiatives .....	39
RISK FACTORS.....	39
General.....	39
Accuracy of Assumptions .....	39
Limited Obligation.....	40
Limited Recourse on Default .....	40
Increased Maintenance and Operation Costs .....	40
Project Management .....	40
Financial Controls .....	41
Insurance .....	41
Limitations on Remedies and Bankruptcy .....	42
Physical Condition of Water System Facilities.....	42
Energy Costs .....	43
Statutory and Regulatory Impact .....	43
Natural Disasters .....	43
Safety and Security .....	44
Economic, Political, Social, and Environmental Conditions .....	44

## TABLE OF CONTENTS

	<u>Page</u>
Rate Process .....	44
Investment of Funds.....	45
Secondary Market Risk.....	45
Loss of Tax Exemption.....	45
IRS Audit .....	45
Uncertainties of Projections, Forecasts and Assumptions .....	46
FINANCIAL STATEMENTS .....	46
TAX MATTERS.....	46
CERTAIN LEGAL MATTERS.....	48
CONTINUING DISCLOSURE.....	48
LITIGATION.....	48
RATING.....	49
MUNICIPAL ADVISOR.....	49
UNDERWRITING.....	49
VERIFICATION OF MATHEMATICAL COMPUTATIONS.....	50
MISCELLANEOUS.....	50
EXECUTION AND DELIVERY .....	50

### APPENDICES

APPENDIX A: SUMMARY OF INDENTURE.....	A-1
APPENDIX B: AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2015-16.....	B-1
APPENDIX C: FORM OF CONTINUING DISCLOSURE CERTIFICATE.....	C-1
APPENDIX D: GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA.....	D-1
APPENDIX E: FORM OF OPINION OF BOND COUNSEL.....	E-1
APPENDIX F: INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM.....	F-1

## OFFICIAL STATEMENT

**[\$[Par Amount]\***  
**CITY OF FORTUNA**  
**SERIES 2017 WATER REVENUE REFUNDING BONDS**  
**(WATER ENTERPRISE PROJECT)**

### INTRODUCTION

*This introduction contains only a brief summary of certain of the terms of the \$[Par Amount]\* aggregate principal amount of City of Fortuna, Series 2017 Water Revenue Refunding Bonds (Water Enterprise Project) (the “Bonds”), and a brief overview of the contents of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement including the Appendices hereto. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used and not otherwise defined in the body of the Official Statement shall have the meanings given to them in the Indenture. No descriptions and summaries of documents contained in this Official Statement purport to be comprehensive or definitive, and reference is made to each document described or summarized for complete details of all its terms and conditions.*

#### **In General**

The Bonds are limited obligations of the City payable from the Net Revenues (defined herein) pledged under an Indenture of Trust, dated as of September 1, 2017 (the “Indenture”), by and between the City and U.S. Bank National Association, as trustee (the “Trustee”), derived from the City’s ownership and operation of a Water System (as defined more completely herein), and amounts on deposit in certain funds and accounts established by the Indenture.

#### **Authority for Issuance of the Bonds**

The Bonds are being issued pursuant to (i) the Indenture, (ii) a Resolution adopted by the City Council on \_\_\_\_\_, 2017 (the “Resolution”), and (iii) Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570.

#### **Purpose of the Bonds**

The Bonds are being issued to (i) defease and refund on an advance basis all presently outstanding Fortuna Public Financing Authority, Water Revenue Bonds, Series 2006 issued on October 11, 2006 in the original principal amount of \$13,820,000 (such amount being refinanced constituting the “2006 Bonds”) and a related installment payment obligation of the City, (ii) purchase of a debt service reserve policy for deposit in the Reserve Fund (defined herein) for the Bonds, and (iii) pay the costs of issuance incurred in connection with the issuance, sale and delivery of the Bonds. See “THE REFINANCING PLAN” herein.

---

\* Preliminary, subject to change.

## **The City**

The City is located in Humboldt County (the “County”), approximately 18 miles south of Eureka and 250 miles north of San Francisco on U.S. Highway 101. The City was incorporated on February 20, 1906 as a general law city, and became a charter city in 1996. The City is a full-service city operating under a council-manager form of government. The City Council consists of 5 members, elected at-large to four-year terms. The City Council selects the Mayor from one of the City Council members. The City Manager and City Attorney are appointed by the City Council. The City provides water service to residential and nonresidential customers in the City. For other selected information concerning the City, see “THE CITY” and “APPENDIX D – GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA” herein.

The City’s general fund is not pledged to secure payment of, and the taxing power of the City is not pledged for, the principal of and interest on the Bonds.

## **The Water System**

The City provides water service to approximately 5,594 service connections. Water is conveyed through a supply and distribution system that includes 5 wells and approximately 65 miles of water mains, seven (7) pump stations and four (4) water storage reservoirs at various locations that provide 7.28 million gallons of treated water storage (collectively, the “Water System”). See “THE WATER SYSTEM” herein.

## **Description of the Bonds**

*Payment.* Principal of the Bonds will be payable in each of the years and in the amounts set forth on the inside front cover hereof at the principal corporate office of the Trustee. The Bonds will accrue interest from their date of delivery, and interest thereon will be payable semiannually on June 1 and December 1 of each year (each, an “Interest Payment Date”), commencing December 1, 2017, by check mailed by the Trustee on each Interest Payment Date to the person whose name appears in the registration books kept by the Trustee as the registered owner thereof as of the close of business on the fifteenth calendar day of the month immediately preceding an interest payment date (a “Record Date”); provided, however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more, payable when due by wire of the Trustee to DTC which will in turn remit such interest, principal and premium, if any, to DTC Participants (as defined herein), which will in turn remit such interest, principal and premium, if any, to Beneficial Owners (as defined herein) of the Bonds. See “APPENDIX F – DTC’S BOOK-ENTRY ONLY SYSTEM” herein.

*Redemption.* The Bonds are subject to optional and mandatory sinking account redemption prior to their stated maturity dates, as provided herein. See “THE BONDS – Optional Redemption of Bonds, and – Mandatory Sinking Fund Redemption of Bonds” herein.

*Form of Bonds.* The Bonds will be issued in fully registered form, without coupons, in the minimum denominations of \$5,000 or any integral multiple thereof. Any Bond may, in accordance with its terms, be transferred or exchanged, pursuant to the provisions of the Indenture. See “THE BONDS – General.” When delivered, the Bonds will be registered in the name of The Depository Trust Company, New York, New York (“DTC”), or its nominee. DTC will act as securities depository for the Bonds. Purchasers of the Bonds will

not receive certificates representing the Bonds purchased. See “APPENDIX F – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM” herein.

### **Sources of Payment for the Bonds**

*In General.* The Bonds are special limited obligations of the City, payable solely from and secured by a first pledge of the Net Revenues, which are defined in the Indenture as, for any period of computation, an amount equal to all “Gross Revenues” received during such period less the amount required to pay all “Maintenance and Operation Costs” becoming payable during such period. The Net Revenues, along with investment earnings, are calculated to be sufficient to permit the City to pay the principal of, and interest on, the Bonds when due. See “SECURITY FOR THE BONDS – Pledge of Net Revenues” herein.

*Reserve Fund.* A Reserve Fund (the “Reserve Fund”) is established with the Trustee pursuant to the Indenture in an amount equal to the Reserve Requirement (as defined in the Indenture). [The City will purchase a Municipal Bond Debt Service Reserve Insurance Policy (the “Reserve Policy”) from \_\_\_\_\_ (the “Reserve Policy Provider”) and deposit the Reserve Policy with the Trustee. Proceeds of the Reserve Policy will be available to be applied to pay principal of and/or interest on the Bonds in the event amounts on deposit in the Debt Service Fund is insufficient therefor.] See “SECURITY FOR THE BONDS – Application of Reserve Fund” herein.

*Rate Covenant.* Under the Indenture, the City has covenanted that, to the extent provided by law, it will fix, prescribe and collect rates, fees and charges for the services and facilities provided by the Water System, which will at least be sufficient to yield respective Net Revenues (excluding any Subsidy Payments) equal to one hundred twenty-five percent (125%) of Debt Service (net of any Subsidy Payments) coming due and payable during such Fiscal Year. See “SECURITY FOR THE BONDS – Rate Covenant” herein.

*Rate Stabilization Fund.* Under the Indenture, the City may at its discretion establish and maintain a rate stabilization fund for the Water System. To the extent established and funded, the City may withdraw amounts from time to time held in such Rate Stabilization Fund. Amounts so withdrawn and transferred to the Water Revenue Fund will be included in Gross Revenues of the Water System, and may be applied for any purposes for which such Gross Revenues are generally available. See “SECURITY FOR THE BONDS – Rate Stabilization Fund” herein.

### **Parity Debt**

*No Existing Parity Debt.* The City’s has no presently Outstanding Parity Debt.

*Additional Parity Debt.* The City may incur additional obligations payable from and secured by the Net Revenues on parity with the Bonds. See “SECURITY FOR THE BONDS – Additional Parity Debt” herein.

*Subordinate Debt.* Subject to certain conditions set forth in the Indenture, the City may at any time incur revenue bonds, notes or other evidences of indebtedness of the City payable from Net Revenues subordinate to the payment of Debt Service on the Bonds.

## **Risk Factors**

The purchase of the Bonds involves certain risks. For a general discussion of certain special factors and considerations relevant to an investment in the Bonds, in addition to the other matters set forth herein, see “RISK FACTORS” herein. The Bonds are not appropriate investments for investors who are not able to bear the associated risks. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

## **Limited Obligations**

The Bonds represent a special, limited obligation of the City payable solely from and secured by a pledge of Net Revenues derived by the City from the operations of the Water System and certain funds and accounts held under the Indenture. None of the properties of the City or the Water System are subject to any mortgage or other lien for the benefit of the Owners of the Bonds, and neither the full faith and credit nor the taxing power of the City, the County, the State, or any other political subdivision or agency of the State is pledged to the payment of the principal of or interest on the Bonds.

The issuance of the Bonds does not directly or indirectly obligate the City, the County, the State, or any other political subdivision or agency of the State to levy or pledge any form of taxation whatsoever or to make any appropriation for payment of the Bonds. No person executing the Bonds is subject to any personal liability or accountability by reason of their issuance. For certain financial information with respect to the City and the Water System, see “THE CITY” and “THE WATER SYSTEM” herein.

## **Continuing Disclosure**

The City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City by the date that is nine months after the end of the City’s Fiscal Year (currently March 31 based on the City’s Fiscal Year end of June 30), commencing with the report for the fiscal year ended June 30, 2017 (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events. Such reports are required to be filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system (“EMMA”).

The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is described in “APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE” attached to this Official Statement. These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2 12(b)(5) (the “Rule”). See “CONTINUING DISCLOSURE” herein.

## **Tax Matters**

Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, as amended (the “Tax Code”), in the opinion of Bond Counsel, interest with respect to the Bonds will not be includable in gross income for federal income tax purposes although it may be includable in the calculation for certain taxes. Also in the opinion of Bond Counsel, interest on the Bonds will be exempt from State of California (the “State”) personal income taxes. The Bonds are bank qualified. See “TAX MATTERS” herein.

## **Forward-Looking Statements**

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “intend,” “expect,” “propose,” “estimate,” “project,” “budget,” “anticipate,” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements described to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements.

No updates or revisions to these forward-looking statements are expected to be issued if or when the expectations, events, conditions, or circumstances on which such statements are based change. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such forward-looking statements.

**READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF.**

## **Other Matters**

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Furthermore, this Official Statement speaks only as of its date, and the information and expressions of opinions contained herein are subject to change without notice. Neither delivery of this Official Statement nor any sale of the Bonds, under any circumstances, will create any implication that there has been no change in the affairs of the City or the Water System since the date of this Official Statement.

Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The presentation of information, including the table of receipts from taxes and other revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

The summaries of and references to documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. The capitalization of any word not conventionally capitalized or otherwise defined herein indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document. See “APPENDIX A – SUMMARY OF INDENTURE” herein.

The information set forth herein, other than that provided by the City, has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

## THE REFINANCING PLAN

### Refunding of the 2006 Bonds

A portion of the Bond proceeds will be used to prepay the City's obligations under an Installment Sale Agreement dated as of October 1, 2006 (the "2006 Installment Sale Agreement"), between the City and the Fortuna Public Financing Authority (the "Authority"), under which the City is obligated to pay certain installment payments (the "2006 Installment Payments") which are evidenced and represented by the 2006 Bonds, originally executed and delivered in the original principal amount of \$8,085,000 (of which \$6,750,000 is currently outstanding) under an Indenture of Trust dated as of October 1, 2006 (the "2006 Trust Agreement"), between the Authority and U.S. Bank National Association, as trustee (the "2006 Trustee"). The 2006 Installment Sale Agreement is secured by a lien on Net Revenues and currently has an outstanding principal balance of \$6,750,000.

On the date of issuance of the Bonds, a portion of the proceeds from the sale of the Bonds, together with certain other available moneys then on deposit in the funds and accounts established under the 2006 Trust Agreement and held by the 2006 Trustee (collectively, the "Escrow Proceeds"), will be delivered to the 2006 Trustee, acting as escrow agent (the "Escrow Agent") under that certain Escrow Deposit and Trust Agreement dated as of September 1, 2017 (the "Escrow Agreement"), by and between the Authority and the Escrow Agent.

The Escrow Agent will deposit the Escrow Proceeds in accordance with the Escrow Agreement in an irrevocable escrow account (the "Escrow Account") for the benefit of the owners of the 2006 Bonds, to be invested in any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged (the "Refunding Securities"), plus an amount held in cash, if any.

The cash and Refunding Securities, together with earnings thereon, deposited in the Escrow Account will be used to pay and prepay the 2006 Installment Sale Agreement and the 2006 Bonds in full through and including November 1, 2017 (the "Prepayment Date"), at a prepayment price equal to 100% of the principal amount thereof together with interest accrued thereon to the Prepayment Date.

\_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, (the "Verification Agent") will verify that the Refunding Securities, together with the earnings thereon and any uninvested cash held by the Escrow Agent in the Escrow Account, will be sufficient to pay all of the principal, interest, and redemption premium, if any, coming due with respect to the 2006 Bonds on the Prepayment Date. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein.

Upon such irrevocable deposit with the Escrow Agent and the receipt by the Escrow Agent of irrevocable escrow instructions from the City under the Escrow Agreement, all liability of the City with respect to the 2006 Installment Sale Agreement and the 2006 Bonds will be discharged as of the date of issuance of the Bonds and the owners of the 2006 Bonds will no longer be entitled to the benefits of the legal documents under which they were executed and delivered. Amounts on deposit in the Escrow Account are to be pledged solely to the prepayment of the 2006 Installment Sale Agreement and the 2006 Bonds, and will not be available to pay Debt Service on the Bonds.

## Sources and Uses of Funds

Table 1 sets forth the estimated sources and uses of funds relating to the issuance of the Bonds.

**Table 1**  
**CITY OF FORTUNA**  
**SERIES 2017 WATER REVENUE REFUNDING BONDS**

---

**ESTIMATED SOURCES AND USES OF FUNDS**

---

Sources of Funds:

Principal Amount of Bonds  
*Plus* Available Funds Relating to the 2006 Bonds  
*[Plus][less]* Net Original Issue *[Premium][Discount]*  
*Less* Underwriter's Discount  
Total Sources

Uses of Funds:

Deposit to Escrow Account<sup>[1]</sup>  
Deposit to Costs of Issuance Fund<sup>[2]</sup>  
Total Uses

---

<sup>[1]</sup> Moneys in the Escrow Account established for the 2006 Bonds, which Escrow Account will be funded with Bond proceeds, together with certain other available moneys then on deposit in the funds and accounts established under the 2006 Trust Agreement and held by the 2006 Trustee, will be used to call and redeem all of the outstanding 2006 Bonds on \_\_\_\_\_ 1, 2017. The Escrow Account will be held and administered by the Escrow Agent. See "THE REFINANCING PLAN – Refunding of the 2006 Bonds."

<sup>[2]</sup> Moneys deposited in the Costs of Issuance Fund are expected to be used to pay the policy premium for the Reserve Policy, the fees and expenses of Bond Counsel, Disclosure Counsel, Municipal Advisor, Trustee, Escrow Agent, Verification Agent and the rating agency, as well as printing and other miscellaneous costs and expenses in connection with the issuance, sale and delivery of the Bonds. The Costs of Issuance Fund will be held and administered by the Trustee.

*[Remainder of Page Intentionally Left Blank]*

**Debt Service Requirements**

Table 2 sets forth the annual principal and interest on the Bonds (assuming no redemptions of the Bonds, other than mandatory sinking fund redemptions).

**Table 2  
CITY OF FORTUNA  
SERIES 2017 WATER REVENUE REFUNDING BONDS**

---

**ANNUAL DEBT SERVICE SCHEDULE**

---

Year Ending <u>June 1</u>	<u>Principal</u>	<u>Interest</u>	Total <u>Debt Service</u>
------------------------------	------------------	-----------------	------------------------------

Totals

---

*Source:* The Underwriter.

## THE BONDS

### Authority for Issuance

The Bonds are being issued pursuant to the Bond Law, the Resolution and the Indenture. Under this authority, the Bonds may be issued in a principal amount not to exceed \$ \_\_\_\_\_.

### General Description

**Fully Registered Bonds in Book-Entry Only Form.** The Bonds will be issued as one fully registered bond certificate without coupons for each maturity (unless the Bonds of such maturity bear different interest rates, then one Bond for each interest rate among such maturity) and, when issued, will be initially issued in book-entry only form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases may be made in book-entry form only, in integral multiples of \$5,000.

Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. So long as DTC’s book-entry system is in effect with respect to the Bonds, notices to Owners of the Bonds by the City or the Trustee will be sent to DTC. Notices and communication by DTC to its participants, and then to the beneficial owners of the Bonds, will be governed by arrangements among them, subject to then effective statutory or regulatory requirements. See “APPENDIX F – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM” herein.

In the event (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the City determines that the DTC will no longer so act, then the City will discontinue the book-entry system with DTC. If the City fails to identify another qualified securities depository to replace DTC, then the Bonds so designated will no longer be restricted to being registered in the registration books kept by the Trustee in the name of Cede & Co., but will be registered in whatever name or names persons transferring or exchanging Bonds will designate, in accordance with the provisions of the Indenture.

**Repayment of the Bonds.** The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof, and will be dated the date of delivery thereof and will mature on June 1 in the years and in the amounts set forth on the inside cover page hereof. Interest on the Bonds is payable semiannually from their dated date at the rates set forth on the inside cover page hereof, on June 1 and December 1 of each year (each, an “Interest Payment Date”), commencing December 1, 2017, by check mailed by the Trustee on each Interest Payment Date to the person whose name appears in the registration books kept by the Trustee as the registered owner thereof as of the close of business on the fifteenth calendar day of the month immediately preceding an interest payment date (a “Record Date”); provided, however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more. Interest on the Bonds will be calculated based on a 360-day year consisting of twelve 30-day months. While the Bonds are subject to the book-entry system, the principal and interest with respect to the Bonds will be paid by the Trustee to DTC for subsequent disbursement to beneficial owners of the Bonds. See “APPENDIX F – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM” herein.

**Transfer or Exchange of the Bonds.** Any Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. Transfer of any Bond will not be permitted by the Trustee during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption pursuant to the Indenture. Whenever any Bond or Bonds will be surrendered for transfer, the City will execute and the Trustee will authenticate and deliver a new Bond or Bonds for a like aggregate principal amount and of like maturity. The Trustee will require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. If a Bond is mutilated, lost, stolen or destroyed, the Trustee, at the expense of the Owner of such Bond, will authenticate, subject to the provisions of the Indenture, a new Bond of like tenor and amount. In the case of a lost, stolen or destroyed Bond, the Trustee may require that an indemnity be furnished and payment of an appropriate fee for each new Bond delivered in replacement of such Bond, and the City may require payment of the expenses of the City and the Trustee incurred in connection therewith.

**Optional Redemption of Bonds**

The Bonds maturing on or before June 1, 20\_\_, are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on or after June 1, 20\_\_, are subject to redemption in whole or in part in integral multiples of \$5,000, by such maturities as are selected by the City (or, if the City fails to designate such maturities, then pro rata among maturities), and by lot within a maturity, from any source of available funds, on any date on or after June 1, 20\_\_, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption.

**Mandatory Sinking Fund Redemption of Bonds**

(i) The Bonds maturing June 1, 20\_\_ and June 1, 20\_\_ (the “Term Bonds”) are subject to mandatory redemption in part by lot, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts and on June 1 in the respective years as set forth in the following respective tables; provided, however, that if some but not all of such Term Bonds have been optionally redeemed, the total amount of all future sinking fund payments will be reduced by the aggregate principal amount of such Term Bonds so redeemed, 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).

**Term Bonds Maturing June 1, 20\_\_**

Sinking Payment Date (June 1)	Principal Amount to be Redeemed
-------------------------------------	------------------------------------

## Term Bonds Maturing June 1, 20\_\_

Sinking Payment Date ( <u>June 1</u> )	Principal Amount <u>to be Redeemed</u>
--	---

### **Selection of Bonds for Redemption**

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

### **Partial Redemption of Bonds**

In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond the City will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the City, a new Bond or Bonds of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond surrendered.

### **Notice of Redemption; Rescission**

The Trustee will mail notice of redemption of the Bonds by first class mail, postage prepaid, not less than 30 nor more than 60 days before any redemption date, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books and to one or more Securities Depositories and to the Information Services.

Each notice of redemption will state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the Bonds (or all Bonds of a single maturity) are to be redeemed, the CUSIP numbers and (in the event that not all Bonds within a maturity are called for redemption) Bond numbers of the Bonds to be redeemed and the maturity or maturities of the Bonds to be redeemed, and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed.

Each such notice will also state that on the redemption date there will become due and payable on each of said Bonds the redemption price thereof, and that from and after such redemption date interest thereon will cease to accrue, and will require that such Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein will affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Bonds will be given by the Trustee, at the expense of the City, for and on behalf of the City.

The City has the right to rescind any notice of the optional redemption of Bonds by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of optional redemption may provide that it is subject to rescission as described in this paragraph. Any notice of redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default. The City and the Trustee have no Liability to the Bond Owners or any other party related to or arising from such rescission of redemption. The Trustee will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under the Indenture.

### **Effect of Redemption**

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

## **SECURITY FOR THE BONDS**

### **Limited Obligations**

THE BONDS REPRESENT A SPECIAL, LIMITED OBLIGATION OF THE CITY PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF THE NET REVENUES DERIVED BY THE CITY FROM THE OPERATIONS OF THE WATER SYSTEM AND CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE. NONE OF THE PROPERTIES OF THE CITY OR WATER SYSTEM ARE SUBJECT TO ANY MORTGAGE OR OTHER LIEN FOR THE BENEFIT OF THE OWNERS OF THE BONDS, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE COUNTY, THE STATE, OR ANY OTHER POLITICAL SUBDIVISION OR AGENCY OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS DOES NOT DIRECTLY OR INDIRECTLY OBLIGATE THE CITY, THE COUNTY, THE STATE, OR ANY OTHER POLITICAL SUBDIVISION OR AGENCY OF THE STATE TO LEVY OR PLEDGE ANY FORM OF TAXATION WHATSOEVER OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE BONDS.

### **Pledge of Net Revenues**

Under the Indenture, the City will transfer and assign to the Trustee, for the benefit of the Owners, that portion of the Net Revenues which is necessary to pay the principal or Redemption Price of and interest on the Bonds in any Fiscal Year, together with all moneys on deposit in the Debt Service Fund, and such portion of the Net Revenues is irrevocably pledged to the punctual payment of the principal or Redemption Price of and interest on the Bonds.

The Net Revenues constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the Bonds, and may not be used for any other purpose while any of the Bonds remain Outstanding, except that out of Net Revenues there may be apportioned and paid such sums for such purposes, as are expressly permitted by the Indenture. This pledge constitutes a first, direct and exclusive charge and lien on the Net Revenues for the payment of the principal or Redemption Price of and interest on the Bonds and other Parity Debt in accordance with the terms thereof. The Bonds are not secured by a direct lien on the Water System or any other property of the City.

**Net Revenues.** The Indenture defines “Net Revenues” as, for any period of computation, the amount of the Gross Revenues received from the Water System during such period, less the amount of Maintenance and Operation Costs of the Water System becoming payable during such period.

**Gross Revenues.** The Indenture defines “Gross Revenues” as all gross income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Water System calculated in accordance with GAAP and deposited in the Water Revenue Fund, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees (including but not limited to any developer impact fees to the extent permitted by law), charges, business interruption insurance proceeds or other moneys derived by the City from the sale, furnishing and supplying of water or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, plus (2) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, or other moneys, including amounts in the Rate Stabilization Fund and City Water System reserves, plus (3) the proceeds of any stand-by or water availability charges collected by the City, plus (4) all amounts transferred from the Rate Stabilization Fund to the Water Revenue Fund during any Fiscal Year in accordance with Section 4.07 hereof, and (5) all other monies howsoever derived by the City from the operation of the Water System or arising from the Water System; but excluding (i) customer deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City, (ii) any proceeds of taxes restricted by law to be used by the City to pay the Bonds or Parity Debt and (iii) any amounts transferred from the Water Revenue Fund to the Rate Stabilization Fund during any Fiscal Year pursuant to the Indenture.

**Maintenance and Operation Costs.** The Indenture defines “Maintenance and Operation Costs” as the reasonable and necessary costs spent or incurred for maintenance and operation of the Water System calculated in accordance with GAAP, including (among other things) the reasonable and necessary expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, including, but not limited to, salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges, but excluding (i) transfers to other City departments, (ii) debt service payments or other similar payments on the Parity Debt or other obligations required to be paid by it to comply with the terms of the Indenture or any contract or resolution or indenture authorizing the issuance of any bonds or obligations, and (iii) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

In order to carry out and effectuate the pledge, charge and lien on Net Revenues provided in the Indenture, the City agrees and covenants in the Indenture that all Net Revenues will be promptly deposited by the Trustee upon receipt thereof in the Debt Service Fund created under the Indenture, which the Trustee will establish, maintain and hold in trust; except that all moneys received by the Trustee and required under

the Indenture to be deposited in the Redemption Account will be promptly deposited in such Account. All Net Revenues will be accounted for through and held in trust in the Debt Service Fund, and the City has no beneficial right or interest in any of the Net Revenues except only as provided in the Indenture.

In the Indenture, the City covenants that, so long as any Bonds are Outstanding, the City will not issue or incur any obligations payable from Gross Revenues or Net Revenues superior to the payment of the debt service on the Bonds or Parity Debt. The City is authorized to issue additional Parity Debt secured by Net Revenues with a lien on a parity basis with the lien of the Bonds, provided it complies with certain provisions in the Indenture. See “– Issuance of Additional Debt” below. The District is also authorized to issue Subordinate Obligations secured by Net Revenues.

### **Receipt and Deposit of Gross Revenues**

Under the Indenture, the City covenants and agrees that all Gross Revenues, when and as received, will be received and held by the City in trust and will be deposited by the City in a Water Revenue Fund to be established and held by the City, and will be accounted for through and held in trust in the Water Revenue Fund, and the City will only have such beneficial right or interest in any of such money as provided in the Indenture. All such Gross Revenues will be transferred, disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and will be accounted for separately and apart from all other money, funds, accounts or other resources of the City.

### **Allocation of Gross Revenues**

Under the Indenture, all Gross Revenues will be held in trust by the Finance Director in the Water Revenue Fund and will be applied, transferred, used and withdrawn only for the purposes set forth below.

(a) Operating Costs. The Finance Director will first pay from the moneys in the Water Revenue Fund the budgeted Maintenance and Operation Costs as such costs become due and payable.

(b) Debt Service Fund. On or before the second Business Day prior to each Interest Payment Date, the Finance Director will transfer from the Water Revenue Fund to the Trustee for deposit in the Debt Service Fund (i) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding Bonds on the next succeeding Interest Payment Date, plus (ii) an amount equal to the aggregate amount of Principal Installments (including any Sinking Fund Installments) becoming due and payable on all Outstanding Bonds on the next succeeding Principal Payment Date. All interest earnings and profits or losses on the investment of amounts in the Debt Service Fund will be deposited in or charged to the Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Payment Date upon all Outstanding Bonds and Parity Debt.

(c) Debt Service Funds for Future Parity Debt. On or before the second Business Day prior to each Interest Payment Date, the Finance Director will cause to be transferred from the Water Revenue Fund to the Trustee (or other party as appropriate relative to each Parity Debt) for deposit in the debt service fund created for each issue of Parity Debt (or if no debt service fund was created for an issue of Parity Debt, otherwise set-aside for the payment of Parity Debt) (i) an amount equal to the aggregate amount of interest to

become due and payable on all Outstanding Parity Debt on the next succeeding Interest Payment Date (or, as to Parity Debt with annual interest payments, for a 6-month period), plus (ii) an amount equal to the aggregate amount of Principal Installments (including any Sinking Fund Installments) becoming due and payable on all Outstanding Parity Debt on the next succeeding Principal Payment Date.

All interest earnings and profits or losses on the investment of amounts in the Debt Service Fund shall be deposited in or charged to the Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Payment Date upon all Outstanding Parity Debt.

(d) Reserve Accounts. After making the payments, allocations and transfers provided for in subsections (a), (b) and (c) above, if the balance on hand in the Reserve Fund for the Bonds or a reserve account for any issue of Parity Debt is less than the Reserve Requirement or the reserve requirement applicable to such Parity Debt, such deficiency (or payment due to the provider of a reserve policy or surety) shall be restored by transfers from the first moneys which become available in the Water Revenue Fund to the appropriate party to replenish the Reserve Fund, repay the provider of a reserve policy or surety, or to satisfy a reserve requirement established for any issue of Parity Debt, on a pro rata basis.

(e) Surplus. As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner set forth above in subsections (a) to (d), inclusive, any moneys remaining in the Water Revenue Fund may at any time be treated as surplus and applied for any lawful purpose.

### **Application of Debt Service Fund**

Under the Indenture, the Trustee will allocate amounts in the Debt Service Fund as follows:

(a) The Trustee will withdraw from the Debt Service Fund, prior to each Interest Payment Date, an amount equal to the Interest Requirement payable on such Interest Payment Date, and will cause the same to be applied to the payment of said interest when due and is hereby authorized to apply the same to the payment of such interest.

(b) The Trustee will withdraw from the Debt Service Fund, prior to each Principal Payment Date, an amount equal to the principal amount due on said Principal Payment Date and any Sinking Fund Installments due and payable on said Principal Payment Date, and will cause the same to be applied to the payment of the principal.

(c) All withdrawals and transfers under the provisions of subparagraphs (a) or (b) above will be made not earlier than one (1) day prior to the Interest Payment Date or Principal Payment Date to which they relate, and the amount so withdrawn or transferred will, for the purposes of the Indenture, be deemed to remain in and be part of the appropriate Account until such Interest Payment Date or Principal Payment Date.

### **Application of Reserve Fund**

The Trustee will establish, maintain and hold in trust a separate fund designated as the "Reserve Fund" into which the Trustee will deposit the Reserve Policy. The initial Reserve Requirement for the Bonds is \$ \_\_\_\_\_.

(a) Transfers to Pay Debt Service on Bonds. The Reserve Policy will be used by the Trustee for the purpose of paying principal of or interest on the Bonds, including the principal amount of any Term Bonds which is subject to mandatory sinking fund redemption under the Indenture, when due and payable to the extent that moneys deposited in the Debt Service Fund are not sufficient for such purpose. The Trustee will draw on the Reserve Policy in accordance with its terms and conditions and the terms of the Indenture.

[The amounts available under the Reserve Policy will be used and withdrawn by the Trustee solely for the purpose of making transfers to the Debt Service Fund for payment of the Bonds (and not any Parity Debt), in the event of any deficiency at any time in such fund. The City is required to repay from Net Revenues, as available, any draws under the Reserve Policy and pay all related reasonable expenses incurred by the Insurer.]

[The City will have no obligation to replace the Reserve Policy or to fund the Reserve Fund with cash or any other security if, at any time that the Bonds are Outstanding, amounts are not available under the Reserve Policy.]

### **Rate Stabilization Fund**

Under the Indenture, the City has the right (but not the obligation) at any time to establish a stabilization fund (the “Rate Stabilization Fund”) to be held by it and administered in accordance with the Indenture for the purpose of stabilizing the rates and charges imposed by the City with respect to the Water System. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secures the Bonds and any Parity Debt, as the City may determine.

The City may, but is not be required to, withdraw from any amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Water Revenue Fund in any fiscal year for the purpose of paying Debt Service coming due and payable in such Fiscal Year. Amounts so transferred from the Rate Stabilization Fund to the Water Revenue Fund will constitute Gross Revenues for such fiscal year in which drawn (except as otherwise provided in the Indenture), and will be applied for the purposes of the Water Revenue Fund. Amounts on deposit in the Rate Stabilization Fund are not pledged to and do not secure the Bonds or any Parity Debt.

The City may at any time withdraw any or all amounts on deposit in a Rate Stabilization Fund and apply such amounts for any lawful purposes of the City. There will be no balance in the Rate Stabilization Fund at the time of Closing.

### **Rate Covenant**

Under the Indenture, the City will, to the extent permitted by law, fix, prescribe and collect rates, fees and charges for the Water System which will be at least sufficient to yield Net Revenues equal to one hundred twenty twenty-five (125%) of Debt Service coming due and payable during such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but will not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the Indenture.

For the purpose of computing the amount of Water Revenues for any Fiscal Year or the amount of Net Revenues for any Fiscal Year for purposes of the preceding paragraph, the City will be permitted to transfer amounts on deposit in the Rate Stabilization Fund for purposes of such computation, such transfers may be made until (but not after) one hundred twenty (120) days after the end of such Fiscal Year.

### **No Outstanding Parity Debt**

The City has no Outstanding Parity Debt that is payable from Net Revenues on parity with the Bonds.

### **Issuance of Parity Debt**

In addition to the Bonds, the City may at any time issue or incur additional Parity Debt under applicable law which are payable from the Net Revenues on parity with the payments by the City under the Indenture; provided that the Net Revenues (excluding any amounts transferred from a Rate Stabilization Fund) for the Fiscal Year or any consecutive 12-month period in the 18 months next preceding the date of the adoption by the City of the resolution authorizing the issuance of such Parity Debt or the execution of such Parity Debt, as the case may be, as evidenced by a calculation prepared by the City upon which the Trustee may conclusively rely; plus an allowance for Net Revenues that would have been derived from any increase in the rates and charges fixed and prescribed for the Water System which was enacted prior to the adoption of such resolution or the execution of such Parity Debt, as the case may be, but which, during all or any part of said Fiscal Year or 12-month period, was not in effect, in an amount equal to the estimated additional Net Revenues that would have been derived from such increase in rates and charges if it had been in effect prior to the beginning of said Fiscal Year or 12-month period, as shown by the Certificate of an Authorized Representative of the City will have produced an amount equal to at least the sum of 125% of Maximum Annual Debt Service on the Bonds and all Parity Debt outstanding after the issuance of such Parity Debt.

Furthermore, in order to issue such Parity Debt, the City may not be in default with respect to its obligations under the Indenture or any Parity Debt Instruments, and must provide for repayment of interest on June 1 and December 1 of each year, and repayment of principal on June 1 of each year.

### **Subordinate Debt**

Nothing in the Indenture prohibits or impairs the authority of the City to issue bonds or other obligations secured by a lien on Net Revenues that is subordinate to the lien established under the Indenture, upon such terms and in such principal amounts as the City may determine.

### **Eminent Domain Proceeds**

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

## **Insurance**

The City covenants under the Indenture that it will at all times maintain such insurance on the Water System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Water System is damaged or destroyed, such part will be restored to use.

The Net Proceeds of insurance against accident to or destruction of the physical Water System will be used for repairing or rebuilding the damaged or destroyed portions of the Water System.

Any such insurance will be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the City, or may be in the form of self-insurance by the City. The City will establish such fund or funds or reserves as it determines, in its sole judgment, are necessary to provide for its share of any such self-insurance.

## **Limited Obligation**

The Net Revenues constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the Bonds. The general fund of the City is not liable and the credit or taxing power of the City is not pledged for the payment of the principal or Redemption Price of and interest on the Bonds. The Owner of the Bonds may not compel the exercise of the taxing power by the City or the forfeiture of its property. The principal or Redemption Price of and interest on the Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Net Revenues.

## **THE CITY**

### **General**

The City encompasses approximately five square miles and is located in Humboldt County (the “County”), approximately 18 miles south of Eureka and 250 miles north of San Francisco on U.S. Highway 101. The City was incorporated on February 20, 1906 as a general law city, and became a charter city in 1996. The City’s fiscal year begins on July 1 and ends June 30 of the following year. The City is a full-service city, and with an average of 73 full and part-time personnel, provides water and wastewater utility services, public safety, street maintenance, land use and building regulation, transit, recreational and park services. See “APPENDIX D – GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA” herein.

### **Governance and Management**

The City has a Council/Manager form of municipal government. The City Council is comprised of five elected council members served by a full-time City Manager and staff. Council members are elected at-large for staggered four-year terms. Biennially, the Mayor and Mayor Pro Tempore are selected by the City Council to serve 2-year terms. The City Manager is appointed by the City Council and is responsible for administration of City affairs, day-to-day operations and implementation of City Council policies. The current Mayor, Mayor Pro Tempore and City Council members and their respective titles and ending terms of office are as follows:

<u>Name</u>	<u>Title</u>	<u>Expiration of Office Term</u>
Sue Long	Mayor	November 2018
Tami Trent	Mayor Pro Tem	November 2020
Doug Strehl	Council Member	November 2018
Tiara Brown	Council Member	November 2018
Dean Glaser	Council Member	November 2020

Following are biographies of certain City staff:

*MARK WHEETLEY; City Manager.* Mr. Wheatley [to come].

*AARON FELMLEE; Finance Director.* Mr. Felmlee [to come].

*MERRITT PERRY; Public Works Director.* Mr. Perry [to come].

## City Investments

The investment of the City's funds is performed in accordance with the City's adopted Investment Policy. Funds are invested with the following objectives in mind:

1. Assets are to be invested with prudence – made with judgment and care – under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of the invested capital as well as the probable income to be derived therefrom.

2. The portfolio is invested in a manner consistent with the primary emphasis on preservation of the principal, while attaining a market rate of return throughout budgetary and economic cycles, taking into consideration the investment risk constraints and liquidity needs. Yield on the City's investment portfolio is of secondary importance compared to the safety and liquidity objectives. Trading of securities for the sole purpose of realizing trading profits is prohibited.

3. Sufficient liquidity is maintained to provide a source for anticipated financial obligations as they become due. The City will diversify its investment by security type, issuer and maturity dates.

The Investment Policy calls for the City's investment portfolio to be structured to provide that sufficient funds from investments are available to meet the City's anticipated cash needs. The choice of investment instruments and maturities is to be based upon an analysis of anticipated cash needs, existing and anticipated revenues, interest rate trends and specific market opportunities.

The City's Investment Policy also requires that deposits in banks must meet the requirements of California Government Code. Under this code, deposits of more than \$250,000 must be collateralized at 105 percent to 150 percent of the value of the deposit to guarantee the safety of the public funds. The first \$250,000 of the City's deposits is insured by the Federal Deposit Insurance Corporation (FDIC). Deposits more than the \$250,000 insured amount are collateralized.

According to the most recent report for the month ended June 30, 2016, the City had invested funds as set forth in Table 3 below. As of June 30, 2015, approximately \_\_\_% of the invested funds were assets of the Water System. The City’s practice is to hold securities to maturity.

**Table 3  
CITY OF FORTUNA**

<b>INVESTMENT PORTFOLIO (AS OF JUNE 30, 2016)</b>		
Investment Type	Average maturity	Fair Value
JP Morgan Institutional Prime Money Market-City	48 Days	\$2,976,467
JP Morgan Institutional Prime Money Market-Fiduciary	48 Days	859,244
Humboldt County Treasurer’s Pool <sup>[1]</sup>	815 Days	9,242,468
Local Agency Investment Fund <sup>[2]</sup>	167 Days	9,039,784
Certificates of deposit and local government bonds	2 Years	8,324,368
Total Investments		<b>\$30,442,331</b>

[1] The City is a participant in the Humboldt County Treasurer’s Pool which is managed by the Humboldt County Treasurer. On a monthly basis, interest is allocated to participants based on average daily balances. The Humboldt County Treasury Oversight Committee oversees the Treasurer’s investments and policies. Investments held in the County’s investment pool are available on demand and are stated at amortized cost, which approximates fair value. The fair value of the City’s position in the pool is the same as the value of the pooled shares.

[2] The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code and is managed by the Treasurer of the State of California. The Local Investment Advisory Board (LAIF Board) has oversight responsibility for LAIF. The LAIF Board consists of five members as designated by State statute. Investments in LAIF are available on demand and are stated at amortized cost, which approximates fair value. The fair value of the City’s position in the pool is the same as the value of the pooled shares.

*Source: City*

## **Risk Management**

The City carries insurance to cover its exposure to various risks of loss related to torts, theft and destruction of assets, errors and omissions, and natural disasters. The City is a member of the Redwood Empire Municipal Insurance Fund (the “Fund”), a joint powers authority with 15 cities in Northern California as members. The Fund provides joint protection programs for public entities covering automobile, general liability, errors and omission losses, property and workers compensation claims.

Under the program, the City has a \$10,000 general liability retention limit similar to a deductible with the Fund being responsible for losses above that amount up to \$500,000. The Fund carries excess liability coverage to a total of \$40 million in excess of its \$500,000 retention limit per occurrence through the California Joint Powers Risk Management Authority and its excess insurers. The Fund covers workers compensation claims up to its self-insurance limit of \$1 million and a deductible of \$10,000. A purchased excess policy insures the Fund for an additional \$1 million to provide aggregate coverage of up to \$2 million per claim. The City pays an annual premium to the Fund; the City may share in any surplus revenues or may be required to pay additional assessments based upon the Fund’s operating results. The Fund also provides

property coverage up to \$25,000 per occurrence in excess of the City's deductible. Losses in excess of \$25,000 are paid by the excess insurance policy up to the replacement value of all covered property with a cap at \$300 million.

The City paid \$589,166 in uninsured losses during the 2014-2015 fiscal year. Of the \$589,166, \$569,166 pertains to the settlement of one matter related to an inverse condemnation action. For more information on the City's risk management policy, see "APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2015-16."

**Labor Contracts**

The City maintains labor contracts with three organized labor groups. The number of members covered by and expiration date of each contract is set forth below.

<u>Labor Groups/Contracts</u>	<u>Number of Members</u>	<u>Date of Contract Expiration</u>
Fortuna Police Employees Association	[23]	June 30, 20__
Fortuna Employees Association	[29]	June 30, 20__
Fortuna Office Employees Association	[8]	June 30, 20__

**Employee Retirement System; CalPERS**

The following information relating to the California Public Employees Retirement System ("CalPERS") is primarily derived from information produced by CalPERS, its independent accountants and actuaries, as interpreted by the City and its Auditor. The City has not independently verified the information provided by CalPERS and make no representations nor express any opinion as to the accuracy of the information provided by CalPERS. The comprehensive annual financial reports of CalPERS are available on its Internet website at [www.calpers.ca.gov](http://www.calpers.ca.gov). The CalPERS website also contains CalPERS' most recent actuarial valuation reports and other information concerning benefits and other matters. Such information is not incorporated by reference herein. Neither the City nor the Underwriter can guarantee the accuracy of such information.

Actuarial assessments are forward-looking statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

**Plan Description.** The City contributes to the CalPERS, a cost sharing multiple-employer public employee defined benefit pension plan. All qualified permanent and probationary employees are eligible to participate in the City's separate Safety (police) and Miscellaneous (all other) Employee Pension Plans (the "Pension Plans").

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State, including the City. Benefit provisions under the Pension Plans are established pursuant to State statute and City ordinance. CalPERS issues publicly available financial reports that include the financial statements and required supplementary information for the CalPERS. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS

website. Copies of CalPERS' annual financial report may be obtained from its executive office located at 400 Q Street, Sacramento, California 95811, or via <http://www.calpers.ca.gov>.

The City participates in the Safety and Miscellaneous CalPERS cost sharing multiple-employer plans. The Safety plans consists of Safety – 1st Tier, Safety – 2nd Tier and Safety Public Employee Pension Reform Act (PEPRA). The Miscellaneous plans consist of Miscellaneous – 1st Tier, Miscellaneous – 2nd Tier and Miscellaneous PEPRA.

**Benefits Provided.** CalPERS provides service retirement and disability benefits, annual cost of living adjustments (COLA) and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Retirement benefits are defined as 2.5 percent of the employees final 12 months average compensation times the employee's years of service (2.0 percent for safety employees) Employees with 10 years of continuous are eligible to retire at age 55 (age 50 for safety employees) Employees are eligible for service-related disability benefits regardless of the length of service. Five years of service is required for non-service-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Preretirement death benefits equal an employee's final full-year salary. Both plans provide for a 2 percent Cost of Living Adjustment (COLA). The public safety plan is closed to new entrants. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Effective January 1, 2013, CalPERS instituted a new pension plan as a result of PEPRA. Employees hired from that date on are subject to the new 2% at 62 benefit formula. The 2.5% at 55 benefit formula has been closed to new hires from January 1, 2013 on, unless they meet the rules for a CalPERS Classic employee. A Classic employee is already CalPERS member through prior employment and was employed by a CalPERS member within the last 6 months. See the CalPERS website for more information.

**Contributions.** Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Pension Plans are determined annually on an actuarial basis as of June 30 by CalPERS.

The City is required to contribute at an actuarially determined rate of annual covered payroll, plus a fixed payment of unfunded liability. The actuarially determined rates and amounts for each Pension Plan for the fiscal years ended June 30, 2017 and June 30, 2018, are as follows:

**CITY'S REQUIRED EMPLOYER CONTRIBUTION RATES & PAYMENTS**

<b>Pension Plan</b>	<b>Fiscal Year 2016-17</b>			<b>Fiscal Year 2017-18</b>		
	<b>Employer Normal Cost Rate</b>	<b>Employer Normal Cost Payment</b>	<b>Employer Payment of Unfunded Liability</b>	<b>Employer Normal Cost Rate</b>	<b>Employer Normal Cost Payment</b>	<b>Employer Payment of Unfunded Liability</b>
Miscellaneous – 1st Tier	12.151%	\$241,278	\$216,504	12.192%	\$217,119	\$256,601
Safety – 1st Tier	19.536	168,575	153,727	19.723	173,848	187,116
Miscellaneous – 2 <sup>nd</sup> Tier	9.302	26,529	0	9.343	24,748	0
Safety – 2 <sup>nd</sup> Tier	16.656	8,029	0	0	0	0
Miscellaneous - PEPR	6.555	10,323	27	6.533	30,238	112
Safety (Fire) - PEPR	12.082	11,070	0	11.990	17,055	83
<b>Totals</b>		<b>\$465,804</b>	<b>\$370,258</b>		<b>\$661,604</b>	<b>443,912</b>

Source: CalPERS Annual Valuation Report as of June 30, 2015.

**Funding History.** The funding history for the Miscellaneous 1st Tier Pension Plan and the Safety 1st Tier Pension Plan is shown in the tables below, listing for each plan the actuarial accrued liability, share of the pool's market value of assets, share of the pool's unfunded liability, funded ratio, and annual covered payroll.

**MISCELLANEOUS – 1st Tier**

<b>Valuation Date</b>	<b>Accrued Liability (AL)</b>	<b>Share of Pool's Market Value of Assets (MVA)</b>	<b>Share of Pool's Unfunded Liability</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>
06/30/11	\$13,427,764	\$10,296,768	\$3,130,996	76.7%	\$2,481,362
06/30/12	14,351,492	10,389,379	3,962,113	72.4%	2,272,299
06/30/13	15,581,271	11,945,289	3,635,982	76.7%	2,056,399
06/30/14	17,055,736	13,686,143	3,369,593	80.2%	1,817,137
06/30/15	17,495,009	13,341,927	4,153,082	76.3%	1,629,714

Source: CalPERS Annual Valuation Report as of June 30, 2015.

**SAFETY– 1st Tier**

<b>Valuation Date</b>	<b>Accrued Liability (AL)</b>	<b>Share of Pool's Market Value of Assets (MVA)</b>	<b>Share of Pool's Unfunded Liability</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>
06/30/11	\$9,886,109	\$7,729,333	\$2,156,776	78.2%	\$992,571
06/30/12	10,848,570	7,936,601	2,911,969	73.2%	870,963
06/30/13	11,294,847	8,694,911	2,599,936	77.0%	813,517
06/30/14	12,615,018	10,189,033	2,425,985	80.8%	789,686
06/30/15	13,208,992	10,143,902	3,065,090	76.8%	806,648

Source: CalPERS Annual Valuation Report as of June 30, 2015.

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

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	<u>All Pension Plans</u>
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Post Retirement Benefit Increase	(1)
Mortality	(2)
	(3)

- (1) Depending on age, service, and type of employment  
 (2) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter  
 (3) Derived using CalPERS' Membership Data for all Funds

The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. More information on this table and assumptions can be found in the Experience Study report on CalPERS' website under Forms and Publications.

**Change in Assumptions.** According to Paragraph 68 of GASB 68, the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

**Discount Rate.** The discount rate used to measure the total pension liability was 7.65% for each Pension Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would mostly likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans ran out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	50.0%	5.25%	5.71%
Global Fixed Income	17.0%	0.99%	2.43%
Inflation Sensitive	5.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

**Discount Rate Being Lowered Over Next 3 Years.** At the December 21, 2016, meeting, the CalPERS Board of Administration approved lowering the CalPERS discount rate assumption, the long-term rate of return, from 7.50 percent to 7.00 percent over the next three years. This will increase public agency employer contribution costs beginning in Fiscal Year 2018-19. The phase-in of the discount rate change approved by the CalPERS Board for the next three Fiscal Years is as follows:

<u>Valuation Date</u>	<u>Fiscal Year for Required Contribution</u>	<u>Discount Rate</u>
June 30, 2016	2018-19	7.375%
June 30, 2017	2019-20	7.25%
June 30, 2018	2020-21	7.00%

Lowering the discount rate means plans will see increases in both the normal costs and the accrued liabilities. These increases will result in higher required employer contributions. In addition, active members hired after January 1, 2013, under PEPR may also see their contribution rates rise.

Employer contribution increases as a result of the discount rate changes are estimated below by Normal Cost and required Unfunded Accrued Liability (UAL) payment. The Total Employer Contribution is

the sum of the Normal Cost Rate applied to reported payroll plus the UAL payment. The Normal Cost portion of the Employer Contribution is expected to increase by the listed percentages of payroll. Increases to the UAL payments are provided as relative increases to be applied to the projected UAL payments in the June 30, 2015, valuation report.

The changes to the UAL due to changes of actuarial assumptions are amortized over a fixed 20-year period with a 5-year ramp up at the beginning and a 5-year ramp down at the end of the amortization period. The 5-year ramp up means that the payments in the first four years of the amortization schedule are 20 percent, 40 percent, 60 percent and 80 percent of the ultimate payment, which begins in year five. The 5-year ramp down means that the reverse is true and the payments in the final four years are ramped down by the above percentages. A new ramp is established with each change to the discount rate. There will be three ramps established in the first three years. As a result of the 5-year ramp up and effective date of the increase, it will be seven years until the full impact of the discount rate change is completely phased in.

The tables below were taken from the latest CalPERS Actuarial Reports, and shows the 2016-17 UAL contribution made by the City, as well as the City's projected UAL contributions for the next five fiscal years.

<b>Fiscal Year</b>	<b>Miscellaneous – 1st Tier</b>		<b>Safety – 1st Tier</b>	
	<b>Projected UAL Contribution*</b>	<b>% Increase</b>	<b>Projected UAL Contribution*</b>	<b>% Increase</b>
2016-17	\$256,601	--	\$187,116	--
2017-18	315,104	22.80%	234,590	25.37%
2018-19	376,887	19.61	284,745	21.38
2019-20	414,757	10.05	298,695	04.90
2020-21	457,096	10.21	331,127	10.86
2021-22	<u>489,037</u>	<u>06.99</u>	<u>354,816</u>	<u>07.15</u>
Totals	\$2,309,482	90.58%	\$1,691,089	89.62%

\* The annual UAL Contribution is now a fixed amount regardless of current payroll.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate.** The following presents the City's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Pension Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<b>Miscellaneous</b>	<b>Safety</b>
1% Decrease Net Pension Liability	6.65% \$6,289,838	6.65% \$4,562,842
Current Discount Rate Net Pension Liability	7.65% \$3,861,526	7.65% \$2,779,976
1% Increase Net Pension Liability	8.65% \$1,856,666	8.65% \$1,318,059

Source: City's 2015-16 Audited Financial Statements.

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

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

Rate Volatility	Miscellaneous – 1st Tier*	Safety – 1st Tier*
1. Market Value of Assets	\$13,341,927	\$10,143,902
2. Payroll	1,629,714	806,648
3. Asset Volatility Ratio (AVR) [(1) / (2)]	8.2	12.6
4. Accrued Liability	\$17,495,009	13,208,992
5. Liability Volatility Ratio (LVR) [(4) / (2)]	10.7	16.4

Source: CalPERS Annual Valuation Report as of June 30, 2015.

\*As of June 30, 2015

### Other Post-Employment Benefits

The City provides no post-employment benefits other than those associated with the Public Employees Retirement System.

### Other City and Financial Information

Information with respect to the City, including financial information and certain economic and demographic information relating to the City is provided in “APPENDIX D – GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA.” Also, see “APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2015-16.”

The City’s general fund is not pledged to secure payment of, and the taxing power of the City is not pledged for, the principal of and interest on the Bonds. The City has included its Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2016 (the “City’s Audited Financial Statements”), as Appendix B to this Official Statement. The City has not requested, and the City’s auditor has not given, such auditor’s consent to the inclusion in Appendix B of its report contained in the City’s Audited Financial Statements. The City has not requested that such auditor undertake any review or investigation concerning subsequent events with respect to such City’s Audited Financial Statements.

## **THE WATER SYSTEM**

### **General**

The City owns and operates the water production, storage, disinfection, and transmission facilities that serve the City of Fortuna. The Water System currently provides water to approximately 5,594 connections, serving approximately 12,032 customers. Approximately 5,042 connections are residential, and approximately 552 connections are non-residential (mostly commercial). Fire protection is achieved through 279 fire hydrants strategically located throughout the City. The maximum production output of the Water System is presently 1.1 million gallons per day (“MGD”), and the peak demand on the Water System has been as high as 1.7 MGD on a peak day. Based on production and sales records, the City estimates that current average water demand for the City of Fortuna is 1.1 MGD, or 408 million gallons (MG) of water per year.

### **Water Supply and Storage Capacity**

Groundwater is the sole source of water supply for the Water System. Water is extracted from five (5) shallow groundwater wells owned by the City. These wells, which are up to 112 feet deep, are all located at the southwest corner of the City, and produce excellent quality water. Approximately 408 MG of potable water were produced by the City’s wells in 2016. The water from these wells receive chlorination before distribution to the reservoir storage and distribution system. Drinking water is pumped to four (4) reservoirs, for a total storage capacity of approximately 8,250,000 gallons.

The City of Fortuna extracts groundwater from the Eel River Valley Groundwater Basin. According to the City, the groundwater basin contains a volume of approximately 44,300 MG that is recharged by percolation at a rate of approximately 32,565 MG per year. Although the storage capacity is about 44,300 MG, the usable yield of this groundwater storage basin is estimated to be approximately 13,000 MG to 19,500 MG annually. Approximately 3,257 MG of ground water is currently being pumped from the basin for agricultural purposes, leaving a potential of producing approximately 9,743 MG to 16,243 MG per year. Based on production and sales records, current water demand for the City is approximately 408 MG of water per year.

### **Water Treatment System**

The City of Fortuna’s water supply is treated to raise the pH and make the water less corrosive to comply with State and Federal requirements for lead and copper. This treatment process makes the water less acidic by aerating and removing carbon dioxide gas which is naturally dissolved in the water. As required by the California Department of Public Health, after the water is aerated, it is then chlorinated to prevent bacteriological contamination of the water.

The City employs a “Cross-Connection Control Program” to protect the Water System from contamination due to backflow. A backflow condition can be created when water from the consumer’s plumbing flows back into a water main. The California Department of Health Services and Fortuna City Code both require backflow prevention assemblies to be installed at all actual or potential sources of contamination. Such sources of contamination include hospitals, mortuaries, fire sprinkler systems, sewage treatment plants and customers with their own water system such as a well. These assemblies are required to be tested annually to ensure proper operation.

## **Distribution System**

The distribution system is currently composed of a looped system being fed through approximately sixty-five (65) miles of water mains, seven (7) pump stations and four (4) water storage reservoirs at various locations that provide 8.25 million gallons of treated water storage. The City's existing storage capacity provides the Water System with approximately 750% of the average daily demand in the City (based on average daily use of 1.1 MGD). All of the City booster station have stand-by emergency power and are controlled and monitored by the SCADA system located at the water treatment plant.

## **Environmental Regulation**

The City operates the Water System under a permit from California State Water Resources Control Board (CSWRCB), Division of Water Rights Permit No. 12390. None of the permits applicable to the Water System have expiration dates, and the California State Department of Health Services permit is revised, modified and re-issued as necessary. The City believes that it is in compliance with the requirements of all permits in all material respects.

## **Water System Users**

The Water System served approximately 5,594 accounts as of June 30, 2016, consisting of approximately 5,042 single-family residential accounts and 552 non-residential accounts. The number of accounts does not equal the number of parcels connected to service because some parcels have multiple accounts. Residential utility accounts account for approximately 78% of the Water System's revenue and non-residential utility accounts are responsible for approximately 22%.

## **Water System Rates and Charges**

**General.** Rates and charges for water service within the Water System service area are set by the City Council and are not subject to the jurisdiction of, or regulation by, the California Public Utilities Commission or any other regulatory body. The City increases water service charges from time to time in order to maintain adequate revenue surplus after operating expenses, administrative expenses, debt service, and routine capital replacement costs. Funds available after meeting fixed and operational costs are used to supplement capital improvements, accomplish capital replacements, and maintain reserves.

The City is subject to certain covenants with respect to the Bonds which require that the City fix, prescribe, revise and collect rates and charges for the services and facilities furnished by the Water System, during each Fiscal Year which are sufficient to yield Net Revenues at least equal to 125% of debt service of the Water System in such Fiscal Year. See the caption "SECURITY FOR THE BONDS – Rate Covenant – Covenant Regarding Net Revenues" herein.

**Rate Increases.** The City Council has the ability to increase rates and charges through a public hearing process. Prior to adopting a fee or charge, the City is required under Proposition 218 to conduct a public hearing and receive protests. If the City should receive a majority of written protests from its customers, the City would not be authorized to impose the increased rate or charge. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitutional Articles XIIC and Article XIID" herein

**Water Service Charges.** The City has separated its customer base into various classes, and the rates charged to each class of customer varies. Pursuant to City Council action taken on April 4, 2016 (Resolution No. 2016-12), the City adopted its most recent schedule of monthly water rates, which summarized in the Table 4 below. The City charges based on the number of units associated with each parcel.

**Table 4  
WATER SYSTEM**

<b>SCHEDULE OF MONTHLY WATER RATES</b>		
<b><u>BASE CHARGE</u></b>		
<u>Meter Size in Inches</u>		<u>Monthly Base Fee<sup>(1)</sup></u>
5/8 by 3/4		\$23.04
1		\$44.07
1 1/2		\$87.21
2		\$147.61
3		\$320.16
4		\$561.73
6		\$1,251.95
<b><u>USAGE CHARGE</u></b>		
<u>Amount of Water in Cubic Feet</u>		<u>Charges/100 Cubic Feet<sup>(1)</sup></u>
0 to 300		Monthly Base Fee
Over 300		\$1.90

*Source: City*

(1) For customers located outside the City Limits the rate charged is one and one-half (1.5) times the rate for service within the Limits. Between May and October each year summer water rates will be in effect for all customers. The summer rates will provide each customer under the base rate with an additional 200 cubic feet of water each month. The water rates for multiple units will be calculated by multiplying the lowest base charge fee and the usage charge by the number of units.

**Connection Charges.** The City also charges development impact fees, including water capacity charges to new customers connecting to the Water System. Development impact fees may be used for the payment of Debt Service on the Bonds and constitute Gross Revenues from which pledged Net Revenues are derived. Connection fee revenues do not generally constitute a significant percentage of annual Water System revenues. Water connection fees for each new single-family residence is currently \$1,165, as established pursuant to Resolution No. 2016-12

### **Operation, Management and Governance**

The City has primary responsibility for the day-to-day management, operation and maintenance of the Water System and has covenanted to operate the Water System in an efficient and economical manner and to operate, maintain and preserve the Water System in good repair and working order. The City endeavors to provide for the operation and maintenance of Water System facilities for the purpose of treating and utilizing water and its byproducts in accordance with federal, state, and local requirements; to provide a healthy and nuisance-free environment; to plan for future water treatment needs to meet the anticipated growth of the City; and to establish water user fees for properties receiving City water service.

The City has covenanted that, in order to fully preserve and protect the priority and security of the Bonds, it will pay from the Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Water System which, if unpaid, may become a lien or charge upon the Gross Revenues or the Net Water Revenues prior or superior to the lien granted under the Indenture, or which may otherwise impair the ability of the City to pay the Debt Service in accordance therewith.

### **Rate Setting and Collection Process**

The City, subject to the requirements of Proposition 218 set forth below, has the power to establish rates and charges for water service as needed, without the overview of any other governmental agency. The present rate schedule for water service rates and charges was established by City Resolution No. 2016-12, which was adopted by the City Council on April 4, 2016 by not less than a two-thirds vote. No rate increases have been proposed or adopted with respect to the issuance of the Bonds. The City also establishes and maintains a schedule of water connection fees and fees for other services.

In November 1996, citizens of the State of California passed a Constitutional amendment known as Proposition 218, which added Articles XIII C and XIII D to the State Constitution. This amendment changed the process for increasing property-related fees within the State and potentially affects the City's ability to impose future rate increases. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – California Constitution Articles XIII C and XIII D." Proposition 218 conditions the imposition or increase of any water service fee or charge upon there being no written majority protest after a required public hearing.

Under the protest hearing process, property owners within the service area are mailed a rate increase notice and protest form detailing the proposed rate increase. To oppose the rate increase, the property owner must return the protest form to the City. To support the rate increase, there is no action required on the part of the property owner. If written protests against the proposed rate increase are returned to the City no later than the end of the protest hearing by a majority of owners of the identified parcels, the City may not approve the proposed rate increase.

If the protest fails with less than a majority protest, then the City can approve a rate increase not to exceed the rate increase detailed in the protest form. The City believes that it has followed the Proposition 218 process in connection with its water related rate increases last approved on April 4, 2016. See also "RISK FACTORS – Rate Process" herein.

### **Largest Water Customers**

The following Table 5 sets forth the 10 largest customers of the Water System as of June 30, 2016, as determined by total annual water revenue. The top water users accounted for approximately 8.62% of total water billings during this period.



## **Delinquent Accounts**

The City considers its rates of payment delinquency, service discontinuance for non-payment and write-offs for uncollectible accounts to be low by water industry standards for urban areas. The write-offs for uncollectible accounts for the last five Fiscal Years have averaged less than \$\_\_\_\_\_ annually.

## **Future Water System Improvements**

The City has an ongoing capital improvement plan with respect to the Water System in connection with upgrades and replacement of dated facilities, i.e., replacing aging pipelines, replacing small diameter pipelines, replacing pipelines with frequent repairs, water meter installations, corrosion protection measures, increasing storage capacity, and capital improvement plan activities, and certain other miscellaneous improvements. The City has identified several projects that require capital outlay over the course of the next five (5) years at a total estimated cost of approximately \$\_. \_ million. The City anticipates funding these improvements from annual revenues, connection fees and other available funds of the Water System; however, the City can incur future long-term indebtedness on parity with Debt Service on the Bonds. See “SECURITY FOR THE BONDS – Issuance of Additional Debt” herein for a discussion of conditions which must be satisfied prior to issuance of any future parity debt.

## **Historical Operating Results**

The following Table 7 is a summary of audited operating results of the Water System for Fiscal Years ended June 30, 2013 through 2016. See APPENDIX B for the audited financial statement for the Fiscal Year ended June 30, 2016. The auditor has not reviewed such statements in connection with their inclusion in this Official Statement, nor has the City requested such a review. Selected information from the aforementioned audited financial statements has been used to prepare the following five-year comparative summary of revenues and expenses.

The results presented in the following Table 7 summary are qualified in their entirety by reference to the respective annual consolidated audited financial statements of the City, including the notes thereto. Copies of the audited financial statements for the City’s other Fiscal Years can be obtained at the office of the City Manager.

**Table 7**  
**WATER SYSTEM**

<b>HISTORICAL OPERATING RESULTS</b>				
	<b>Audited 2013</b>	<b>Audited 2014</b>	<b>Audited 2015</b>	<b>Audited 2016</b>
<b>OPERATING REVENUES</b>				
Charges for Services	\$2,260,870	\$2,337,351	\$2,204,102	\$2,196,266
Capital Impact Fees	14,053	81,685	90,899	64,231
Other Revenues	38,606	54,582	41,195	128,506
Total Operating Revenues	\$2,313,529	\$2,473,618	\$2,336,196	\$2,389,003
<b>OPERATING EXPENSES<sup>[1]</sup></b>				
Salaries and Benefits	\$607,633	\$590,137	\$662,489	\$908,853
Purchased Power	181,347	202,343	156,826	177,759
Supplies and Materials	285,898	256,570	271,715	328,273
Total Operating Expenses	\$1,074,878	\$1,049,050	\$1,091,030	\$1,414,885
Operating Income	\$1,238,651	\$1,424,568	\$1,245,166	\$974,118
Nonoperating Revenues (Expenses) <sup>[2]</sup>	12,226	38,381	55,327	77,313
<b>NET INCOME</b>	\$1,250,877	\$1,462,949	\$1,300,493	\$1,051,431
<b>DEBT SERVICE</b>				
Debt Service on the 2006 Bonds	\$534,697	\$532,297	\$532,797	\$534,797
<b>DEBT SERVICE COVERAGE</b>	<b>2.34</b>	<b>2.75</b>	<b>2.44</b>	<b>1.97</b>

[1] Excludes depreciation of the Water System for purposes of calculating debt service coverage.

[2] Excludes interest paid as debt service on the 2006 Bonds.

Source: City's Audited Financial Statements

### Operating Projections

The City's estimated projected operating results and debt service coverage (adjusted to exclude depreciation, and certain other noted adjustments and assumptions) relating to the Water System for the Fiscal Years ending June 30, 2017, through June 30, 2020, are set forth in the following Table 8, reflecting certain significant assumptions concerning future events and circumstances (the "Coverage Projections"). The financial forecast represented by the Table 8 is the City's estimate of projected financial results based upon its judgment of the probable occurrence of future events. In addition, the assumptions set forth in the footnotes to Table 8 are material to the development of the City's financial projections. Variations in the any one of the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. See "RISK FACTORS – Uncertainties of Projections, Forecasts and Assumptions" herein.

**Table 8  
WATER SYSTEM**

<b>PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE</b>				
	<b>Unaudited Fiscal Year 2017</b>	<b>Budgeted Fiscal Year 2018</b>	<b>Projected Fiscal Year 2019</b>	<b>Projected Fiscal Year 2020</b>
<b>OPERATING REVENUES</b>				
User Fees and Charges <sup>[1]</sup>				
Connection Fees				
Total Operating Revenues				
<b>OPERATING EXPENSES<sup>[2]</sup></b>				
Salaries & Benefits				
Services & Supplies				
Maintenance				
Total Operating Expenses				
Operating Income				
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest Income				
Total Nonoperating Revenues (Expenses)				
Net Income/(loss) Before Transfers				
Operating Transfers In/(Out)				
<b>NET INCOME AVAILABLE FOR DEBT SERVICE (ADJUSTED)</b>				
2006 Bonds				
2016 Bonds				
<b>Total Debt Service</b>				
<b>DEBT SERVICE COVERAGE</b>				

[1] User Fees and Charges based upon adopted rate increases, assuming no growth in customer accounts.

[2] Operating Expenses based upon adopted rate study, and excludes depreciation of the Water System for purposes of calculating debt service coverage.

Source: City

## **CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES**

### **California Constitution Articles XIII A and XIII B**

Article XIII A of the California Constitution limits the taxing powers of California public agencies. Article XIII A provides that the maximum ad valorem tax on real property cannot exceed 1% of the “full cash value” of the property, and effectively prohibits the levying of any other ad valorem property tax except for taxes above that level required to pay debt service on voter-approved general obligation bonds. “Full cash value” is defined as “the County Assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value’ or, thereafter, the appraisal value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The “full cash value” is subject to annual adjustment to reflect inflation at a rate not to exceed 2% or a reduction in the consumer price index or comparable local data, or declining property value caused by damage, destruction or other factors.

The foregoing limitation does not apply to ad valorem taxes to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property thereafter approved by the voters as required by law.

Under Article XIII B of the California Constitution, state and local government entities have an annual “appropriations limit” which limits their ability to spend certain moneys called “appropriations subject to limitation,” which consist of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge.

The City is of the opinion that the water service and user charges imposed by the City do not exceed the costs the City reasonably bears in providing the water services. In general terms, the “appropriations limit” is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population, and services provided by these entities. Among other provisions of Article XIII B, if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

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

On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the California Constitution, which contain a number of provisions affecting the ability of local governments to levy and collect new or increased taxes, assessments, and property-related fees and charges.

Article XIII C provides that a local government may not impose, extend, or increase local taxes until such taxes are submitted to the electorate for approval. General taxes, imposed, extended, or increased for general governmental purposes of the local government, require a majority vote and special taxes, imposed, extended, or increased for specific purposes, require a two-thirds vote.

In addition, Article XIII C provides that the constitutional initiative power will not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the

power of initiative to affect local taxes, assessments, fees and charges. However, on July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states: “Section 3 of Article XIIC of the California Constitution, as adopted at the November 5, 1996 general election, will not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protection by Section 10 of Article I of the United States Constitution.” Government Code Section 5854 appears to limit the voters’ power to repeal or reduce Water System fees and charges if such reduction would interfere with the City’s payment of Debt Service on the Bonds. If Government Code Section 5854 becomes the subject of a challenge, however, no guarantee can be made that the courts will agree with such interpretation.

Article XIIC does not define the terms “local tax,” “assessment,” “fee” or “charge.” In *Bighorn-Desert View Water Agency v. Verjil* (“Bighorn”), 39 Cal. 4th 205 (2006), decided by the California Supreme Court on July 24, 2006, the petitioner sought to establish his right to reduce a local water agency’s water delivery charges through use of the initiative power. In holding for the petitioner on this issue, the court stated that the absence of a restrictive definition of “fee” or “charge” in Article XIIC suggests that those terms include all levies that are ordinarily understood to be fees or charges, including all of the property-related fees and charges subject to Article XIID. Though the Supreme Court did not arrive at an exact definition of such terms, it did determine that fees and charges that are fees and charges within the meaning of Article XIID are necessarily fees and charges within the meaning of Article XIIC.

The Court held that Article XIIC authorizes the use of the initiative process to reduce water delivery charges but that it does not authorize use of the initiative power to impose a voter-approval requirement on future increases in water delivery charges. The court declined to determine whether the initiative power is limited by other statutory provisions requiring that water service charges be set at a level that will pay system operating expenses and debt service since that issue was not before the court.

Consequently, the voters of the City could, by future initiative, seek to repeal or reduce any local tax, assessment, fee or charge, including the City’s water service fees and charges, which are the source of Net Revenues pledged to the payment of Debt Service on the Bonds. Though the use of the initiative power is arguably limited in a case such as this where fees and charges have been imposed by the City for services of the Water System that are pledged to the payment of Debt Service on the Bonds, there can be no assurance that the voters of the City will not seek to approve such an initiative which attempts to reduce the fees and charges imposed by the City for services of the Water System that are pledged to the payment of Debt Service on the Bonds.

Article XIID imposes various procedural and substantive requirements on local governments that levy an “assessment,” “fee,” or “charge.” Article XIID defines “fees” or “charges” 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 a user fee or charge for a property related service.” “Property related service” means a public service having a direct relationship to property ownership (property ownership includes tenancies where tenants are directly liable to pay the fee or charge). In particular, a fee or charge (i) may not exceed the funds required to provide the property related service, (ii) may not be used for any purpose other than that for which the fee or charge was imposed, (iii) may not exceed the proportional cost of the service attributable to the parcel, (iv) may not be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question, and (v) may not be imposed for general governmental services.

In addition, before any property related fee or charge may be imposed or increased, the local government agency must provide mailed notice forty-five (45) days in advance of a hearing regarding the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the local government agency may not impose or increase the fee or charge. Moreover, except for fees or charges for water, wastewater, and refuse collection services (or fees for electrical and gas service, which are expressly exempted from Proposition 218), no property related fee or charge may be imposed or increased without a majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds approval by those residing in the affected area and voting at the election. Article XIID states that, beginning July 1, 1997, all fees or charges must comply with its provisions.

In *Richmond et al. v. Shasta Community Services City* (“Richmond”), the California Supreme Court held that a water connection fee was not a “property-related” fee or charge subject to Article XIID. However, in the opinion the California Supreme Court suggested in dicta that fees for ongoing water service through an existing connection were “property related” fees and charges imposed on a person as an incident of property ownership. The court addressed this issue directly in the *Bighorn* case discussed above. In its decision, the court cited its discussion in *Richmond* in support of its conclusion that a public agency’s fees and charges for ongoing water service through an existing connection are “property-related” fees and charges imposed on a person as an incident of property ownership for purposes of Article XIID, whether the fees and charges are calculated based on usage or are imposed as a fixed monthly fee.

The City believes that it has complied with the procedures required by Article XIID, as such article has been construed by the California Supreme Court, in connection with the increases in the Water fees and charges approved by the City Council of the City on April 4, 2016. See “THE WATER SYSTEM – Rate Setting and Collection Process” herein.

The ability of the City to comply with the covenants in each of the Indenture, including the rate covenants described under “SECURITY FOR THE BONDS – Rate Covenant,” in connection with the levy and collection of Water System service charges could be adversely affected by actions taken or not taken by voters, property owners or other persons obligated to pay Water System service charges. Furthermore, the interpretation and application of Proposition 218 will likely be subject to further judicial determinations, and it is not possible at this time to predict with certainty the outcome of such determinations. See also “RISK FACTORS – Rate Process” herein.

## **Proposition 26**

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local

government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. The City does not believe that the enactment of Proposition 26 will affect its ability to levy rates and charges for water services.

### **Future Initiatives**

Articles XIII A, XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the Water System revenues, including the ability to increase or expend such revenues.

## **RISK FACTORS**

*The purchase of the Bonds involves investment risk. If a risk factor materialized to a sufficient degree, it could delay or prevent payment of principal of and interest on the Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various issues. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors. There can be no assurance that other risk factors will not become material in the future.*

### **General**

The payment of principal of and interest on the Bonds is secured solely by a pledge of the Net Revenues and other payments paid by the City pursuant to the Indenture. The obligation of the City to make the Debt Service on the Bonds is a limited obligation of the City payable solely from a pledge of Net Revenues. The realization of the Net Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide water services to its users, and the ability of the City to establish and maintain water fees and charges sufficient to provide the required debt service coverage as well as pay for Maintenance and Operation Costs. Among other matters, natural disasters, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums) could adversely affect the amount of Net Revenues realized by the City.

### **Accuracy of Assumptions**

To estimate projected financial results of the Water System, including the Coverage Projections set forth in Table 8, and the corresponding projected Net Revenues available to pay debt service on the Bonds, the City has made certain financial forecasts and assumptions with regard to the rates and charges to be

imposed in future years, estimated foreseeable Parity Debt, the expenses associated with Water System operations and the interest rate at which funds will be invested.

The City believes these financial forecasts and assumptions to be reasonable, but variations in the any one of the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those forecasted and such variations may be material, with a possible result being that Net Revenues may prove to be significantly less than projected in this Official Statement. Accordingly, such assumptions and projections are at best educated estimates, and are not in any way a guaranty of future performance, and the City assumes no responsibility for the accuracy of such financial forecasts and projections.

### **Limited Obligation**

The obligation of the City to pay Debt Service on the Bonds is a limited obligation of the City and is not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net Revenues. The obligation of the City to Debt Service on the Bonds does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. No owner of any Bond may compel the exercise of the taxing power by the City or the forfeiture of any of its property.

### **Limited Recourse on Default**

If the City defaults on its obligation to make payment on the Bonds, the Trustee has the right to accelerate the total unpaid principal amount of the Bonds. However, in the event of a default and such acceleration, there can be no assurance that the City will have sufficient Net Revenues to pay the accelerated unpaid principal amount of the Bonds.

### **Increased Maintenance and Operation Costs**

There can be no assurance that expenses of the City with respect to the Water System will be consistent with the levels contemplated in this Official Statement. Maintenance and Operation Costs could increase at higher rates than currently expected as a result of various factors, including increases in personnel costs, energy costs, chemical costs, pumping costs, technology, safety or regulatory costs, unforeseen costs associated with spills or other accidents involving the Water System, and other factors beyond the City's control.

Increases in Maintenance and Operation Costs could require an increase in rates or charges in order to comply with the Rate Covenants in the Indenture. There can be no assurance that such future rate increases, if necessary, will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. See "RISK FACTORS – Rate Covenant" herein.

### **Project Management**

The City has agreed under the Indenture to maintain and operate the Water System in an efficient and economical manner and to operate, maintain and preserve the Water System in good repair and working order. Should management prove deficient, it is possible that the Water System could fall into disrepair, possibly to

levels that would require significant rate increases to properly remediate conditions. The City has covenanted to prescribe, revise and collect rates and charges for the Water System at certain levels; however, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to make timely payments with respect to the Bonds. Additionally, the ability of the City to comply with its covenants under the Indenture, and to generate Net Revenues sufficient to pay principal of and interest on the Bonds, may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES” herein. Any remedies available to the owners of the Bonds, upon the occurrence of an event of default under the Indenture, are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. See “Limitations on Remedies and Bankruptcy.”

### **Financial Controls**

The City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City, including the Water System, are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. While the City believes that it has established an internal control structure designed to protect against such events, no assurance can be given as to the adequacy of thereof, or any insurance coverage related thereto. If there were to be an occurrence of a loss, theft, or misappropriation, there could be a substantial reduction in the City’s ability to pay Debt Service on the Bonds.

### **Insurance**

The Indenture requires the City to obtain and keep in force various forms of insurance or self-insurance, subject to deductibles, for repair or replacement of applicable portions of the Water System in the event of damage or destruction thereto. 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 such applicable portions of the Water System. Significant damage to the Water System could result in a lack of the ability to generate sufficient Net Revenues to repay the Bonds.

Further, the City is not legally obligated under the Indenture to maintain, or cause to be maintained, earthquake or flood insurance on the either the Water System, and the City does not presently maintain earthquake or flood insurance on behalf of the Water System. No assurance is made that any earthquake or flood insurance will be provided in the future, or if provided, that such insurance will continue to be maintained in the future. If there were to be an occurrence of a flood or severe seismic activity in the City, there could be substantial damage to the Water System, the cost of repair of which could exceed the net equity available therefore. In the event of significant flood or earthquake damage to the Water System, there can be no assurance that Net Revenues would be sufficient to pay principal of and interest on the Bonds.

## **Limitations on Remedies and Bankruptcy**

The ability of the City to increase water service charges and to comply with its covenants under the Indenture and to generate Net Revenues in amounts sufficient to pay Debt Service on the Bonds may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitution Articles XIII C and XIII D” herein.

Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the Bonds may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against municipalities in the State of California. Various legal opinions to be delivered concurrently with the issuance of the Bonds will be so qualified. In addition, the opinion to be delivered by Bond Counsel concurrently with the issuance of the Bonds, will also state that the enforceability of the Indenture is subject to the limitations on the imposition of fees and charges by the City relating to the Water System, under Article XIII C and XIII D of the California Constitution. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto. In the event the City fails to comply with its covenants under the Indenture or to pay Debt Service on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Bonds.

As noted above, the enforcement of the remedies provided in the Indenture and the Indenture could prove both expensive and time consuming. In addition, the rights and remedies provided in the Indenture may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors’ rights. If the City were to file a petition under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), the Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Indenture. So long as the Bonds are held in book-entry form, DTC (or its nominee) will be the sole registered Bondholder and will be entitled to exercise all rights and remedies of Bondholders.

## **Physical Condition of Water System Facilities**

The reliability of the Water System is affected by a number of factors including physical and operational vulnerabilities of its facilities. Certain of the Water System facilities are near the end of their useful life. Long-lived facilities result in decreased reliability due to unplanned outages and place a greater maintenance burden on operations. The City budgets for the maintenance and operations of its facilities; however, the City gives no assurance that any future significant diminished physical status of its facilities would not materially adversely affect the operations of the Water System. Partial or complete failure of components of the Water System could cause a material increase in costs for repairs or a corresponding material adverse impact on Net Revenues.

## **Energy Costs**

No assurance can be given that any future significant reduction or loss of power would not materially adversely affect the operations of the Water System. The volume of water processed and treated in the Water System on a daily basis requires a significant amount of power. Electricity is needed to run several assets including, among other things, pumps, lights, computers, mechanical valves and machinery.

The City cannot guarantee that prices for electricity or gas will not increase, which could adversely affect the Water System's financial condition. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitution Articles XIII C and XIII D" herein.

## **Statutory and Regulatory Impact**

Laws and regulations governing treatment and disposal of water are enacted and promulgated by government agencies on the federal, state and local levels. Compliance with these laws and regulations may be extremely costly, and, as more stringent standards are developed to protect the environment, these costs will likely increase.

Claims against the City for violations of regulations with respect to its facilities and services could be significant. Such claims are payable from assets of the Water System or from other legally available sources. Although the City has covenanted in the Indenture to fix, prescribe and collect rates, fees and charges during each Fiscal Year at specified levels, no assurance can be given that the cost of compliance with such laws and regulations will not materially adversely affect the ability of the City to generate Net Revenues in the amounts required by the Indenture to pay Debt Service on the Bonds. Certain potential increasing regulatory standards could materially increase the cost to the City of providing water services.

## **Natural Disasters**

The area in and surrounding the City, like those in much of California, may be subject to unpredictable droughts, storms, floods, fires, soil expansion and liquefaction and seismic activity that could negatively affect the value of the Water System, as well as other assets of the City. The possibility of the occurrence of some of these conditions and events has not been taken into account in the design of the Water System and has not been taken into account in the designs of other public improvements which may be acquired or constructed by the City or other public agencies.

The City expects that one or more of these conditions will likely occur in the future, and, even if design criteria have been implemented to mitigate certain geologic events, which may or may not prove to be the case, such conditions may nevertheless result in damage to or destruction of part or all of the Water System.

If there were to be an occurrence of a severe geotechnical condition or natural disaster in the area of the City, there could be an interruption in the service provided by the Water System resulting in a reduction in the amount of Net Revenues available to pay Debt Service on the Bonds. Further, damage to components of the Water System could cause a material increase in costs for repairs or a corresponding material adverse impact on respective Net Revenues.

## **Safety and Security**

The safety of the facilities of the Water System is maintained by a combination of regular inspections by City employees, electronic monitoring, and analysis of unusual incident reports. All above-ground facilities operated and maintained by the City, are controlled access facilities with fencing and gates. Despite the security measures and precautions that are in place, military conflicts and terrorist activities could adversely impact operations of the Water System and the finances of the City.

The City continually plans and prepares for emergency situations and immediately responds to ensure services are maintained. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the assets of the Water System or that costs of security measures will not be greater than presently anticipated. Furthermore, damage to the Water System could require the City to increase expenditures for repairs significantly enough to adversely impact the City's ability to pay Debt Service on the Bonds.

## **Economic, Political, Social, and Environmental Conditions**

Prospective investors are encouraged to evaluate current and prospective economic, political, social, and environmental conditions as part of an informed investment decision. Changes in economic, political, social, or environmental conditions on a local, state, federal, and/or international level may adversely affect investment risk generally.

Such conditional changes may include (but are not limited to): fluctuations in business production, consumer prices, financial markets, or unemployment rates; technological advancements; shortages or surpluses in natural resources or energy supplies; changes in law; social unrest, fluctuations in the crime rate, political conflict, acts of war or terrorism; environmental damage; and natural disasters.

## **Rate Process**

The passage of Proposition 218 by the California electorate, which added Articles XIIC and XIID to the California Constitution, affects the City's ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or initiative action under Proposition 218. In the event that future proposed rate increases cannot be imposed as a result of a majority protest or initiative, it may adversely affect the ability of the City to generate Net Revenues in the amounts required by the Indenture to pay Debt Service on the Bonds. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitution Articles XIIC and XIID."

The City's ability to comply with the rate covenant under the Indenture may also be limited by the provisions of Proposition 218. The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the issues. The City does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard. Interim rulings, final decisions, legislative proposals and legislative enactments may all affect the impact of Proposition 218 on the Bonds as well as the market for the Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of Proposition 218.

## **Investment of Funds**

All funds and accounts held under the Indenture are required to be invested in Authorized Investments as provided under the Indenture. See APPENDIX A attached hereto for a summary of the definition of Authorized Investments. All investments, including the Authorized Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, loss of market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture or by the City could have a material adverse effect on the security of the Bonds.

## **Secondary Market Risk**

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse historical 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.

## **Loss of Tax Exemption**

As discussed under the caption “TAX MATTERS,” interest on the Bonds could fail to be excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for purposes of federal income taxation, in some cases retroactive to the date of execution and delivery of the Bonds, as a result of future acts or omissions of the City in violation of certain covenants contained in the Indenture. Should such an event of taxability occur, the Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed pursuant to the Indenture.

In addition, Congress has considered in the past, is currently considering and may consider in the future, legislative proposals, including some that carry retroactive effective dates that, if enacted, would alter or eliminate the exclusion from gross income for federal income tax purposes of interest on municipal bonds, such as the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. The City can provide no assurance that federal tax law will not change while the Bonds are outstanding or that any such changes will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes. If the exclusion of interest on the Bonds from gross income for federal income tax purposes were amended or eliminated, it is likely that the market price for the Bonds would be adversely impacted.

## **IRS Audit**

The Internal Revenue Service (the “IRS”) has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Tax Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

## **Uncertainties of Projections, Forecasts and Assumptions**

Compliance with certain of the covenants contained in the Indenture is based upon assumptions and projections. Projections and assumptions are inherently subject to significant uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur and actual results are likely to differ, perhaps materially, from those projected. Accordingly, such projections are not necessarily indicative of future performance, and the City assumes no responsibility for the accuracy of such projections.

## **FINANCIAL STATEMENTS**

Attached as APPENDIX B are the audited financial statements of the City (the “Financial Statements”) for Fiscal Year 2015-16, which include financial statements for the Water System, prepared by the City’s Finance Department and audited by Terry E. Krieg, CPA, Santa Rosa, California (the “Auditor”).

The Auditor’s letter concludes that the Financial Statements, as presented, are accurate in all material respects and are presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. The Financial Statements include information regarding other certain funds of the City, which are not pledged to pay Debt Service on the Bonds.

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

## **TAX MATTERS**

In the opinion of The Weist Law Firm, Scotts Valley, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the Bonds. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial offering price

to the public (excluding bond houses and brokers) at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “original issue premium” for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium 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 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

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

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

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

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

federal tax consequences arising with respect to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on the Bonds, other than as expressly described above. The proposed form of the opinion of Bond Counsel is attached as APPENDIX E.

### **CERTAIN LEGAL MATTERS**

The Weist Law Firm, Scotts Valley, California, Bond Counsel, will render an opinion with respect to the validity of the Bonds, the form of which opinion is set forth in APPENDIX E. Certain legal matters will also be passed upon for the City by The Weist Law Firm, as Disclosure Counsel. Certain legal matters will be passed upon for the City by the City Attorney.

### **CONTINUING DISCLOSURE**

The City has covenanted in a Continuing Disclosure Certificate for the benefit of the Owners and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City's Water System by not later than nine months following the end of the City's Fiscal Year (currently, the City's fiscal year ends on June 30), commencing with the report of Fiscal Year ending June 30, 2017 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. Such Annual Reports and notices of enumerated events are required to be filed with EMMA. The specific nature of the information to be contained in the Annual Report and the notice of enumerated events is described in "Appendix C – FORM OF CONTINUING DISCLOSURE CERTIFICATE," hereto. These covenants have been made in order to assist the Underwriter in complying with the Rule.

Pursuant to the continuing disclosure certificate relating to the 2006 Bonds, the City agreed to provide certain financial information and operating data relating to the City's Water System by not later than March 31 of each year. As of the date hereof, the City is in compliance in all material respects with its continuing disclosure undertakings for the last five years, except as described below.

The City and its related governmental entities have previously entered into several disclosure undertakings under the Rule in connection with the issuance of long-term obligations. During the past five years, the City and its related entities have failed to materially comply with their respective undertakings. In particular, \_\_\_\_\_.

Each of the Annual Reports, audited financial statements and event notices were subsequently filed. Accordingly, the City believes it is currently in compliance with its existing continuing disclosure undertakings.

The City has adopted necessary policies and procedures and has retained \_\_\_\_\_ to provide continuing disclosure services to ensure compliance with the continuing disclosure undertakings of the City, and its related entities, in the future.

### **LITIGATION**

To the best knowledge of the City there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the City to

restrain or enjoin the authorization, execution or delivery of the Bonds, the pledge of Net Revenues or the collection of the payments to be made pursuant to the Indenture, the obligation of the City to pay Debt Service on the Bonds made pursuant to the Indenture, or in any way contesting or affecting validity of the Bonds, the Indenture, or the agreement for the sale of the Bonds.

The City is engaged in routine litigation incidental to the conduct of its business. However, there is no litigation pending or threatened against the City which, in the opinion of the City Attorney, would materially adversely affect the Water System or the sources of payment for the Bonds.

## **RATING**

S&P Global Ratings (“S&P”) has assigned an underlying municipal bond rating of “\_\_” to the Bonds. Such rating reflects only the view of S&P and any desired explanation of the significance of such rating should be obtained from S&P. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. The City and the Underwriter have undertaken no responsibility either to bring to the attention of the Owners of the Bonds any proposed change in or withdrawal of the rating or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of the rating might have an adverse effect on the market price or marketability of the Bonds.

## **MUNICIPAL ADVISOR**

The City has retained Public Financial Management Inc. (the “Municipal Advisor”) in connection with the issuance of the Bonds. The Municipal Advisor is a financial advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Municipal Advisor will receive compensation from the City contingent upon the sale and delivery of the Bonds.

## **UNDERWRITING**

The Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the “Underwriter”). The Underwriter has agreed to purchase the Bonds at a price of \$\_\_\_\_\_ (which price is equal to the \$[Par Amount] aggregate principal amount of the Bonds, [plus] [less] net Original Issue [Premium] [Discount] of \$\_\_\_\_\_, and less Underwriter’s Discount of \$\_\_\_\_\_).

The Bond Purchase Contract pursuant to which the Underwriter has agreed to purchase the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Contract, including the approval of certain legal matters by counsel and certain other conditions.

The Underwriter intends to offer the Bonds to the public at the offering prices set forth on the cover

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

### **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Upon delivery of the Bonds, \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, independent certified public accountants, will deliver a report stating that the firm has verified the mathematical accuracy of certain computations relating to the adequacy of the amounts deposited pursuant to the Escrow Agreement to pay the applicable redemption price of and accrued interest on, the 2006 Bonds on their respective payment and redemption dates.

### **MISCELLANEOUS**

So far as any statements made in this Official Statement involve matters of opinion, assumptions, projections, anticipated events or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and actual results may differ substantially from those set forth herein. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the Bonds.

The summaries of certain provisions of the Bonds, statutes and other documents or agreements referred to in this Official Statement do not purport to be complete, and interested parties must refer to each of them for a complete statement of their provisions. Copies are available for review by making requests to the City.

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement. The audited financial statements of the City (including financial statements of the City's Water System), including a summary of significant accounting policies, for the Fiscal Year ended June 30, 2016 is contained in APPENDIX B.

### **EXECUTION AND DELIVERY**

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

CITY OF FORTUNA, CALIFORNIA

By:  /s/ \_\_\_\_\_

## APPENDIX A

### SUMMARY OF INDENTURE

*Certain provisions of the Indenture are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture. In the event of a conflict between this summary and the Indenture, the terms of the Indenture shall govern.*

**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2015-16**

## APPENDIX C

### FORM OF THE CONTINUING DISCLOSURE CERTIFICATE

*Upon issuance of the Bonds, the City proposes to enter into a Continuing Disclosure Certificate in substantially the following form:*

This Continuing Disclosure Certificate (the “Disclosure Certificate”), dated as of September 1, 2017, is executed and delivered by the City of Fortuna (the “City”) and \_\_\_\_\_, as dissemination agent (the “Disclosure Dissemination Agent”), for the benefit of the Beneficial Owner (hereinafter defined) of the \$[Par Amount] City of Fortuna, Series 2017 Water Revenue Refunding Bonds (Water Enterprise Project) (the “Bonds”) in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “Rule”).

The City and the Disclosure Dissemination Agent covenant and agree as follows:

SECTION 1. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Financial Information*” means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Certificate.

“*Annual Report*” means an Annual Report described in and consistent with Section 3 of this Disclosure Certificate.

“*Annual Filing Date*” means the date, set forth in Section 2(a) and Section 2(f), by which the Annual Report is to be filed with the MSRB.

“*Audited Financial Statements*” means the financial statements (if any) of the City for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(b) of this Disclosure Certificate.

“*Beneficial Owner*” means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“*Bonds*” means the \$[Par Amount] City of Fortuna, Series 2017 Water Revenue Refunding Bonds (Water Enterprise Project) issued pursuant to the Indenture.

“*Certification*” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice delivered to the Disclosure Dissemination Agent is the Annual

Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice, required to be submitted to the MSRB under this Disclosure Certificate. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the City and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“*City*” means the City of Fortuna, California.

“*Disclosure Representative*” means the Finance Director of the City or his or her designee, or such other person as the City shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“*Disclosure Dissemination Agent*” means \_\_\_\_\_, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the City.

“*Failure to File Event*” means the City’s failure to file an Annual Report on or before the Annual Filing Date.

“*Force Majeure Event*” means: (i) acts of God, war, or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access system maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent’s reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Certificate.

“*Indenture*” means the Indenture of Trust, dated as of September 1, 2017 (the “*Indenture*”), by and between the City and U.S. Bank National Association, as trustee thereunder.

“*Information*” means, collectively, the Annual Reports, the Audited Financial Statements (if any), the Notice Event notices, and the Failure to File Event notices.

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

“*MSRB*” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Marketplace Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“*Notice Event*” means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Certificate.

“*Obligated Person*” means any person, including the City, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities). With respect to the Bonds, only the City constitutes the Obligated Person.

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

“*Participating Underwriter*” means Stifel, Nicolaus & Company, Incorporated, the original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

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

“*State*” means the State of California.

“*Trustee*” means U.S. Bank National Association, as trustee under the Indenture, or any successor Trustee designated in writing by the City.

## SECTION 2. Provision of Annual Reports and Other Disclosures.

(a) The City shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent not later than nine months after the end of the City’s Fiscal Year (currently March 31 based on the City’s Fiscal Year end of June 30), commencing with the Annual Report for the Fiscal Year ended June 30, 2017. Such date and each anniversary thereof is the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide such Annual Report to the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Certificate.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the City of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the City will not be able to file the Annual Report within the time required under this Disclosure Certificate, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent that

a Failure to File Event has occurred and to immediately send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 6:00 p.m. Eastern time on the Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the City irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to the MSRB in substantially the form attached as Exhibit A without reference to the anticipated filing date for the Annual Report.

(d) If Audited Financial Statements of the City are prepared but not available prior to the Annual Filing Date, the City shall, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

(i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;

(ii) upon receipt, promptly file each Annual Report received under Sections 2(a) and 2(b) with the MSRB;

(iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with the MSRB;

(iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) with the MSRB, identifying the Notice Event as instructed by the City pursuant to Section 4(a) or 4(b)(ii) (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Certificate:

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, IRS notices or events affecting the tax status of the security;"
7. "Modifications to rights of securities holders, if material;"

8. “Bond calls, if material;”
9. “Defeasances;”
10. “Release, substitution, or sale of property securing repayment of the securities, if material;”
11. “Rating changes;”
12. “Tender offers;”
13. “Bankruptcy, insolvency, receivership or similar event of the obligated person;”
14. “Merger, consolidation, or acquisition of the obligated person, if material;” and
15. “Appointment of a successor or additional trustee, or the change of name of a trustee, if material;”

(v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Certificate, as applicable), promptly file a completed copy of Exhibit A to this Disclosure Certificate with the MSRB, identifying the filing as “Failure to provide annual financial information as required” when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Certificate;

(f) The City may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) Any Information received by the Disclosure Dissemination Agent before 6:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Certificate and that is accompanied by a Certification and all other information required by the terms of this Disclosure Certificate will be filed by the Disclosure Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

### SECTION 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information consisting of updated information comparable to the information in the following tables as they appear in Official Statement:

1. Information in the form of Table \_ of the Official Statement concerning operating revenues and expenses of the Water System for the then-preceding fiscal year, including Net Revenue of the Water System and debt service coverage.
2. The outstanding principal amount of the Bonds and any Parity Debt as of June 30 of the most recently completed fiscal year.
3. A description of any Parity Debt issued during the most recently completed fiscal year.
4. A description of any changes in Water System rates and charges adopted by the City Council during the most recently completed fiscal year.
5. Information for the most recently-completed fiscal year in the form of Table \_ of the Official Statement (Ten Largest Water Customers).

(b) Audited Financial Statements prepared in accordance with generally accepted accounting principles (“GAAP”) as described in the Official Statement will also be included in the Annual Report. If audited financial statements are not available, then, unaudited financial statements, prepared in accordance with GAAP as described in the Official Statement will be included in the Annual Report. Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the City is an Obligated Person, which have been previously filed with the Securities and Exchange Commission or available to the public on the MSRB Internet website. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The City will clearly identify each such document so incorporated by reference.

Any Annual Financial Information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

#### SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events with respect to the Bonds constitutes a Notice Event:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

7. Modifications to rights of Bond holders, if material;

8. Bond calls, if material, and tender offers;

9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the Bonds, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the Obligated Person (*Note to subsection (a)(12) of this Section 4*: For the purposes of the event described in this subsection (a)(12) of Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, 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 Obligated Person);

13. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The City shall, in a timely manner not in excess of ten business days after its occurrence, notify the Disclosure Dissemination Agent in writing of the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Certificate), include the text of the disclosure that the City desires to make, contain the written authorization of the City for the Disclosure Dissemination Agent to disseminate such information, and identify the date the City desires for the Disclosure

Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the City or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within two business days of receipt of such notice (but in any event in a timely manner not later than the tenth business day after the occurrence of the Notice Event, if the City determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Certificate), include the text of the disclosure that the City desires to make, contain the written authorization of the City for the Disclosure Dissemination Agent to disseminate such information, and identify the date the City desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed by the City as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with the MSRB in accordance with Section 2(e)(iv) hereof.

SECTION 5. CUSIP Numbers. Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements, Notice Event notices, and Failure to File Event notices, the City shall indicate the full name of the Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided information relates.

SECTION 6. Additional Disclosure Obligations. The City acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the City, and that the failure of the Disclosure Dissemination Agent to so advise the City shall not constitute a breach by the Disclosure Dissemination Agent of any of its duties and responsibilities under this Disclosure Certificate. The City acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Certificate.

SECTION 7. Voluntary Filings. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Certificate or including any other information in any Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice, in addition to that required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice 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, Audited Financial Statements, Notice Event notice, or Failure to File Event notice.

SECTION 8. Termination of Reporting Obligation. The obligations of the City and the Disclosure Dissemination Agent under this Disclosure Certificate shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the City is no longer an Obligated Person with respect to such Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required with respect to such Bonds.

SECTION 9. Disclosure Dissemination Agent. The City has appointed \_\_\_\_\_ as the initial Disclosure Dissemination Agent under this Disclosure Certificate. The City may, upon thirty days written notice to the Disclosure Dissemination Agent, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of the Disclosure Dissemination Agent, whether by notice of the City or the Disclosure Dissemination Agent, the City agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Certificate for the benefit of the Beneficial Owners of the Bonds. Notwithstanding any replacement or appointment of a successor, the City shall remain liable, until payment in full, for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the City.

SECTION 10. Remedies in Event of Default. In the event of a failure of the City or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Certificate, the Beneficial Owners' rights to enforce the provisions of this Disclosure Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Certificate. Any failure by a party to perform in accordance with this Disclosure Certificate shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) Article VII of the Indenture is hereby made applicable to this Disclosure Certificate as if this Disclosure Certificate were (solely for this purpose) contained in the Indenture. The Disclosure Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement and the City agrees to indemnify and save the Disclosure Dissemination Agent, the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of the disclosure of information pursuant to this Disclosure Certificate or 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 Disclosure Dissemination Agent's negligence or willful misconduct. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the City has provided such information to the

Disclosure Dissemination Agent as required by this Disclosure Certificate. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the City and shall not be deemed to be acting in any fiduciary capacity for the City, the Beneficial Owners of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the City's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the City has complied with this Disclosure Certificate. The Disclosure Dissemination Agent may conclusively rely upon certifications of the City at all times.

The obligations of the City under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the City.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Disclosure Certificate shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City and the Disclosure Dissemination Agent may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the City and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Beneficial Owners of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the City nor the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Certificate necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days prior written notice of the intent to do so together with a copy of the proposed amendment to the City. No such amendment shall become effective until counsel to the City of nationally recognized standing in the field of law relating to municipal bonds determines in writing that such amendments are necessary to comply with modifications to and interpretations of the provisions of the Rule as

announced by the Securities and Exchange Commission, or if the City shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Trustee of the Bonds, the Disclosure Dissemination Agent, the participating underwriters (as defined in the Rule), and the Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Certificate shall be governed by the laws of the State of California (other than with respect to conflicts of laws).

SECTION 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

The Disclosure Dissemination Agent and the City have caused this Disclosure Certificate to be executed, on the date first written above, by their respective officers duly authorized.

**CITY OF FORTUNA, CALIFORNIA**

As Obligated Person

By: \_\_\_\_\_  
Finance Director

\_\_\_\_\_,  
As Disclosure Dissemination Agent

By: \_\_\_\_\_  
Authorized Signatory

**EXHIBIT A**

**NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: City of Fortuna  
Obligated Person: City of Fortuna  
Name of Issue: \$[Par Amount]  
City of Fortuna  
Series 2017 Water Revenue Refunding Bonds  
(Water Enterprise Project)  
Date of Issuance: September \_\_, 2017

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate between the City and the Disclosure Dissemination Agent named therein. The City has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

\_\_\_\_\_,  
as Disclosure Dissemination Agent  
on behalf of the City

## APPENDIX D

### GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA

*The following information, unless otherwise cited, was directly transcribed from material provided by the City of Fortuna, the County of Humboldt, and the area Chamber of Commerce. The following information is intended to merely provide the reader with a better understanding of certain socioeconomic and demographic characteristics of the City and surrounding area. The information set forth in this Appendix “D” has not been researched for accuracy or veracity. The Bonds are limited obligations of the City and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the City or any of its income or receipts, except the Net Revenues. The full faith and credit of City is not pledged for the payment of the interest on or principal of the Bonds and no tax or other source of funds, other than the Net Revenues, is pledged to pay the interest on or principal of the Bonds. The payment of principal of or interest on the Bonds does not constitute a debt, liability or obligation of the City for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation. See “SECURITY FOR THE BONDS” in the forepart of this Official Statement.*

#### **General**

**The City.** The City of Fortuna (the “City”) encompasses approximately five square miles and is located in Humboldt County (the “County”), approximately 18 miles south of Eureka and 250 miles north of San Francisco on U.S. Highway 101. The City was incorporated on February 20, 1906 as a general law city, and became a charter city in 1996. Fortuna is surrounded by national, state and county redwood parks, and is the gateway to the redwood forests of Northern California.

**The County.** The County is the largest and most populous of the north coast counties, encompassing 2.3 million acres, 80 percent of which is forest lands, protected redwoods and recreation areas. The County has approximately 110 miles of coastline—more than any other county in the State. The County was created from the western portion of Trinity County in 1853. The County’s name is derived from Humboldt Bay. Originally discovered in 1806 by a hunting party, the bay was not rediscovered until 1849 and then named in honor of the naturalist and explorer Baron Alexander Von Humboldt. The County is home to the biggest and oldest redwood trees in the world. Natural resources also make the County a primary tourist destination. Popular sites include: Six Rivers National Forest, King Range National Conservation Area, Humboldt Redwoods State Park, Redwoods National Park, and Richardson Grove State Park.

#### **Topography and Climate**

The County is situated along the Pacific Coast in Northern California’s rugged coast and mountain ranges, offering a great variety of elevations, terrain and microclimates. The climate in the coastal zone of the County generally experiences very wet, cool winters and dry, mild foggy summers. The inland areas of the County also experience wet, cool winters, with snowfall being common at elevations over 3,000 feet throughout the winter months. Summer displays the sharpest difference between the coastal and inland climates. Inland regions of the County experience highs of 80–99°F depending on the elevation and distance from the ocean. The average annual rainfall is 36 inches. Approximately 90% of average annual rainfall occurs in the six-month period extending from November to April.

#### **Population**

The following table lists population figures for the County and major cities in the County (including the City) as of January 1, for the last five completed calendar years.

**HUMBOLDT COUNTY**  
**Population Estimates - Calendar Years 2012 through 2016**

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Arcata	17,918	18,002	17,983	18,085	18,169
Blue Lake	1,270	1,279	1,278	1,278	1,287
Eureka	27,060	26,894	26,874	26,811	26,765
Ferndale	1,396	1,426	1,429	1,435	1,434
<b>Fortuna</b>	<b>11,870</b>	<b>11,787</b>	<b>11,840</b>	<b>11,882</b>	<b>11,848</b>
Rio Dell	3,384	3,409	3,412	3,414	3,416
Trinidad	368	370	368	368	367
Balance of County	72,023	71,831	71,759	71,779	71,830
County Total	135,289	134,998	134,943	135,052	135,116

*Source: State Department of Finance estimates*

**Major Employers**

The following tables list the major employers within the County as of January 2017, listed alphabetically.

**HUMBOLDT COUNTY**  
**Major Employers**  
**(Listed Alphabetically)**

<b>Employer Name</b>	<b>Location</b>	<b>Industry</b>
Bettendorf Trucking	Arcata	Trucking
Blue Lake Casino & Hotel	Blue Lake	Casinos
County-Humboldt-Health & Human	Eureka	Government Offices-County
Eureka City Clerk	Eureka	Government Offices-City, Village & Twp
Eureka High School	Eureka	Schools
Green Diamond Resource Co	Trinidad	Foresters-Consulting
Green Diamond Resource Co	Korbel	Foresters-Consulting
Humboldt Cnty Office-Education	Eureka	Schools
Humboldt County Dept-Health	Eureka	Clinics
Humboldt County Mental Health	Eureka	Hospitals
Humboldt County Sheriff Dept	Eureka	Government Offices-County
Humboldt County Social Svc	Eureka	Government Offices-County
Mad River Community Hospital	Arcata	Hospitals
Pacific Choice Seafood Inc	Eureka	Prepared Fish & Seafood Products (mfrs)
Redwood Memorial Hospital	Fortuna	Hospitals
Schmidbauer Lumber Inc	Eureka	Logging (mfrs)
St Joseph Home Health	Eureka	Health Services
St Joseph Hospital	Eureka	Hospitals
Sun Valley Group	Arcata	Greenhouses
Sunset Restaurant-Cher Ae Csn	Trinidad	Casinos
Trinidad Rancheria	Trinidad	Associations
Umpqua Bank	Eureka	Banks
United Indian Health Svc	Arcata	Clinics
US Post Office	Eureka	Post Offices
Winco Foods	Eureka	Grocers-Retail

*Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2017 2nd Edition.*

## Commercial Activity

Summaries of historic taxable sales within the City and the County during 2011 through 2015 are shown in the following tables. Figures are not available for 2016.

Total taxable sales during the calendar year 2015 in the City were reported to be \$143,263,000, a 5.3% increase over the total taxable sales of \$136,011,000 that were reported during the calendar year 2014. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City is presented in the following table. Annual figures are not yet available for 2016 or beyond.

### CITY OF FORTUNA Taxable Transactions<sup>(1)</sup> (dollars in thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2011	259	\$102,994	377	\$130,380
2012	263	102,297	375	130,714
2013	274	102,793	378	134,201
2014	291	106,008	397	136,011
2015	(2)	112,518	(2)	143,263

(1) Detail may not compute to total due to rounding.

(2) Information not yet available.

Source: "Taxable Sales in California," California State Board of Equalization.

Total taxable sales during the calendar year 2015 in the County were reported to be \$1,985,208,747, a 4.5% increase over the total taxable sales of \$1,899,619,000 that were reported during the calendar year 2014. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the County is presented in the following table. Annual figures are not yet available for 2016 or beyond.

### COUNTY OF HUMBOLDT Taxable Transactions<sup>(1)</sup> (dollars in thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2011	3,172	\$1,224,525	4,491	\$1,698,178
2012	3,208	1,298,773	4,499	1,768,170
2013	3,343	1,370,743	4,600	1,869,677
2014	3,440	1,412,669	4,706	1,899,619
2015	3,213	1,474,165	5,105	1,985,209

(1) Detail may not compute to total due to rounding.

Source: "Taxable Sales in California," California State Board of Equalization.

The valuation of taxable transactions within the County is presented in the following table. Total taxable sales during the calendar year 2015 in the County were reported to be \$1,985,209,000, a 4.5% increase from the total taxable sales reported during the calendar year 2014 of \$1,899,619,000. Annual figures are not yet available for 2016 or beyond.

**COUNTY OF HUMBOLDT**  
**Taxable Retail Sales<sup>(1)</sup>**  
**Valuation of Taxable Transactions**  
**(dollars in thousands)**

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Retail and Food Services</b>					
Motor Vehicle and Parts Dealers	\$170,895	\$193,277	\$203,517	\$218,176	\$239,795
Home Furnish and Appliance Stores	21,435	21,003	22,121	23,563	25,848
Electronics and Appliance Stores	23,182	23,003	24,570	26,995	29,424
Bldg. Mat'l & Garden Equip/Supplies	177,004	186,282	197,895	203,737	242,461
Food and Beverage Stores	120,568	124,300	128,236	132,758	142,322
Health and Personal Care Stores	40,765	41,161	43,125	44,643	46,214
Gasoline Stations	176,188	188,740	191,965	188,154	165,575
Clothing and Accessories Stores	46,445	49,922	54,422	55,823	59,301
Sporting Goods, Book, and Music Stores	43,579	45,349	48,917	47,635	50,036
General Merchandise Stores	188,516	200,740	204,042	204,609	181,305
Miscellaneous Store Retailers	60,098	63,765	64,034	71,659	80,191
Non-Store Retailers	14,641	13,294	23,470	24,887	26,389
Food Services and Drinking Places	141,211	147,867	164,429	170,030	185,305
<b>Total Retail and Food Services</b>	<b>\$1,224,525</b>	<b>\$1,298,773</b>	<b>\$1,370,743</b>	<b>\$1,412,669</b>	<b>\$1,474,166</b>
All Other Outlets	473,653	469,397	498,934	486,950	511,043
<b>Total All Outlets</b>	<b>\$1,698,178</b>	<b>\$1,768,170</b>	<b>\$1,869,677</b>	<b>\$1,899,619</b>	<b>\$1,985,209</b>
<b>Permits – All Outlets</b>	<b>4,491</b>	<b>4,499</b>	<b>4,600</b>	<b>4,706</b>	<b>5,105</b>

<sup>(1)</sup> Detail may not compute to total due to rounding.

Source: "Taxable Sales in California," California State Board of Equalization.

## Employment and Industry

The below table summarizes the civilian labor force, civilian employment and civilian unemployment figures over the period from 2011 through 2016 in the City, the County and the State.

### CITY AND COUNTY AND STATE Civilian Labor Force, Employment and Unemployment Rate<sup>(1)</sup> (Calendar Years 2011 through 2016)

Year	City			County		State
	Labor Force	Employed	Unemployment Rate	Labor Force	Unemployment Rate	Unemployment Rate
2011	4,600	4,200	8.7%	60,500	11.4%	11.8%
2012	4,600	4,200	8.7%	60,100	10.5%	10.4%
2013	4,500	4,100	7.8%	58,400	8.8%	8.9%
2014	4,500	4,200	6.8%	62,700	6.8%	7.5%
2015	4,520	4,260	5.6%	62,630	5.6%	6.2%
2016	4,520	4,300	4.9%	62,670	4.9%	5.4%

(1) Data is based on annual averages, unless otherwise specified, and is not seasonally adjusted.  
Source: Labor Division of the California State Employment Development Department.

The distribution of employment in the Humboldt County is presented in the following table for the calendar years 2012 through 2016. These figures are countywide statistics and may not necessarily accurately reflect employment trends in the City.

### COUNTY OF HUMBOLDT Industry Employment & Labor Force<sup>(1)</sup> (Calendar Years 2012 through 2016)

Type of Employment	2012	2013	2014	2015	2016
Agriculture	870	810	820	870	880
Mining, Logging, and Construction	2,060	1,960	1,940	2,070	2,060
Manufacturing	2,000	2,070	2,070	2,030	2,080
Wholesale Trade	1,030	1,000	980	920	980
Retail Trade	6,840	6,920	7,010	7,230	7,440
Transportation, Warehousing, Utilities	1,290	1,280	1,270	1,230	1,170
Information	520	500	500	500	460
Financial Activities	1,600	1,600	1,590	1,630	1,620
Professional and Business Services	2,650	2,630	2,580	2,700	2,780
Educational and Health Services	7,440	7,770	8,000	8,110	8,330
Leisure and Hospitality	5,130	5,130	5,280	5,570	5,860
Other Services	1,840	1,920	1,890	1,880	1,800
Government	13,530	13,470	13,730	13,950	14,220
Total, All Industries <sup>(2)</sup>	46,790	47,070	47,650	48,630	49,710

(1) Data is based on annual averages, unless otherwise specified.

(2) Totals may not add due to rounding.

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

## **Transportation**

The Humboldt Transit Authority (HTA) operates two fixed route transit bus systems:

- The Redwood Transit System provides intercity service to and within communities between Trinidad and Garberville, including Manila, King Salmon, Field's Landing, Loleta, Fernbridge and Fortuna. HTA also offers service between McKinleyville or Arcata and Willow Creek and an express bus between Arcata and College of the Redwoods when classes are in session.
- The Eureka Transit Service operates in the City of Eureka, and provides local service on four scheduled routes in Eureka and its adjacent unincorporated communities. Connections can be made to the Redwood Transit System at several places in Eureka.

Eureka. Some other local public transit systems are: Arcata and Mad River Transit System, Blue Lake Rancheria Transit Authority and Del Norte County's Redwood Coast Transit.

Amtrak Thruway bus has stops in many cities in the region, including Eureka, Arcata, and Fortuna.

The Arcata-Eureka Airport is located in the City of McKinleyville (northern part of the County). Commercial flights are available. Other (general aviation) airports are located at Dinsmore, Garberville, Kneeland, Murray Field (Eureka), Samoa Field and Rohnerville (Fortuna).

The Port of Humboldt Bay (sometimes also referred to as the Port of Eureka) is a deep-water port with harbor facilities including large industrial docks at Fairhaven, Samoa, and Fields Landing designed to serve cargo and other vessels, while several marinas also located in Greater Eureka have the capacity to serve hundreds of small to mid-size boats and pleasure craft.

## **Education**

The City is served by the Fortuna Elementary School District and the Fortuna Union High School District. The Elementary District currently operates four schools, consisting of three elementary schools and one middle school. The High School District operates two high schools and one academy. The City is also served by the College of the Redwoods which has its main campus located approximately 9 miles from the City, but also offers classes at campuses in down-town Eureka, Del Norte, and Klamath-Trinity. California State University, Humboldt is located approximately 27 miles north of the City.

**APPENDIX E**

**FORM OF OPINION OF BOND COUNSEL**

\_\_\_\_\_, 2017

City Council  
City of Fortuna  
621 11th Street  
Fortuna, CA 95540

**OPINION:** City of Fortuna  
\$[Par Amount] Series 2017 Water Revenue Refunding Bonds  
(Water Enterprise Project)

Members of the Council:

We have acted as bond counsel to the City of Fortuna (the “City”) in connection with the issuance by the City of the captioned bonds (the “Bonds”). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to Articles 10 (commencing with Section 53570) and 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the “Bond Law”), the Indenture of Trust, dated as of September 1, 2017 (the “Indenture”), by and between the City and U.S. Bank National Association, as trustee (the “Trustee”), and a resolution (the “Resolution”) of the Council of the City adopted \_\_\_\_\_, 2017. Under the Indenture, the City has pledged certain revenues (the “Revenues”) for the payment of principal, premium (if any), and interest on the Bonds when due.

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

Based on the foregoing, we are of the opinion that, under existing law:

1. The City is a duly created and validly existing municipal corporation duly organized and existing under the laws of the State of California with the power to adopt the Resolution, enter into the Indenture and perform the agreements on its part contained therein, and issue the Bonds.
2. The Indenture has been duly authorized, executed and delivered by the City, and constitutes a valid and binding obligation of the City, enforceable against the City.

3. The Indenture creates a valid lien on the Revenues and other funds pledged by the Indenture for the security of the Bonds, on parity with other existing obligations and potentially with future obligations (if any) to be issued in compliance with the Indenture.

4. The Bonds have been duly authorized and executed by the City, and are valid and binding limited obligations of the City, payable solely from the Revenues and other funds provided therefor in the Indenture.

5. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the delivery of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on the Bonds.

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

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

## APPENDIX F

### INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NEW ISSUE – BOOK-ENTRY ONLY

RATING: S&P: “\_\_”  
(See “RATING” herein)

*In the opinion of The Weist Law Firm, Scotts Valley, California, Bond Counsel, subject, however to certain qualifications described in this Official Statement, under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See “TAX MATTERS” herein.*

**[/Par Amount]\***  
**CITY OF FORTUNA**  
**SERIES 2017 WASTEWATER REVENUE REFUNDING BONDS**  
**(WASTEWATER ENTERPRISE PROJECT)**

**Dated: Date of Delivery****Due: June 1, as shown on the inside cover page**

The above-captioned \$[/Par Amount]\* aggregate principal amount of Series 2017 Wastewater Revenue Refunding Bonds (Wastewater Enterprise Project) (the “Bonds”) are being issued by the City of Fortuna (the “City”) pursuant to (i) provisions of an Indenture of Trust, dated as of September 1, 2017 (the “Indenture”), by and between the City and U.S. Bank National Association, as trustee (the “Trustee”), and (ii) Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570. Capitalized terms used on this cover page and not otherwise defined will have the meanings ascribed to them elsewhere in this Official Statement. See in particular “APPENDIX A – Summary of Indenture – Definitions” herein.

The Bonds are being issued in fully registered form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Individual purchases of Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof for each maturity. Purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased. See “APPENDIX F – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM” herein.

Payments of interest on the Bonds will be made by the Trustee to DTC, which will in turn remit such interest to its participants for subsequent disbursement to beneficial owners of the Bonds as described herein. Interest on the Bonds is paid semiannually on June 1 and December 1 of each year (each an “Interest Payment Date”), commencing December 1, 2017, until the maturity or the earlier redemption thereof. Principal and any redemption premiums with respect to each Bond will be paid upon surrender of such Bond at the principal corporate office of the Trustee upon maturity or the earlier redemption thereof.

The Bonds are payable from the net revenues (the “Net Revenues”), derived primarily from charges and revenues received by the City from the operation of the Wastewater System, less the costs of the maintenance and operation of the Wastewater System. The Net Revenues are pledged, as a first and prior lien thereon, to pay the principal of and interest on the Bonds on parity, as to payment and security, with certain outstanding State Loans (as defined herein) and any parity debt issued or incurred by the City in accordance with the Indenture (the “Parity Debt”). The City has covenanted to set rates and charges for the service and facilities of the Wastewater System sufficient to provide Net Revenues in each fiscal year equal to at least 1.25 times the aggregate annual amount of principal of and interest due on the Bonds and all Parity Debt.

**The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See “THE BONDS – Optional Redemption of Bonds, and – Mandatory Sinking Fund Redemption of Bonds” herein.**

The Bonds are being issued to (i) prepay the City’s outstanding obligations under a certain 2006 installment sale agreement, (ii) purchase a debt service reserve policy for deposit in the reserve fund for the Bonds, and (iii) to pay costs of issuance of the Bonds, all as more fully described herein. See “THE REFINANCING PLAN” herein.

The scheduled payment of the principal of and interest on the Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Bonds by \_\_\_\_\_ (the “Insurer”). See “BOND INSURANCE” herein.

[Insurer Logo]

**This cover page contains certain information for quick reference only. It is not a summary of the security or terms of this issue. Potential investors are advised to read the entire Official Statement, including the section entitled “RISK FACTORS,” for a discussion of special factors which should be considered, in addition to the other matters set forth herein, to obtain information essential to the making of an informed investment decision with respect to the purchase of the Bonds.**

---

**MATURITY SCHEDULE**  
(See Inside Cover Page)

---

**NONE OF THE CITY, THE STATE OF CALIFORNIA, NOR ANY OF ITS POLITICAL SUBDIVISIONS WILL BE DIRECTLY, INDIRECTLY, OR CONTINGENTLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS TO PAY ALL OR ANY PORTION OF THE DEBT SERVICE DUE ON THE BONDS, TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATSOEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE BONDS ARE NOT SECURED BY A LIEN ON THE PHYSICAL ASSETS OF THE CITY. THE BONDS ARE NOT A PLEDGE OF THE FAITH AND CREDIT OF THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS, NOR DO THEY CONSTITUTE INDEBTEDNESS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. NO PERSON EXECUTING THE BONDS IS SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THEIR ISSUANCE.**

*The Bonds will be offered when, as and if issued and accepted by the Underwriter, subject to approval as to legality by The Weist Law Firm, Scotts Valley, California, Bond Counsel. Certain legal matters will be passed upon for the City by The Weist Law Firm, as Disclosure Counsel. Certain other legal matters will be passed on for the City by the City Attorney of the City, and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Underwriter’s Counsel. It is anticipated that the Bonds in book-entry form will be available for delivery to DTC in New York, New York on or about September \_\_, 2017.*

**[STIFEL LOGO]**

Dated: September \_\_, 2017

\* Preliminary, subject to change.

**MATURITY SCHEDULE**

**[\$Par Amount]  
CITY OF FORTUNA  
SERIES 2017 WASTEWATER REVENUE REFUNDING BONDS  
(WASTEWATER ENTERPRISE PROJECT)**

(Base CUSIP<sup>†</sup> \_\_\_\_\_)

<b>Maturity (June 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>Price</b>	<b>CUSIP<sup>†</sup></b>
------------------------------	-----------------------------	--------------------------	--------------	--------------	--------------------------

\$ \_\_\_\_\_ . \_\_\_\_ % Term Bond due June 1, 20\_\_ Yield: . \_\_\_\_ % – Price \_\_\_\_ . \_\_\_\_ % CUSIP<sup>†</sup> No. \_\_\_\_  
\$ \_\_\_\_\_ . \_\_\_\_ % Term Bond due June 1, 20\_\_ Yield: . \_\_\_\_ % – Price \_\_\_\_ . \_\_\_\_ % CUSIP<sup>†</sup> No. \_\_\_\_

(c) Priced to first optional redemption date of June 1, 20\_\_; callable at par.

† CUSIP® A registered trademark of the American Bankers Association. Copyright © 1999-2017 American Bankers Association. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP® numbers are provided for convenience of reference only. Neither the City nor the Underwriter take any responsibility for the accuracy of such numbers.

**CITY OF FORTUNA**  
**County of Humboldt, California**

---

**CITY COUNCIL**

Sue Long, *Mayor*  
Tami Trent, *Vice-Mayor*  
Doug Strehl, *Councilmember*  
Tiara Brown, *Councilmember*  
Dean Glaser, *Councilmember*

**CITY STAFF**

Mark Wheatley, *City Manager*  
Aaron Felmlee, *Finance Director*  
Merritt Perry, *Public Works Director*  
Siana Emmons, *City Clerk*  
David Tranberg, Esq., *City Attorney*

---

**PROFESSIONAL SERVICES**

**Bond Counsel and Disclosure Counsel**

The Weist Law Firm  
*Scotts Valley, California*

**Municipal Advisor**

Public Financial Management Inc.  
*San Francisco, California*

**Trustee and Escrow Agent**

U.S. Bank National Association  
*San Francisco, California*

**Verification Agent**

---

\_\_\_\_\_

In making an investment decision investors must rely on their own examination of the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, neither the foregoing authorities nor Bond Counsel or Disclosure Counsel have confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

No dealer, broker, salesperson or other person has been authorized by the City to provide any information or to make any representations in connection with the offering or sale of the Bonds other than as contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. All references to and summaries of the Indenture or other documents contained in this Official Statement are subject to the provisions of those documents and do not purport to be complete statements of those documents. This Official Statement has been deemed final, as of its date, by the City for the purpose of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matter of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts. 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. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of its responsibilities to investors under the federal securities laws applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information set forth herein has been obtained from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness. The information and expression of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made under the Indenture shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

## TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION.....	1
In General.....	1
Authority for Issuance of the Bonds .....	1
The City .....	2
The Wastewater System.....	2
Description of the Bonds .....	2
Sources of Payment for the Bonds.....	3
Parity Debt .....	3
Risk Factors .....	4
Limited Obligations .....	4
Continuing Disclosure .....	4
Tax Matters .....	4
Forward-Looking Statements.....	5
Other Matters .....	5
THE REFINANCING PLAN.....	6
Refunding of the 2006 Bonds .....	6
Sources and Uses of Funds .....	7
Debt Service Requirements.....	8
THE BONDS.....	9
Authority for Issuance.....	9
General Description .....	9
Optional Redemption of Bonds.....	10
Mandatory Sinking Fund Redemption of Bonds .....	10
Selection of Bonds for Redemption.....	11
Partial Redemption of Bonds .....	11
Notice of Redemption; Rescission.....	11
Effect of Redemption.....	12
SECURITY FOR THE BONDS .....	12
Limited Obligations .....	12
Pledge of Net Revenues .....	12
Receipt and Deposit of Gross Revenues .....	14
Allocation of Gross Revenues .....	14
Application of Debt Service Fund .....	15
Application of Reserve Fund .....	15
Rate Stabilization Fund.....	16
Rate Covenant .....	16
No Outstanding Parity Debt.....	17
Issuance of Parity Debt.....	17
Subordinate Debt .....	17
Eminent Domain Proceeds.....	17
Insurance .....	17

## TABLE OF CONTENTS

	<u>Page</u>
THE CITY .....	18
General .....	18
Governance and Management.....	18
City Investments .....	19
Risk Management .....	20
Labor Contracts.....	21
Other City and Financial Information.....	27
THE WASTEWATER SYSTEM .....	28
General.....	28
The Collection System.....	28
Wastewater Treatment Plant .....	28
Environmental Regulation .....	28
Wastewater System Users.....	29
Wastewater System Rates and Charges .....	29
Operation, Management and Governance.....	30
Rate Setting and Collection Process .....	31
Comparative Rates .....	32
Delinquent Accounts.....	33
CONSTITUTIONAL LIMITATIONS ON TAXES AND .....	36
RATES AND CHARGES.....	36
California Constitution Articles XIII A and XIII B.....	36
California Constitution Articles XIII C and XIII D.....	36
Proposition 26 .....	38
Future Initiatives .....	39
RISK FACTORS.....	39
General.....	39
Accuracy of Assumptions .....	40
Limited Obligation.....	40
Limited Recourse on Default .....	40
Increased Maintenance and Operation Costs .....	40
Project Management .....	41
Financial Controls.....	41
Insurance .....	41
Limitations on Remedies and Bankruptcy .....	42
Physical Condition of Wastewater System Facilities .....	42
Energy Costs .....	43
Statutory and Regulatory Impact .....	43
Permit Renewal.....	43
Natural Disasters.....	43
Safety and Security .....	44
Economic, Political, Social, and Environmental Conditions .....	44

## TABLE OF CONTENTS

	<u>Page</u>
Rate Process .....	44
Investment of Funds.....	45
Secondary Market Risk.....	45
Loss of Tax Exemption.....	45
IRS Audit .....	46
Uncertainties of Projections, Forecasts and Assumptions .....	46
FINANCIAL STATEMENTS .....	46
TAX MATTERS.....	46
CERTAIN LEGAL MATTERS.....	48
CONTINUING DISCLOSURE.....	48
LITIGATION.....	49
RATING.....	49
MUNICIPAL ADVISOR.....	49
UNDERWRITING.....	49
VERIFICATION OF MATHEMATICAL COMPUTATIONS.....	50
MISCELLANEOUS.....	50
EXECUTION AND DELIVERY .....	51

### APPENDICES

APPENDIX A:	SUMMARY OF INDENTURE.....	A-1
APPENDIX B:	AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2015-16.....	B-1
APPENDIX C:	FORM OF CONTINUING DISCLOSURE CERTIFICATE.....	C-1
APPENDIX D:	GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA.....	D-1
APPENDIX E:	FORM OF OPINION OF BOND COUNSEL.....	E-1
APPENDIX F:	INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM.....	F-1

## OFFICIAL STATEMENT

**[\$[Par Amount]\***  
**CITY OF FORTUNA**  
**SERIES 2017 WASTEWATER REVENUE REFUNDING BONDS**  
**(WASTEWATER ENTERPRISE PROJECT)**

### INTRODUCTION

*This introduction contains only a brief summary of certain of the terms of the \$[Par Amount]\* aggregate principal amount of City of Fortuna, Series 2017 Wastewater Revenue Refunding Bonds (Wastewater Enterprise Project) (the “Bonds”), and a brief overview of the contents of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement including the Appendices hereto. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used and not otherwise defined in the body of the Official Statement shall have the meanings given to them in the Indenture. No descriptions and summaries of documents contained in this Official Statement purport to be comprehensive or definitive, and reference is made to each document described or summarized for complete details of all its terms and conditions.*

#### **In General**

The Bonds are limited obligations of the City payable from the Net Revenues (defined herein) pledged under an Indenture of Trust, dated as of September 1, 2017 (the “Indenture”), by and between the City and U.S. Bank National Association, as trustee (the “Trustee”), derived from the City’s ownership and operation of a Wastewater System (as defined more completely herein), and amounts on deposit in certain funds and accounts established by the Indenture.

#### **Authority for Issuance of the Bonds**

The Bonds are being issued pursuant to (i) the Indenture, (ii) a Resolution adopted by the City Council on \_\_\_\_\_, 2017 (the “Resolution”), and (iii) Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570.

#### **Purpose of the Bonds**

The Bonds are being issued to (i) defease and refund on an advance basis all presently outstanding Fortuna Public Financing Authority, Wastewater Revenue Bonds, Series 2006 issued on October 11, 2006 in the original principal amount of \$13,820,000 (such amount being refinanced constituting the “2006 Bonds”) and a related installment payment obligation of the City, (ii) purchase of a debt service reserve policy for deposit in the Reserve Fund (defined herein) for the Bonds, and (iii) pay the costs of issuance incurred in connection with the issuance, sale and delivery of the Bonds. See “THE REFINANCING PLAN” herein.

---

\* Preliminary, subject to change.

## **The City**

The City is located in Humboldt County (the “County”), approximately 18 miles south of Eureka and 250 miles north of San Francisco on U.S. Highway 101. The City was incorporated on February 20, 1906 as a general law city, and became a charter city in 1996. The City is a full-service city operating under a council-manager form of government. The City Council consists of 5 members, elected at-large to four-year terms. The City Council selects the Mayor from one of the City Council members. The City Manager and City Attorney are appointed by the City Council. The City provides wastewater service to residential and nonresidential customers in the City. For other selected information concerning the City, see “THE CITY” and “APPENDIX D – GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA” herein.

The City’s general fund is not pledged to secure payment of, and the taxing power of the City is not pledged for, the principal of and interest on the Bonds.

## **The Wastewater System**

The City provides wastewater service to approximately 11,000 residential, commercial, and institutional users within its sphere of influence. Wastewater is conveyed through a collection system of sewers and lift stations (the “Collection System”) to the City owned wastewater treatment plant and disposal facilities (the “Wastewater Treatment Plant”) (together, the Collection System and the Wastewater Treatment Plant are referred to as the “Wastewater System”). See “THE WASTEWATER SYSTEM” herein.

## **Description of the Bonds**

*Payment.* Principal of the Bonds will be payable in each of the years and in the amounts set forth on the inside front cover hereof at the principal corporate office of the Trustee. The Bonds will accrue interest from their date of delivery, and interest thereon will be payable semiannually on June 1 and December 1 of each year (each, an “Interest Payment Date”), commencing December 1, 2017, by check mailed by the Trustee on each Interest Payment Date to the person whose name appears in the registration books kept by the Trustee as the registered owner thereof as of the close of business on the fifteenth calendar day of the month immediately preceding an interest payment date (a “Record Date”); provided, however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more, payable when due by wire of the Trustee to DTC which will in turn remit such interest, principal and premium, if any, to DTC Participants (as defined herein), which will in turn remit such interest, principal and premium, if any, to Beneficial Owners (as defined herein) of the Bonds. See “APPENDIX F – DTC’S BOOK-ENTRY ONLY SYSTEM” herein.

*Redemption.* The Bonds are subject to optional and mandatory sinking account redemption prior to their stated maturity dates, as provided herein. See “THE BONDS – Optional Redemption of Bonds, and – Mandatory Sinking Fund Redemption of Bonds” herein.

*Form of Bonds.* The Bonds will be issued in fully registered form, without coupons, in the minimum denominations of \$5,000 or any integral multiple thereof. Any Bond may, in accordance with its terms, be transferred or exchanged, pursuant to the provisions of the Indenture. See “THE BONDS – General.” When

delivered, the Bonds will be registered in the name of The Depository Trust Company, New York, New York (“DTC”), or its nominee. DTC will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing the Bonds purchased. See “APPENDIX F – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM” herein.

### **Sources of Payment for the Bonds**

*In General.* The Bonds are special limited obligations of the City, payable solely from and secured by a first pledge of the Net Revenues, which are defined in the Indenture as, for any period of computation, an amount equal to all “Gross Revenues” received during such period less the amount required to pay all “Maintenance and Operation Costs” becoming payable during such period. The Net Revenues, along with investment earnings, are calculated to be sufficient to permit the City to pay the principal of, and interest on, the Bonds when due. See “SECURITY FOR THE BONDS – Pledge of Net Revenues” herein.

*Reserve Fund.* A Reserve Fund (the “Reserve Fund”) is established with the Trustee pursuant to the Indenture in an amount equal to the Reserve Requirement (as defined in the Indenture). [The City will purchase a Municipal Bond Debt Service Reserve Insurance Policy (the “Reserve Policy”) from \_\_\_\_\_ (the “Reserve Policy Provider”) and deposit the Reserve Policy with the Trustee. Proceeds of the Reserve Policy will be available to be applied to pay principal of and/or interest on the Bonds in the event amounts on deposit in the Debt Service Fund is insufficient therefor.] See “SECURITY FOR THE BONDS – Application of Reserve Fund” herein.

*Rate Covenant.* Under the Indenture, the City has covenanted that, to the extent provided by law, it will fix, prescribe and collect rates, fees and charges for the services and facilities provided by the Wastewater System, which will at least be sufficient to yield respective Net Revenues (excluding any Subsidy Payments) equal to one hundred twenty-five percent (125%) of Debt Service (net of any Subsidy Payments) coming due and payable during such Fiscal Year. See “SECURITY FOR THE BONDS – Rate Covenant” herein.

*Rate Stabilization Fund.* Under the Indenture, the City may at its discretion establish and maintain a rate stabilization fund for the Wastewater System. To the extent established and funded, the City may withdraw amounts from time to time held in such Rate Stabilization Fund. Amounts so withdrawn and transferred to the Wastewater Revenue Fund will be included in Gross Revenues of the Wastewater System, and may be applied for any purposes for which such Gross Revenues are generally available. See “SECURITY FOR THE BONDS – Rate Stabilization Fund” herein.

### **Parity Debt**

*No Existing Parity Debt.* The City’s has no presently Outstanding Parity Debt.

*Additional Parity Debt.* The City may incur additional obligations payable from and secured by the Net Revenues on parity with the Bonds. See “SECURITY FOR THE BONDS – Additional Parity Debt” herein.

*Subordinate Debt.* Subject to certain conditions set forth in the Indenture, the City may at any time incur revenue bonds, notes or other evidences of indebtedness of the City payable from Net Revenues subordinate to the payment of Debt Service on the Bonds.

## **Risk Factors**

The purchase of the Bonds involves certain risks. For a general discussion of certain special factors and considerations relevant to an investment in the Bonds, in addition to the other matters set forth herein, see “RISK FACTORS” herein. The Bonds are not appropriate investments for investors who are not able to bear the associated risks. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

## **Limited Obligations**

The Bonds represent a special, limited obligation of the City payable solely from and secured by a pledge of Net Revenues derived by the City from the operations of the Wastewater System and certain funds and accounts held under the Indenture. None of the properties of the City or the Wastewater System are subject to any mortgage or other lien for the benefit of the Owners of the Bonds, and neither the full faith and credit nor the taxing power of the City, the County, the State, or any other political subdivision or agency of the State is pledged to the payment of the principal of or interest on the Bonds.

The issuance of the Bonds does not directly or indirectly obligate the City, the County, the State, or any other political subdivision or agency of the State to levy or pledge any form of taxation whatsoever or to make any appropriation for payment of the Bonds. No person executing the Bonds is subject to any personal liability or accountability by reason of their issuance. For certain financial information with respect to the City and the Wastewater System, see “THE CITY” and “THE WASTEWATER SYSTEM” herein.

## **Continuing Disclosure**

The City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City by the date that is nine months after the end of the City’s Fiscal Year (currently March 31 based on the City’s Fiscal Year end of June 30), commencing with the report for the fiscal year ended June 30, 2017 (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events. Such reports are required to be filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system (“EMMA”).

The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is described in “APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE” attached to this Official Statement. These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2 12(b)(5) (the “Rule”). See “CONTINUING DISCLOSURE” herein.

## **Tax Matters**

Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, as amended (the “Tax Code”), in the opinion of Bond Counsel, interest with respect to the Bonds will not be includable in gross income for federal income tax purposes although it may be includable in the calculation for certain taxes. Also in the opinion of Bond Counsel, interest on the Bonds will be exempt from State of

California (the “State”) personal income taxes. The Bonds are bank qualified. See “TAX MATTERS” herein.

### **Forward-Looking Statements**

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “intend,” “expect,” “propose,” “estimate,” “project,” “budget,” “anticipate,” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements described to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements.

No updates or revisions to these forward-looking statements are expected to be issued if or when the expectations, events, conditions, or circumstances on which such statements are based change. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such forward-looking statements.

READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF.

### **Other Matters**

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Furthermore, this Official Statement speaks only as of its date, and the information and expressions of opinions contained herein are subject to change without notice. Neither delivery of this Official Statement nor any sale of the Bonds, under any circumstances, will create any implication that there has been no change in the affairs of the City or the Wastewater System since the date of this Official Statement.

Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The presentation of information, including the table of receipts from taxes and other revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

The summaries of and references to documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. The capitalization of any word not conventionally capitalized or otherwise defined herein indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document. See “APPENDIX A – SUMMARY OF INDENTURE” herein.

The information set forth herein, other than that provided by the City, has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

## THE REFINANCING PLAN

### Refunding of the 2006 Bonds

A portion of the Bond proceeds will be used to prepay the City's obligations under an Installment Sale Agreement dated as of October 1, 2006 (the "2006 Installment Sale Agreement"), between the City and the Fortuna Public Financing Authority (the "Authority"), under which the City is obligated to pay certain installment payments (the "2006 Installment Payments") which are evidenced and represented by the 2006 Bonds, originally executed and delivered in the original principal amount of \$13,820,000 (of which \$11,010,000 is currently outstanding) under an Indenture of Trust dated as of October 1, 2006 (the "2006 Trust Agreement"), between the Authority and U.S. Bank National Association, as trustee (the "2006 Trustee"). The 2006 Installment Sale Agreement is secured by a lien on Net Revenues and currently has an outstanding principal balance of \$11,010,000.

On the date of issuance of the Bonds, a portion of the proceeds from the sale of the Bonds, together with certain other available moneys then on deposit in the funds and accounts established under the 2006 Trust Agreement and held by the 2006 Trustee (collectively, the "Escrow Proceeds"), will be delivered to the 2006 Trustee, acting as escrow agent (the "Escrow Agent") under that certain Escrow Deposit and Trust Agreement dated as of September 1, 2017 (the "Escrow Agreement"), by and between the Authority and the Escrow Agent.

The Escrow Agent will deposit the Escrow Proceeds in accordance with the Escrow Agreement in an irrevocable escrow account (the "Escrow Account") for the benefit of the owners of the 2006 Bonds, to be invested in any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged (the "Refunding Securities"), plus an amount held in cash, if any.

The cash and Refunding Securities, together with earnings thereon, deposited in the Escrow Account will be used to pay and prepay the 2006 Installment Sale Agreement and the 2006 Bonds in full through and including November 1, 2017 (the "Prepayment Date"), at a prepayment price equal to 100% of the principal amount thereof together with interest accrued thereon to the Prepayment Date.

\_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, (the "Verification Agent") will verify that the Refunding Securities, together with the earnings thereon and any uninvested cash held by the Escrow Agent in the Escrow Account, will be sufficient to pay all of the principal, interest, and redemption premium, if any, coming due with respect to the 2006 Bonds on the Prepayment Date. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein.

Upon such irrevocable deposit with the Escrow Agent and the receipt by the Escrow Agent of irrevocable escrow instructions from the City under the Escrow Agreement, all liability of the City with respect to the 2006 Installment Sale Agreement and the 2006 Bonds will be discharged as of the date of issuance of the Bonds and the owners of the 2006 Bonds will no longer be entitled to the benefits of the legal documents under which they were executed and delivered. Amounts on deposit in the Escrow Account are to be pledged solely to the prepayment of the 2006 Installment Sale Agreement and the 2006 Bonds, and will not be available to pay Debt Service on the Bonds.

## Sources and Uses of Funds

Table 1 sets forth the estimated sources and uses of funds relating to the issuance of the Bonds.

**Table 1**  
**CITY OF FORTUNA**  
**SERIES 2017 WASTEWATER REVENUE REFUNDING BONDS**

---

**ESTIMATED SOURCES AND USES OF FUNDS**

---

Sources of Funds:

Principal Amount of Bonds  
*Plus* Available Funds Relating to the 2006 Bonds  
*[Plus][less]* Net Original Issue *[Premium][Discount]*  
*Less* Underwriter's Discount  
Total Sources

Uses of Funds:

Deposit to Escrow Account<sup>[1]</sup>  
Deposit to Costs of Issuance Fund<sup>[2]</sup>  
Total Uses

---

<sup>[1]</sup> Moneys in the Escrow Account established for the 2006 Bonds, which Escrow Account will be funded with Bond proceeds, together with certain other available moneys then on deposit in the funds and accounts established under the 2006 Trust Agreement and held by the 2006 Trustee, will be used to call and redeem all of the outstanding 2006 Bonds on \_\_\_\_\_ 1, 2017. The Escrow Account will be held and administered by the Escrow Agent. See "THE REFINANCING PLAN – Refunding of the 2006 Bonds."

<sup>[2]</sup> Moneys deposited in the Costs of Issuance Fund are expected to be used to pay the policy premium for the Reserve Policy, the fees and expenses of Bond Counsel, Disclosure Counsel, Municipal Advisor, Trustee, Escrow Agent, Verification Agent and the rating agency, as well as printing and other miscellaneous costs and expenses in connection with the issuance, sale and delivery of the Bonds. The Costs of Issuance Fund will be held and administered by the Trustee.

*[Remainder of Page Intentionally Left Blank]*

**Debt Service Requirements**

Table 2 sets forth the annual principal and interest on the Bonds (assuming no redemptions of the Bonds, other than mandatory sinking fund redemptions).

**Table 2**  
**CITY OF FORTUNA**  
**SERIES 2017 WASTEWATER REVENUE REFUNDING BONDS**

---

**ANNUAL DEBT SERVICE SCHEDULE**

---

Year Ending <u>June 1</u>	<u>Principal</u>	<u>Interest</u>	Total <u>Debt Service</u>
------------------------------	------------------	-----------------	------------------------------

Totals

---

*Source:* The Underwriter.

## THE BONDS

### Authority for Issuance

The Bonds are being issued pursuant to the Bond Law, the Resolution and the Indenture. Under this authority, the Bonds may be issued in a principal amount not to exceed \$ \_\_\_\_\_.

### General Description

**Fully Registered Bonds in Book-Entry Only Form.** The Bonds will be issued as one fully registered bond certificate without coupons for each maturity (unless the Bonds of such maturity bear different interest rates, then one Bond for each interest rate among such maturity) and, when issued, will be initially issued in book-entry only form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases may be made in book-entry form only, in integral multiples of \$5,000.

Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. So long as DTC’s book-entry system is in effect with respect to the Bonds, notices to Owners of the Bonds by the City or the Trustee will be sent to DTC. Notices and communication by DTC to its participants, and then to the beneficial owners of the Bonds, will be governed by arrangements among them, subject to then effective statutory or regulatory requirements. See “APPENDIX F – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM” herein.

In the event (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the City determines that the DTC will no longer so act, then the City will discontinue the book-entry system with DTC. If the City fails to identify another qualified securities depository to replace DTC, then the Bonds so designated will no longer be restricted to being registered in the registration books kept by the Trustee in the name of Cede & Co., but will be registered in whatever name or names persons transferring or exchanging Bonds will designate, in accordance with the provisions of the Indenture.

**Repayment of the Bonds.** The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof, and will be dated the date of delivery thereof and will mature on June 1 in the years and in the amounts set forth on the inside cover page hereof. Interest on the Bonds is payable semiannually from their dated date at the rates set forth on the inside cover page hereof, on June 1 and December 1 of each year (each, an “Interest Payment Date”), commencing December 1, 2017, by check mailed by the Trustee on each Interest Payment Date to the person whose name appears in the registration books kept by the Trustee as the registered owner thereof as of the close of business on the fifteenth calendar day of the month immediately preceding an interest payment date (a “Record Date”); provided, however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more. Interest on the Bonds will be calculated based on a 360-day year consisting of twelve 30-day months. While the Bonds are subject to the book-entry system, the principal and interest with respect to the Bonds will be paid by the Trustee to DTC for subsequent disbursement to beneficial owners of the Bonds. See “APPENDIX F – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM” herein.

**Transfer or Exchange of the Bonds.** Any Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. Transfer of any Bond will not be permitted by the Trustee during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption pursuant to the Indenture. Whenever any Bond or Bonds will be surrendered for transfer, the City will execute and the Trustee will authenticate and deliver a new Bond or Bonds for a like aggregate principal amount and of like maturity. The Trustee will require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. If a Bond is mutilated, lost, stolen or destroyed, the Trustee, at the expense of the Owner of such Bond, will authenticate, subject to the provisions of the Indenture, a new Bond of like tenor and amount. In the case of a lost, stolen or destroyed Bond, the Trustee may require that an indemnity be furnished and payment of an appropriate fee for each new Bond delivered in replacement of such Bond, and the City may require payment of the expenses of the City and the Trustee incurred in connection therewith.

**Optional Redemption of Bonds**

The Bonds maturing on or before June 1, 20\_\_ , are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on or after June 1, 20\_\_ , are subject to redemption in whole or in part in integral multiples of \$5,000, by such maturities as are selected by the City (or, if the City fails to designate such maturities, then pro rata among maturities), and by lot within a maturity, from any source of available funds, on any date on or after June 1, 20\_\_ , at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption.

**Mandatory Sinking Fund Redemption of Bonds**

(i) The Bonds maturing June 1, 20\_\_ and June 1, 20\_\_ (the “Term Bonds”) are subject to mandatory redemption in part by lot, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts and on June 1 in the respective years as set forth in the following respective tables; provided, however, that if some but not all of such Term Bonds have been optionally redeemed, the total amount of all future sinking fund payments will be reduced by the aggregate principal amount of such Term Bonds so redeemed, 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).

**Term Bonds Maturing June 1, 20\_\_**

Sinking Payment Date <u>(June 1)</u>	Principal Amount <u>to be Redeemed</u>
--	---

## Term Bonds Maturing June 1, 20\_\_

Sinking Payment Date ( <u>June 1</u> )	Principal Amount <u>to be Redeemed</u>
--	---

### **Selection of Bonds for Redemption**

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

### **Partial Redemption of Bonds**

In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond the City will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the City, a new Bond or Bonds of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond surrendered.

### **Notice of Redemption; Rescission**

The Trustee will mail notice of redemption of the Bonds by first class mail, postage prepaid, not less than 30 nor more than 60 days before any redemption date, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books and to one or more Securities Depositories and to the Information Services.

Each notice of redemption will state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the Bonds (or all Bonds of a single maturity) are to be redeemed, the CUSIP numbers and (in the event that not all Bonds within a maturity are called for redemption) Bond numbers of the Bonds to be redeemed and the maturity or maturities of the Bonds to be redeemed, and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed.

Each such notice will also state that on the redemption date there will become due and payable on each of said Bonds the redemption price thereof, and that from and after such redemption date interest thereon will cease to accrue, and will require that such Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein will affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Bonds will be given by the Trustee, at the expense of the City, for and on behalf of the City.

The City has the right to rescind any notice of the optional redemption of Bonds by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of optional redemption may provide that it is subject to rescission as described in this paragraph. Any notice of redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default. The City and the Trustee have no Liability to the Bond Owners or any other party related to or arising from such rescission of redemption. The Trustee will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under the Indenture.

### **Effect of Redemption**

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

## **SECURITY FOR THE BONDS**

### **Limited Obligations**

THE BONDS REPRESENT A SPECIAL, LIMITED OBLIGATION OF THE CITY PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF THE NET REVENUES DERIVED BY THE CITY FROM THE OPERATIONS OF THE WASTEWATER SYSTEM AND CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE. NONE OF THE PROPERTIES OF THE CITY OR WASTEWATER SYSTEM ARE SUBJECT TO ANY MORTGAGE OR OTHER LIEN FOR THE BENEFIT OF THE OWNERS OF THE BONDS, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE COUNTY, THE STATE, OR ANY OTHER POLITICAL SUBDIVISION OR AGENCY OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS DOES NOT DIRECTLY OR INDIRECTLY OBLIGATE THE CITY, THE COUNTY, THE STATE, OR ANY OTHER POLITICAL SUBDIVISION OR AGENCY OF THE STATE TO LEVY OR PLEDGE ANY FORM OF TAXATION WHATSOEVER OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE BONDS.

### **Pledge of Net Revenues**

Under the Indenture, the City will transfer and assign to the Trustee, for the benefit of the Owners, that portion of the Net Revenues which is necessary to pay the principal or Redemption Price of and interest on the Bonds in any Fiscal Year, together with all moneys on deposit in the Debt Service Fund, and such portion of the Net Revenues is irrevocably pledged to the punctual payment of the principal or Redemption Price of and interest on the Bonds.

The Net Revenues constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the Bonds, and may not be used for any other purpose while any of the Bonds remain Outstanding, except that out of Net Revenues there may be apportioned and paid such sums for such purposes, as are expressly permitted by the Indenture. This pledge constitutes a first, direct and exclusive charge and lien on the Net Revenues for the payment of the principal or Redemption Price of and interest on the Bonds and other Parity Debt in accordance with the terms thereof. The Bonds are not secured by a direct lien on the Wastewater System or any other property of the City.

**Net Revenues.** The Indenture defines “Net Revenues” as, for any period of computation, the amount of the Gross Revenues received from the Wastewater System during such period, less the amount of Maintenance and Operation Costs of the Wastewater System becoming payable during such period.

**Gross Revenues.** The Indenture defines “Gross Revenues” as all gross income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Wastewater System calculated in accordance with GAAP and deposited in the Wastewater Revenue Fund, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees (including but not limited to any developer impact fees to the extent permitted by law), charges, business interruption insurance proceeds or other moneys derived by the City from the sale, furnishing and supplying of the wastewater or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Wastewater System, plus (2) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, or other moneys, including City Wastewater System reserves, plus (3) the proceeds of any stand-by or sewer availability charges collected by the City, but excluding (i) customer deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City, and (ii) any proceeds of taxes restricted by law to be used by the City to pay the Bonds or Parity Debt.

**Maintenance and Operation Costs.** The Indenture defines “Maintenance and Operation Costs” as the reasonable and necessary costs spent or incurred for maintenance and operation of the Wastewater System calculated in accordance with GAAP, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges, but excluding (i) transfers to other City departments, (ii) debt service payments or other similar payments on the Bonds and Parity Debt or other obligations required to be paid by it to comply with the terms of the Indenture or any contract or resolution or indenture authorizing the issuance of any bonds or obligations, and (iii) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

In order to carry out and effectuate the pledge, charge and lien on Net Revenues provided in the Indenture, the City agrees and covenants in the Indenture that all Net Revenues will be promptly deposited by the Trustee upon receipt thereof in the Debt Service Fund created under the Indenture, which the Trustee will establish, maintain and hold in trust; except that all moneys received by the Trustee and required under the Indenture to be deposited in the Redemption Account will be promptly deposited in such Account. All Net Revenues will be accounted for through and held in trust in the Debt Service Fund, and the City has no beneficial right or interest in any of the Net Revenues except only as provided in the Indenture.

In the Indenture, the City covenants that, so long as any Bonds are Outstanding, the City will not issue or incur any obligations payable from Gross Revenues or Net Revenues superior to the payment of the debt service on the Bonds or Parity Debt. The City is authorized to issue additional Parity Debt secured by Net Revenues with a lien on a parity basis with the lien of the Bonds, provided it complies with certain provisions in the Indenture. See “– Issuance of Additional Debt” below. The District is also authorized to issue Subordinate Obligations secured by Net Revenues.

### **Receipt and Deposit of Gross Revenues**

Under the Indenture, the City covenants and agrees that all Gross Revenues, when and as received, will be received and held by the City in trust and will be deposited by the City in a Wastewater Revenue Fund to be established and held by the City, and will be accounted for through and held in trust in the Wastewater Revenue Fund, and the City will only have such beneficial right or interest in any of such money as provided in the Indenture. All such Gross Revenues will be transferred, disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and will be accounted for separately and apart from all other money, funds, accounts or other resources of the City.

### **Allocation of Gross Revenues**

Under the Indenture, all Gross Revenues will be held in trust by the Finance Director in the Wastewater Revenue Fund and will be applied, transferred, used and withdrawn only for the purposes set forth below.

(a) Operating Costs. The Finance Director will first pay from the moneys in the Water Revenue Fund the budgeted Maintenance and Operation Costs as such costs become due and payable.

(b) Debt Service Fund. On or before the second Business Day prior to each Interest Payment Date, the Finance Director will transfer from the Wastewater Revenue Fund to the Trustee for deposit in the Debt Service Fund (i) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding Bonds on the next succeeding Interest Payment Date, plus (ii) an amount equal to the aggregate amount of Principal Installments (including any Sinking Fund Installments) becoming due and payable on all Outstanding Bonds on the next succeeding Principal Payment Date. All interest earnings and profits or losses on the investment of amounts in the Debt Service Fund will be deposited in or charged to the Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Payment Date upon all Outstanding Bonds and Parity Debt.

(c) Debt Service Funds for Future Parity Debt. On or before the second Business Day prior to each Interest Payment Date, the Finance Director will cause to be transferred from the Wastewater Revenue Fund to the Trustee (or other party as appropriate relative to each Parity Debt) for deposit in the debt service fund created for each issue of Parity Debt (or if no debt service fund was created for an issue of Parity Debt, otherwise set-aside for the payment of Parity Debt) (i) an amount equal to the aggregate amount of interest to become due and payable on all Outstanding Parity Debt on the next succeeding Interest Payment Date (or, as to Parity Debt with annual interest payments, for a 6-month period), plus (ii) an amount equal to the aggregate amount of Principal Installments (including any Sinking Fund Installments) becoming due and payable on all Outstanding Parity Debt on the next succeeding Principal Payment Date.

All interest earnings and profits or losses on the investment of amounts in the Debt Service Fund shall be deposited in or charged to the Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Payment Date upon all Outstanding Parity Debt.

(d) Reserve Accounts. After making the payments, allocations and transfers provided for in subsections (a), (b) and (c) above, if the balance on hand in the Reserve Fund for the Bonds or a reserve account for any issue of Parity Debt is less than the Reserve Requirement or the reserve requirement applicable to such Parity Debt, such deficiency (or payment due to the provider of a reserve policy or surety) shall be restored by transfers from the first moneys which become available in the Wastewater Revenue Fund to the appropriate party to replenish the Reserve Fund, repay the provider of a reserve policy or surety, or to satisfy a reserve requirement established for any issue of Parity Debt, on a pro rata basis.

(e) Surplus. As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner set forth above in subsections (a) to (d), inclusive, any moneys remaining in the Wastewater Revenue Fund may at any time be treated as surplus and applied for any lawful purpose.

### **Application of Debt Service Fund**

Under the Indenture, the Trustee will allocate amounts in the Debt Service Fund as follows:

(a) The Trustee will withdraw from the Debt Service Fund, prior to each Interest Payment Date, an amount equal to the Interest Requirement payable on such Interest Payment Date, and will cause the same to be applied to the payment of said interest when due and is hereby authorized to apply the same to the payment of such interest.

(b) The Trustee will withdraw from the Debt Service Fund, prior to each Principal Payment Date, an amount equal to the principal amount due on said Principal Payment Date and any Sinking Fund Installments due and payable on said Principal Payment Date, and will cause the same to be applied to the payment of the principal.

(c) All withdrawals and transfers under the provisions of subparagraphs (a) or (b) above will be made not earlier than one (1) day prior to the Interest Payment Date or Principal Payment Date to which they relate, and the amount so withdrawn or transferred will, for the purposes of the Indenture, be deemed to remain in and be part of the appropriate Account until such Interest Payment Date or Principal Payment Date.

### **Application of Reserve Fund**

The Trustee will establish, maintain and hold in trust a separate fund designated as the "Reserve Fund" into which the Trustee will deposit the Reserve Policy. The initial Reserve Requirement for the Bonds is \$\_\_\_\_\_.

(a) Transfers to Pay Debt Service on Bonds. The Reserve Policy will be used by the Trustee for the purpose of paying principal of or interest on the Bonds, including the principal amount of any Term Bonds

which is subject to mandatory sinking fund redemption under the Indenture, when due and payable to the extent that moneys deposited in the Debt Service Fund are not sufficient for such purpose. The Trustee will draw on the Reserve Policy in accordance with its terms and conditions and the terms of the Indenture.

[The amounts available under the Reserve Policy will be used and withdrawn by the Trustee solely for the purpose of making transfers to the Debt Service Fund for payment of the Bonds (and not any Parity Debt), in the event of any deficiency at any time in such fund. The City is required to repay from Net Revenues, as available, any draws under the Reserve Policy and pay all related reasonable expenses incurred by the Insurer.]

[The City will have no obligation to replace the Reserve Policy or to fund the Reserve Fund with cash or any other security if, at any time that the Bonds are Outstanding, amounts are not available under the Reserve Policy.]

### **Rate Stabilization Fund**

Under the Indenture, the City has the right (but not the obligation) at any time to establish a stabilization fund (the “Rate Stabilization Fund”) to be held by it and administered in accordance with the Indenture for the purpose of stabilizing the rates and charges imposed by the City with respect to the Wastewater System. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secures the Bonds and any Parity Debt, as the City may determine.

The City may, but is not be required to, withdraw from any amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Wastewater Revenue Fund in any fiscal year for the purpose of paying Debt Service coming due and payable in such Fiscal Year. Amounts so transferred from the Rate Stabilization Fund to the Wastewater Revenue Fund will constitute Gross Revenues for such fiscal year in which drawn (except as otherwise provided in the Indenture), and will be applied for the purposes of the Wastewater Revenue Fund. Amounts on deposit in the Rate Stabilization Fund are not pledged to and do not secure the Bonds or any Parity Debt.

The City may at any time withdraw any or all amounts on deposit in a Rate Stabilization Fund and apply such amounts for any lawful purposes of the City. There will be no balance in the Rate Stabilization Fund at the time of Closing.

### **Rate Covenant**

Under the Indenture, the City will, to the extent permitted by law, fix, prescribe and collect rates, fees and charges for the Wastewater System which will be at least sufficient to yield Net Revenues equal to one hundred twenty-five percent (125%) of Debt Service coming due and payable during such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but will not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the Indenture.

For the purpose of computing the amount of Wastewater Revenues for any Fiscal Year or the amount of Net Revenues for any Fiscal Year for purposes of the preceding paragraph, the City will be permitted to

transfer amounts on deposit in the Rate Stabilization Fund for purposes of such computation, such transfers may be made until (but not after) one hundred twenty (120) days after the end of such Fiscal Year.

### **No Outstanding Parity Debt**

The City has no Outstanding Parity Debt that is payable from Net Revenues on parity with the Bonds.

### **Issuance of Parity Debt**

In addition to the Bonds, the City may at any time issue or incur additional Parity Debt under applicable law which are payable from the Net Revenues on parity with the payments by the City under the Indenture; provided that the Net Revenues (excluding any amounts transferred from a Rate Stabilization Fund) for the Fiscal Year or any consecutive 12-month period in the 18 months next preceding the date of the adoption by the City of the resolution authorizing the issuance of such Parity Debt or the execution of such Parity Debt, as the case may be, as evidenced by a calculation prepared by the City upon which the Trustee may conclusively rely; plus an allowance for Net Revenues that would have been derived from any increase in the rates and charges fixed and prescribed for the Wastewater System which was enacted prior to the adoption of such resolution or the execution of such Parity Debt, as the case may be, but which, during all or any part of said Fiscal Year or 12-month period, was not in effect, in an amount equal to the estimated additional Net Revenues that would have been derived from such increase in rates and charges if it had been in effect prior to the beginning of said Fiscal Year or 12-month period, as shown by the Certificate of an Authorized Representative of the City will have produced an amount equal to at least the sum of 125% of Maximum Annual Debt Service on the Bonds and all Parity Debt outstanding after the issuance of such Parity Debt.

Furthermore, in order to issue such Parity Debt, the City may not be in default with respect to its obligations under the Indenture or any Parity Debt Instruments, and must provide for repayment of interest on June 1 and December 1 of each year, and repayment of principal on June 1 of each year.

### **Subordinate Debt**

Nothing in the Indenture prohibits or impairs the authority of the City to issue bonds or other obligations secured by a lien on Net Revenues that is subordinate to the lien established under the Indenture, upon such terms and in such principal amounts as the City may determine.

### **Eminent Domain Proceeds**

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

### **Insurance**

The City covenants under the Indenture that it will at all times maintain such insurance on the Wastewater System as is customarily maintained with respect to works and properties of like character against

accident to, loss of or damage to such works or properties. If any useful part of the Wastewater System is damaged or destroyed, such part will be restored to use.

The Net Proceeds of insurance against accident to or destruction of the physical Wastewater System will be used for repairing or rebuilding the damaged or destroyed portions of the Wastewater System.

Any such insurance will be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the City, or may be in the form of self-insurance by the City. The City will establish such fund or funds or reserves as it determines, in its sole judgment, are necessary to provide for its share of any such self-insurance.

### **Limited Obligation**

The Net Revenues constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the Bonds. The general fund of the City is not liable and the credit or taxing power of the City is not pledged for the payment of the principal or Redemption Price of and interest on the Bonds. The Owner of the Bonds may not compel the exercise of the taxing power by the City or the forfeiture of its property. The principal or Redemption Price of and interest on the Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Net Revenues.

## **THE CITY**

### **General**

The City encompasses approximately five square miles and is located in Humboldt County (the “County”), approximately 18 miles south of Eureka and 250 miles north of San Francisco on U.S. Highway 101. The City was incorporated on February 20, 1906 as a general law city, and became a charter city in 1996. The City’s fiscal year begins on July 1 and ends June 30 of the following year. The City is a full-service city, and with an average of 73 full and part-time personnel, provides water and wastewater utility services, public safety, street maintenance, land use and building regulation, transit, recreational and park services. See “APPENDIX D – GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA” herein.

### **Governance and Management**

The City has a Council/Manager form of municipal government. The City Council is comprised of five elected council members served by a full-time City Manager and staff. Council members are elected at-large for staggered four-year terms. Biennially, the Mayor and Mayor Pro Tempore are selected by the City Council to serve 2-year terms.

The City Manager is appointed by the City Council and is responsible for administration of City affairs, day-to-day operations and implementation of City Council policies. The current Mayor, Mayor Pro Tempore and City Council members and their respective titles and ending terms of office are as follows:

<u>Name</u>	<u>Title</u>	<u>Expiration of Office Term</u>
Sue Long	Mayor	November 2018
Tami Trent	Mayor Pro Tem	November 2020
Doug Strehl	Council Member	November 2018
Tiara Brown	Council Member	November 2018
Dean Glaser	Council Member	November 2020

Following are biographies of certain City staff:

*MARK WHEETLEY; City Manager.* Mr. Wheatley [to come].

*AARON FELMLEE; Finance Director.* Mr. Felmlee [to come].

*MERRITT PERRY; Public Works Director.* Mr. Perry [to come].

### **City Investments**

The investment of the City's funds is performed in accordance with the City's adopted Investment Policy. Funds are invested with the following objectives in mind:

1. Assets are to be invested with prudence – made with judgment and care – under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of the invested capital as well as the probable income to be derived therefrom.

2. The portfolio is invested in a manner consistent with the primary emphasis on preservation of the principal, while attaining a market rate of return throughout budgetary and economic cycles, taking into consideration the investment risk constraints and liquidity needs. Yield on the City's investment portfolio is of secondary importance compared to the safety and liquidity objectives. Trading of securities for the sole purpose of realizing trading profits is prohibited.

3. Sufficient liquidity is maintained to provide a source for anticipated financial obligations as they become due. The City will diversify its investment by security type, issuer and maturity dates.

The Investment Policy calls for the City's investment portfolio to be structured to provide that sufficient funds from investments are available to meet the City's anticipated cash needs. The choice of investment instruments and maturities is to be based upon an analysis of anticipated cash needs, existing and anticipated revenues, interest rate trends and specific market opportunities.

The City's Investment Policy also requires that deposits in banks must meet the requirements of California Government Code. Under this code, deposits of more than \$250,000 must be collateralized at 105 percent to 150 percent of the value of the deposit to guarantee the safety of the public funds. The first \$250,000 of the City's deposits is insured by the Federal Deposit Insurance Corporation (FDIC). Deposits more than the \$250,000 insured amount are collateralized.

According to the most recent report for the month ended June 30, 2016, the City had invested funds as set forth in Table 3 below. As of June 30, 2015, approximately    % of the invested funds were assets of the Wastewater System. The City’s practice is to hold securities to maturity.

**Table 3  
CITY OF FORTUNA**

<b>INVESTMENT PORTFOLIO (AS OF JUNE 30, 2016)</b>		
Investment Type	Average maturity	Fair Value
JP Morgan Institutional Prime Money Market-City	48 Days	\$2,976,467
JP Morgan Institutional Prime Money Market-Fiduciary	48 Days	859,244
Humboldt County Treasurer’s Pool <sup>[1]</sup>	815 Days	9,242,468
Local Agency Investment Fund <sup>[2]</sup>	167 Days	9,039,784
Certificates of deposit and local government bonds	2 Years	8,324,368
Total Investments		<b>\$30,442,331</b>

[1] The City is a participant in the Humboldt County Treasurer’s Pool which is managed by the Humboldt County Treasurer. On a monthly basis, interest is allocated to participants based on average daily balances. The Humboldt County Treasury Oversight Committee oversees the Treasurer’s investments and policies. Investments held in the County’s investment pool are available on demand and are stated at amortized cost, which approximates fair value. The fair value of the City’s position in the pool is the same as the value of the pooled shares.

[2] The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code and is managed by the Treasurer of the State of California. The Local Investment Advisory Board (LAIF Board) has oversight responsibility for LAIF. The LAIF Board consists of five members as designated by State statute. Investments in LAIF are available on demand and are stated at amortized cost, which approximates fair value. The fair value of the City’s position in the pool is the same as the value of the pooled shares.

Source: City

### **Risk Management**

The City carries insurance to cover its exposure to various risks of loss related to torts, theft and destruction of assets, errors and omissions, and natural disasters. The City is a member of the Redwood Empire Municipal Insurance Fund (the “Fund”), a joint powers authority with 15 cities in Northern California as members. The Fund provides joint protection programs for public entities covering automobile, general liability, errors and omission losses, property and workers compensation claims.

Under the program, the City has a \$10,000 general liability retention limit similar to a deductible with the Fund being responsible for losses above that amount up to \$500,000. The Fund carries excess liability coverage to a total of \$40 million in excess of its \$500,000 retention limit per occurrence through the California Joint Powers Risk Management Authority and its excess insurers. The Fund covers workers compensation claims up to its self-insurance limit of \$1 million and a deductible of \$10,000. A purchased excess policy insures the Fund for an additional \$1 million to provide aggregate coverage of up to \$2 million per claim. The City pays an annual premium to the Fund; the City may share in any surplus revenues or may be required to pay additional assessments based upon the Fund's operating results.

The Fund also provides property coverage up to \$25,000 per occurrence in excess of the City's deductible. Losses in excess of \$25,000 are paid by the excess insurance policy up to the replacement value of all covered property with a cap at \$300 million.

The City paid \$589,166 in uninsured losses during the 2014-2015 fiscal year. Of the \$589,166, \$569,166 pertains to the settlement of one matter related to an inverse condemnation action. For more information on the City's risk management policy, see "APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2015-16."

**Labor Contracts**

The City maintains labor contracts with three organized labor groups. The number of members covered by and expiration date of each contract is set forth below.

<u>Labor Groups/Contracts</u>	<u>Number of Members</u>	<u>Date of Contract Expiration</u>
Fortuna Police Employees Association	[23]	June 30, 20__
Fortuna Employees Association	[29]	June 30, 20__
Fortuna Office Employees Association	[8]	June 30, 20__

**Employee Retirement System; CalPERS**

The following information relating to the California Public Employees Retirement System ("CalPERS") is primarily derived from information produced by CalPERS, its independent accountants and actuaries, as interpreted by the City and its Auditor. The City has not independently verified the information provided by CalPERS and make no representations nor express any opinion as to the accuracy of the information provided by CalPERS. The comprehensive annual financial reports of CalPERS are available on its Internet website at [www.calpers.ca.gov](http://www.calpers.ca.gov). The CalPERS website also contains CalPERS' most recent actuarial valuation reports and other information concerning benefits and other matters. Such information is not incorporated by reference herein. Neither the City nor the Underwriter can guarantee the accuracy of such information.

Actuarial assessments are forward-looking statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

**Plan Description.** The City contributes to the CalPERS, a cost sharing multiple-employer public employee defined benefit pension plan. All qualified permanent and probationary employees are eligible to participate in the City's separate Safety (police) and Miscellaneous (all other) Employee Pension Plans (the "Pension Plans").

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State, including the City. Benefit provisions under the Pension Plans are established pursuant to State statute and City ordinance. CalPERS issues publicly available financial reports that include the financial statements and required supplementary information for the CalPERS. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit

provisions, assumptions and membership information that can be found on the CalPERS website. Copies of CalPERS' annual financial report may be obtained from its executive office located at 400 Q Street, Sacramento, California 95811, or via <http://www.calpers.ca.gov>.

The City participates in the Safety and Miscellaneous CalPERS cost sharing multiple-employer plans. The Safety plans consists of Safety – 1st Tier, Safety – 2nd Tier and Safety Public Employee Pension Reform Act (PEPRA). The Miscellaneous plans consist of Miscellaneous – 1st Tier, Miscellaneous – 2nd Tier and Miscellaneous PEPRA.

**Benefits Provided.** CalPERS provides service retirement and disability benefits, annual cost of living adjustments (COLA) and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Retirement benefits are defined as 2.5 percent of the employees final 12 months average compensation times the employee's years of service (2.0 percent for safety employees) Employees with 10 years of continuous are eligible to retire at age 55 (age 50 for safety employees) Employees are eligible for service-related disability benefits regardless of the length of service. Five years of service is required for non-service-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Preretirement death benefits equal an employee's final full-year salary. Both plans provide for a 2 percent Cost of Living Adjustment (COLA). The public safety plan is closed to new entrants. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Effective January 1, 2013, CalPERS instituted a new pension plan as a result of PEPRA. Employees hired from that date on are subject to the new 2% at 62 benefit formula. The 2.5% at 55 benefit formula has been closed to new hires from January 1, 2013 on, unless they meet the rules for a CalPERS Classic employee. A Classic employee is already CalPERS member through prior employment and was employed by a CalPERS member within the last 6 months. See the CalPERS website for more information.

**Contributions.** Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Pension Plans are determined annually on an actuarial basis as of June 30 by CalPERS.

The City is required to contribute at an actuarially determined rate of annual covered payroll, plus a fixed payment of unfunded liability. The actuarially determined rates and amounts for each Pension Plan for the fiscal years ended June 30, 2017 and June 30, 2018, are as follows:

**CITY'S REQUIRED EMPLOYER CONTRIBUTION RATES & PAYMENTS**

<b>Pension Plan</b>	<b>Fiscal Year 2016-17</b>			<b>Fiscal Year 2017-18</b>		
	<b>Employer Normal Cost Rate</b>	<b>Employer Normal Cost Payment</b>	<b>Employer Payment of Unfunded Liability</b>	<b>Employer Normal Cost Rate</b>	<b>Employer Normal Cost Payment</b>	<b>Employer Payment of Unfunded Liability</b>
Miscellaneous – 1st Tier	12.151%	\$241,278	\$216,504	12.192%	\$217,119	\$256,601
Safety – 1st Tier	19.536	168,575	153,727	19.723	173,848	187,116
Miscellaneous – 2 <sup>nd</sup> Tier	9.302	26,529	0	9.343	24,748	0
Safety – 2 <sup>nd</sup> Tier	16.656	8,029	0	0	0	0
Miscellaneous - PEPR	6.555	10,323	27	6.533	30,238	112
Safety (Fire) - PEPR	12.082	11,070	0	11.990	17,055	83
<b>Totals</b>		<b>\$465,804</b>	<b>\$370,258</b>		<b>\$661,604</b>	<b>443,912</b>

Source: CalPERS Annual Valuation Report as of June 30, 2015.

**Funding History.** The funding history for the Miscellaneous 1st Tier Pension Plan and the Safety 1st Tier Pension Plan is shown in the tables below, listing for each plan the actuarial accrued liability, share of the pool's market value of assets, share of the pool's unfunded liability, funded ratio, and annual covered payroll.

**MISCELLANEOUS – 1st Tier**

<b>Valuation Date</b>	<b>Accrued Liability (AL)</b>	<b>Share of Pool's Market Value of Assets (MVA)</b>	<b>Share of Pool's Unfunded Liability</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>
06/30/11	\$13,427,764	\$10,296,768	\$3,130,996	76.7%	\$2,481,362
06/30/12	14,351,492	10,389,379	3,962,113	72.4%	2,272,299
06/30/13	15,581,271	11,945,289	3,635,982	76.7%	2,056,399
06/30/14	17,055,736	13,686,143	3,369,593	80.2%	1,817,137
06/30/15	17,495,009	13,341,927	4,153,082	76.3%	1,629,714

Source: CalPERS Annual Valuation Report as of June 30, 2015.

**SAFETY– 1st Tier**

<b>Valuation Date</b>	<b>Accrued Liability (AL)</b>	<b>Share of Pool's Market Value of Assets (MVA)</b>	<b>Share of Pool's Unfunded Liability</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>
06/30/11	\$9,886,109	\$7,729,333	\$2,156,776	78.2%	\$992,571
06/30/12	10,848,570	7,936,601	2,911,969	73.2%	870,963
06/30/13	11,294,847	8,694,911	2,599,936	77.0%	813,517
06/30/14	12,615,018	10,189,033	2,425,985	80.8%	789,686
06/30/15	13,208,992	10,143,902	3,065,090	76.8%	806,648

Source: CalPERS Annual Valuation Report as of June 30, 2015.

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

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	<u>All Pension Plans</u>
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Discount Rate	7.65%
Inflation	2.75%
	Varies by Entry Age and Service
Salary Increases	(1)
Post Retirement Benefit Increase	(2)
Mortality	(3)

- (1) Depending on age, service, and type of employment  
(2) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter  
(3) Derived using CalPERS' Membership Data for all Funds

The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. More information on this table and assumptions can be found in the Experience Study report on CalPERS' website under Forms and Publications.

**Change in Assumptions.** According to Paragraph 68 of GASB 68, the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

**Discount Rate.** The discount rate used to measure the total pension liability was 7.65% for each Pension Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would mostly likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans ran out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10(a)</u>	<u>Real Return Years 11+(b)</u>
Global Equity	50.0%	5.25%	5.71%
Global Fixed Income	17.0%	0.99%	2.43%
Inflation Sensitive	5.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

***Discount Rate Being Lowered Over Next 3 Years.*** At the December 21, 2016, meeting, the CalPERS Board of Administration approved lowering the CalPERS discount rate assumption, the long-term rate of return, from 7.50 percent to 7.00 percent over the next three years. This will increase public agency employer contribution costs beginning in Fiscal Year 2018-19. The phase-in of the discount rate change approved by the CalPERS Board for the next three Fiscal Years is as follows:

<u>Valuation Date</u>	<u>Fiscal Year for Required Contribution</u>	<u>Discount Rate</u>
June 30, 2016	2018-19	7.375%
June 30, 2017	2019-20	7.25%
June 30, 2018	2020-21	7.00%

Lowering the discount rate means plans will see increases in both the normal costs and the accrued liabilities. These increases will result in higher required employer contributions. In addition, active members hired after January 1, 2013, under PEPRa may also see their contribution rates rise.

Employer contribution increases as a result of the discount rate changes are estimated below by Normal Cost and required Unfunded Accrued Liability (UAL) payment. The Total Employer Contribution is the sum of the Normal Cost Rate applied to reported payroll plus the UAL payment. The Normal Cost portion of the Employer Contribution is expected to increase by the listed percentages of payroll. Increases to the UAL payments are provided as relative increases to be applied to the projected UAL payments in the June 30, 2015, valuation report.

The changes to the UAL due to changes of actuarial assumptions are amortized over a fixed 20-year period with a 5-year ramp up at the beginning and a 5-year ramp down at the end of the amortization period. The 5-year ramp up means that the payments in the first four years of the amortization schedule are 20 percent, 40 percent, 60 percent and 80 percent of the ultimate payment, which begins in year five. The 5-year ramp down means that the reverse is true and the payments in the final four years are ramped down by the above percentages. A new ramp is established with each change to the discount rate. There will be three ramps established in the first three years. As a result of the 5-year ramp up and effective date of the increase, it will be seven years until the full impact of the discount rate change is completely phased in.

The tables below were taken from the latest CalPERS Actuarial Reports, and shows the 2016-17 UAL contribution made by the City, as well as the City's projected UAL contributions for the next five fiscal years.

Fiscal Year	Miscellaneous – 1st Tier		Safety – 1st Tier	
	Projected UAL Contribution*	% Increase	Projected UAL Contribution*	% Increase
2016-17	\$256,601	--	\$187,116	--
2017-18	315,104	22.80%	234,590	25.37%
2018-19	376,887	19.61	284,745	21.38
2019-20	414,757	10.05	298,695	04.90
2020-21	457,096	10.21	331,127	10.86
2021-22	<u>489,037</u>	<u>06.99</u>	<u>354,816</u>	<u>07.15</u>
Totals	\$2,309,482	90.58%	\$1,691,089	89.62%

\* The annual UAL Contribution is now a fixed amount regardless of current payroll.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate.** The following presents the City's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Pension Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	Miscellaneous	Safety
1% Decrease	6.65%	6.65%
Net Pension Liability	\$6,289,838	\$4,562,842
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$3,861,526	\$2,779,976
1% Increase	8.65%	8.65%
Net Pension Liability	\$1,856,666	\$1,318,059

Source: City's 2015-16 Audited Financial Statements.

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

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

Rate Volatility	Miscellaneous – 1st Tier*	Safety – 1st Tier*
1. Market Value of Assets	\$13,341,927	\$10,143,902
2. Payroll	1,629,714	806,648
3. Asset Volatility Ratio (AVR) [(1) / (2)]	8.2	12.6
4. Accrued Liability	\$17,495,009	13,208,992
5. Liability Volatility Ratio (LVR) [(4) / (2)]	10.7	16.4

Source: CalPERS Annual Valuation Report as of June 30, 2015.  
 \*As of June 30, 2015

**Other Post-Employment Benefits**

The City provides no post-employment benefits other than those associated with the Public Employees Retirement System.

**Other City and Financial Information**

Information with respect to the City, including financial information and certain economic and demographic information relating to the City is provided in “APPENDIX D – GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA.” Also, see “APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2015-16.”

The City’s general fund is not pledged to secure payment of, and the taxing power of the City is not pledged for, the principal of and interest on the Bonds. The City has included its Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2016 (the “City’s Audited Financial Statements”), as Appendix B to this Official Statement. The City has not requested, and the City’s auditor has not given, such auditor’s consent to the inclusion in Appendix B of its report contained in the City’s Audited Financial Statements. The City has not requested that such auditor undertake any review or investigation concerning subsequent events with respect to such City’s Audited Financial Statements.

## **THE WASTEWATER SYSTEM**

### **General**

The City owns and operates the wastewater collection, treatment and disposal facilities that serve the City of Fortuna. The Wastewater System currently provides wastewater service to approximately 12,000 customers, 90% of which are residential. The City anticipates growth of less than 1% additional sewer customers in Fiscal Year 2017-18. The City's wastewater collection system extends throughout most areas within the City Limits and is considered generally adequate to serve existing development in the City. Palmer Creek Community Services District (PCCSD) also connects into the City's treatment system. Wastewater flows are measured at the headwork's structure within the Wastewater Treatment Plant and include the PCCSD flows which are metered separately for billing purposes.

The plant is permitted to discharge its treated effluent into Strongs Creek, a tributary of the Eel River. The Wastewater Treatment Plant is currently designed to treat an average dry-weather flow (ADWF) of 1.5 million gallons per day (MGD) and reports an influent peak wet weather flow (PWWF) capacity of 7.0 MGD. Peak influent flows over 3-4 MGD are diverted to three equalization ponds and returned for treatment during low flow periods.

### **The Collection System**

The collection system (the "Collection System") consists of over 42 miles of wastewater collection lines and 874 manholes throughout the City. The City's collection system ultimately feeds into two main lines; one 15-inch gravity main line and one 12-inch force main line. This network of pipes collects sewage from residences and businesses within the City and transports it to the Wastewater Treatment Plant. The Collection System includes eight (8) sewer lift stations, and all associated pumps and hardware. These stations are equipped with pumps ranging in size from two-inch to eight-inch pumps that provide the majority of the pumping capacity for average daily flow conditions. These are augmented with secondary pumps for additional capacity during peak flow conditions.

### **Wastewater Treatment Plant**

The Wastewater Treatment Plant treatment processes include screening and grit removal, primary treatment, secondary treatment, mixed liquor recycle for biological nutrient removal, sludge thickening, anaerobic digestion, electrical cogeneration, solids dewatering and composting, side stream equalization, and effluent disinfection. Treated effluent is currently discharged into percolation ponds during dry weather, and into Strongs Creek, a tributary of the Eel River, during the wet weather season. The facility is permitted to compost biosolids to Class A Exceptional Quality standards. Numerous auxiliary systems are required for proper operation of many plant processes including: potable water, process water, HVAC, electrical power distribution, gas, chemicals, instrument air, and others.

### **Environmental Regulation**

The Regional Water Quality Control Boards (the "RWQCBs") have authority over all publicly owned or operated wastewater treatment facilities in California. The primary purpose of the RWQCBs' Waste Discharge Requirements is to assure water quality protection pursuant to a variety of State and Federal water

quality regulations. In California, the RWQCB is the statutorily designated agency with authority to enforce Federal Clean Water Act requirements and standards as well as other federal water quality regulations and guidelines such as the National Pollutant Discharge Elimination System (the “NPDES”), on behalf of the U.S. Environmental Protection Agency. The most recent permit (Order No. R1-2017-0005 was approved by the RWQCB, on August 17, 2017, and expires October 30, 2022.

### **Wastewater System Users**

The Wastewater System served approximately 5,274 accounts as of June 30, 2016, consisting of approximately 4,773 single-family residential accounts and 501 non-residential accounts. The number of accounts does not equal the number of parcels connected to service because some parcels have multiple accounts. Residential utility accounts account for approximately 78% of the Wastewater System’s revenue and non-residential utility accounts are responsible for approximately 22%.

### **Wastewater System Rates and Charges**

**General.** Rates and charges for wastewater service within the Wastewater System service area are set by the City Council and are not subject to the jurisdiction of, or regulation by, the California Public Utilities Commission or any other regulatory body. The City increases wastewater service charges from time to time in order to maintain adequate revenue surplus after operating expenses, administrative expenses, debt service, and routine capital replacement costs. Funds available after meeting fixed and operational costs are used to supplement capital improvements, accomplish capital replacements, and maintain reserve levels consistent with Council policy.

The City is subject to certain covenants with respect to the Bonds which require that the City fix, prescribe, revise and collect rates and charges for the services and facilities furnished by the Wastewater System, during each Fiscal Year which are sufficient to yield Net Revenues at least equal to 125% of debt service of the Wastewater System in such Fiscal Year. See the caption “SECURITY FOR THE BONDS – Rate Covenant – Covenant Regarding Net Revenues” herein.

**Rate Increases.** The City Council has the ability to increase rates and charges through a public hearing process. Prior to adopting a fee or charge, the City is required under Proposition 218 to conduct a public hearing and receive protests. If the City should receive a majority of written protests from its customers, the City would not be authorized to impose the increased rate or charge. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitutional Articles XIIC and Article XIID” herein

**Wastewater Service Charges.** The City has separated its customer base into various classes, and the rates charged to each class of customer varies. Pursuant to City Council action taken on April 4, 2016 (Resolution No. 2016-12), the City adopted its most recent schedule of monthly wastewater rates, which summarized in the Table 4 below. The City charges based on the number of units associated with each parcel.

**Table 4  
WASTEWATER SYSTEM**

<b>SCHEDULE OF MONTHLY WASTEWATER RATES</b>	
<u>Summary Description</u>	<u>Rates within City Limits<sup>(1)</sup></u>
<b>Residential:</b> Includes all residential swelling units including single family apartments.	\$38.75 plus \$8.61/100 Cubic Feet over 500
<b>Light Commercial:</b> Includes all businesses that produce an effluent with a strength factor of less than 200 mg/1. This class includes such businesses as Barber and Beauty Shops, Retail Establishments, Theaters, Halls, Churches etc.	\$38.02 plus \$8.45/100 Cubic Feet over 500
<b>Medium Commercial:</b> Includes all businesses that produce an effluent with a strength factor between 200 mg/1 and 500 mg/1. This class includes such businesses as Commercial Laundries.	\$49.02 plus \$10.89/100 Cubic Feet over 500
<b>Heavy Commercial:</b> Includes all business that produce an effluent with a strength factor greater than 500 mg/1. This class includes such businesses as Mortuaries, Supermarkets, Bakeries, Restaurants etc.	\$96.69 plus \$21.49/100 Cubic Feet over 500
<b>Industrial:</b> Includes any industry where the waste is difficult to treat because of strength, flow or solids.	\$767.56 plus \$29.64/100 Cubic Feet over 2,590
<b>Palmer Creek CSD</b>	\$168.02 plus \$6.49/100 Cubic Feet over 2,590

*Source: City*

(1) For customers located outside the City Limits the rate charged is one and one-half (1.5) times the rate for service within the Limits.

**Connection Charges.** The City also charges development impact fees, including water capacity charges to new customers connecting to the Wastewater System. Development impact fees may be used for the payment of Debt Service on the Bonds and constitute Gross Revenues from which pledged Net Revenues are derived. Connection fee revenues do not generally constitute a significant percentage of annual Wastewater System revenues. Wastewater connection fees for each new single-family residence is currently \$4,145, as established pursuant to Resolution No. 2016-12 adopted April 4, 2016.

### **Operation, Management and Governance**

The City provides routine preventive operation and maintenance activities by staff and contractors, including a system for scheduling regular maintenance and cleaning of the Wastewater System with more frequent cleaning and maintenance targeted at known problem areas. The City maintains an up-to-date map of the Wastewater System, showing all gravity line segments, manholes, pumping facilities, pressure pipes, valves, and applicable storm water conveyance facilities.

The City has developed a rehabilitation and replacement plan to identify and prioritize system deficiencies and implement short-term and long-term rehabilitation actions to address each deficiency. The program includes regular inspections of manholes and sewer pipes, and a system for ranking the condition of sewer pipes and scheduling rehabilitation. Rehabilitation and replacement focuses on sewer pipes that are at

risk of collapse or prone to more frequent blockages due to pipe defects. The rehabilitation and replacement plan includes a capital improvement plan that addresses proper management and protection of infrastructure assets. The plan includes a time schedule for implementing the short-term and long-term plans plus a schedule for developing the funds needed for the capital improvement plan.

The City also provides training on a regular basis for staff in sanitary sewer system operations, maintenance, and requires contractors to be appropriately trained.

The City has covenanted in the Indenture to ensure that the Wastewater System is operated in an efficient and economical manner, and further that it is operated, maintained and preserved in good repair and working order. The City endeavors to provide for the maintenance and operation of Wastewater System facilities for the purpose of treating, reclaiming, and utilizing wastewater and its byproducts in accordance with federal, state, and local requirements; to provide a healthy and nuisance-free environment; to plan for future wastewater treatment needs to meet the anticipated growth of the City; to monitor and regulate industrial waste discharges; and to establish wastewater user fees for properties receiving City wastewater service.

The City has covenanted in the Indenture that, in order to fully preserve and protect the priority and security of the Bonds, it will pay from the Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Wastewater System which, if unpaid, may become a lien or charge upon the Gross Revenues or the Net Revenues prior or superior to the lien granted under the Indenture, or which may otherwise impair the ability of the City to pay Debt Service on the Bonds.

### **Rate Setting and Collection Process**

The City, subject to the requirements of Proposition 218 set forth below, has the power to establish rates and charges for wastewater service as needed, without the overview of any other governmental agency. The present rate schedule for wastewater service rates and charges was established by City Resolution No. 2016-12, which was adopted by the City Council on April 4, 2016 by a four-fifths vote. No rate increases have been proposed or adopted with respect to the issuance of the Bonds. The City also establishes and maintains a schedule of sewer connection fees and fees for other services.

In November 1996, citizens of the State of California passed a Constitutional amendment known as Proposition 218, which added Articles XIIC and XIID to the State Constitution. This amendment changed the process for increasing property-related fees within the State and potentially affects the City's ability to impose future rate increases. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES – California Constitution Articles XIIC and XIID." Proposition 218 conditions the imposition or increase of any wastewater service fee or charge upon there being no written majority protest after a required public hearing.

Under the protest hearing process, property owners within the service area are mailed a rate increase notice and protest form detailing the proposed rate increase. To oppose the rate increase, the property owner must return the protest form to the City. To support the rate increase, there is no action required on the part of the property owner. If written protests against the proposed rate increase are returned to the City no later than the end of the protest hearing by a majority of owners of the identified parcels, the City may not approve the proposed rate increase. If the protest fails with less than a majority protest, then the City can approve a rate increase not to exceed the rate increase detailed in the protest form.

The City believes that it has followed the Proposition 218 process in connection with its wastewater related rate increases last approved on April 4, 2016. See also “RISK FACTORS – Rate Process” herein.

### Largest Wastewater Customers

The following table 5 sets forth the 10 largest customers of the Wastewater System as of June 30, 2016, as determined by total annual wastewater revenue. The top wastewater users accounted for approximately 8.62% of total wastewater billings during this period.

**Table 5  
WASTEWATER SYSTEM**

<b>TEN LARGEST WASTEWATER CUSTOMERS</b>			
<u>Customer</u>	<u>Business Type</u>	<u>Annual Billings<sup>[1]</sup></u>	<u>% of Total Billings</u>
Royal Crest Investors	Mobile Home	\$96,432	02.73%
Fortuna Rehabilitation	Rest/Nursing Home	39,856	01.13
Best Western	Hotel	32,197	00.91
Fortuna Trailer Village	Mobile Home	25,950	00.74
Emeritus Senior Living	Rest/Nursing Home	25,294	00.72
Mountain View Village	Senior Living	22,785	00.65
AWI (Redwood Way Apts)	Apartments	19,330	00.55
Comfort Inn	Hotel	15,503	00.44
Fortuna Family Associates	Apartments	13,482	00.38
Whitney Place	Rest/Nursing Home	<u>13,124</u>	<u>00.37</u>
<b>Total Top 10 Customer Billings<sup>[1]</sup></b>		<b>\$303,953</b>	<b>8.62%</b>
<b>All other Customer Billings<sup>[1]</sup></b>		<b>\$3,222,711</b>	<b>91.38%</b>
<b>Total All Customer Billings<sup>[1]</sup></b>		<b>\$3,526,664</b>	<b>100.00%</b>

[1] Based upon Fiscal Year 2015-16.  
Source: City.

### Comparative Rates

The table below sets forth a comparison of average monthly bill for a single family residential unit in the City to those of surrounding communities, based on rates in effect as of July 1, 2017.

**Table 6  
WASTEWATER SYSTEM**

<b>COMPARISON OF WASTEWATER SYSTEM RATES AND CHARGES</b>	
<b><u>Customer</u></b>	<b><u>Monthly Charge</u></b>

---

*Source: City*

**Delinquent Accounts**

The City considers its rates of payment delinquency, service discontinuance for non-payment and write-offs for uncollectible accounts to be low by wastewater industry standards for urban areas. The write-offs for uncollectible accounts for the last five Fiscal Years have averaged less than \$10,000 annually.

**Future Wastewater System Improvements**

The City has an ongoing capital improvement plan with respect to the Wastewater System in connection with upgrades and replacement of dated facilities, i.e., replacing aging pipelines, wastewater treatment plant upgrades, secondary effluent pump station modifications, effluent filtration improvements, upgrading UV Disinfection, Collection System pump station improvements, upgrading pump stations and their adjacent pipelines, influent pump station modifications, additional emergency storage facilities, and certain other miscellaneous improvements. The City has identified [to come]. The City anticipates funding these improvements from annual revenues, connection fees and other available funds of the Wastewater System; however, the City can incur future long-term indebtedness on parity with Debt Service on the Bonds. See “SECURITY FOR THE BONDS – Issuance of Additional Debt” herein for a discussion of conditions which must be satisfied prior to issuance of any future parity debt.

**Historical Operating Results**

The following Table 7 is a summary of audited operating results of the Wastewater System for Fiscal Years ended June 30, 2013 through 2016. See APPENDIX B for the audited financial statement for the Fiscal Year ended June 30, 2016. The auditor has not reviewed such statements in connection with their inclusion in this Official Statement, nor has the City requested such a review. Selected information from the aforementioned audited financial statements has been used to prepare the following five-year comparative summary of revenues and expenses.

The results presented in the following Table 7 summary are qualified in their entirety by reference to the respective annual consolidated audited financial statements of the City, including the notes thereto. Copies of the audited financial statements for the City's other Fiscal Years can be obtained at the office of the City Manager.

**Table 7  
WASTEWATER SYSTEM**

<b>HISTORICAL OPERATING RESULTS</b>				
	<b>Audited 2013</b>	<b>Audited 2014</b>	<b>Audited 2015</b>	<b>Audited 2016</b>
<b>OPERATING REVENUES</b>				
Charges for Services	\$3,432,893	\$3,490,890	\$3,428,913	\$3,400,885
Capital Impact Fees	115,675	115,570	139,383	157,956
Other Revenues	31,731	39,952	37,910	32,083
Total Operating Revenues	<u>\$3,580,299</u>	<u>\$3,646,412</u>	<u>\$3,606,206</u>	<u>\$3,684,620</u>
<b>OPERATING EXPENSES<sup>[1]</sup></b>				
Salaries and Benefits	\$839,636	\$877,212	\$953,868	\$1,181,946
Purchased Power	288,971	310,942	261,237	212,501
Supplies and Materials	552,373	497,365	586,207	651,536
Total Operating Expenses	<u>\$1,899,319</u>	<u>\$1,685,519</u>	<u>\$1,801,312</u>	<u>2,045,983</u>
Operating Income	\$1,680,980	\$1,960,893	\$1,804,894	\$1,638,637
Nonoperating Revenues (Expenses) <sup>[2]</sup>	454	46,421	105,274	103,551
<b>NET INCOME</b>	\$1,681,434	\$2,007,314	\$1,910,168	\$1,742,188
<b>DEBT SERVICE</b>				
Debt Service on the 2006 Bonds	\$865,148	\$864,073	\$860,321	\$861,072
<b>DEBT SERVICE COVERAGE</b>	<b>1.94</b>	<b>2.32</b>	<b>2.22</b>	<b>2.02</b>

[1] Excludes depreciation of the Wastewater System for purposes of calculating debt service coverage.

[2] Excludes interest paid as debt service on the 2006 Bonds.

Source: City's Audited Financial Statements

### Operating Projections

The City's estimated projected operating results and debt service coverage (adjusted to exclude depreciation, and certain other noted adjustments and assumptions) relating to the Wastewater System for the Fiscal Years ending June 30, 2017, through June 30, 2020, are set forth in the following Table 8, reflecting certain significant assumptions concerning future events and circumstances (the "Coverage Projections"). The financial forecast represented by the Table 8 is the City's estimate of projected financial results based upon its judgment of the probable occurrence of future events. In addition, the assumptions set forth in the footnotes

to Table 8 are material to the development of the City’s financial projections. Variations in the any one of the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. See “RISK FACTORS – Uncertainties of Projections, Forecasts and Assumptions” herein.

**Table 8  
WASTEWATER SYSTEM**

<b>PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE</b>				
	<b>Unaudited Fiscal Year 2017</b>	<b>Budgeted Fiscal Year 2018</b>	<b>Projected Fiscal Year 2019</b>	<b>Projected Fiscal Year 2020</b>
<b>OPERATING REVENUES</b>				
User Fees and Charges <sup>[1]</sup>				
Connection Fees				
Total Operating Revenues				
<b>OPERATING EXPENSES<sup>[2]</sup></b>				
Salaries & Benefits				
Services & Supplies				
Maintenance				
Total Operating Expenses				
Operating Income				
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest Income				
Total Nonoperating Revenues				
(Expenses)				
Net Income/(loss) Before Transfers				
Operating Transfers In/(Out)				
<b>NET INCOME AVAILABLE FOR</b>				
<b>DEBT SERVICE (ADJUSTED)</b>				
2006 Bonds				
2016 Bonds				
<b>Total Debt Service</b>				
<b>DEBT SERVICE COVERAGE</b>				

[1] User Fees and Charges based upon adopted rate increases, assuming no growth in customer accounts.

[2] Operating Expenses based upon adopted rate study, and excludes depreciation of the Wastewater System for purposes of calculating debt service coverage.

Source: City

## **CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES**

### **California Constitution Articles XIII A and XIII B**

Article XIII A of the California Constitution limits the taxing powers of California public agencies. Article XIII A provides that the maximum ad valorem tax on real property cannot exceed 1% of the “full cash value” of the property, and effectively prohibits the levying of any other ad valorem property tax except for taxes above that level required to pay debt service on voter-approved general obligation bonds. “Full cash value” is defined as “the County Assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value’ or, thereafter, the appraisal value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The “full cash value” is subject to annual adjustment to reflect inflation at a rate not to exceed 2% or a reduction in the consumer price index or comparable local data, or declining property value caused by damage, destruction or other factors.

The foregoing limitation does not apply to ad valorem taxes to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property thereafter approved by the voters as required by law.

Under Article XIII B of the California Constitution, state and local government entities have an annual “appropriations limit” which limits their ability to spend certain moneys called “appropriations subject to limitation,” which consist of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge.

The City is of the opinion that the respective water and wastewater service and user charges imposed by the City do not exceed the costs the City reasonably bears in providing the respective water and wastewater services. In general terms, the “appropriations limit” is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population, and services provided by these entities. Among other provisions of Article XIII B, if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

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

On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the California Constitution, which contain a number of provisions affecting the ability of local governments to levy and collect new or increased taxes, assessments, and property-related fees and charges.

Article XIII C provides that a local government may not impose, extend, or increase local taxes until such taxes are submitted to the electorate for approval. General taxes, imposed, extended, or increased for general governmental purposes of the local government, require a majority vote and special taxes, imposed, extended, or increased for specific purposes, require a two-thirds vote.

In addition, Article XIIC provides that the constitutional initiative power will not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges. However, on July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states: "Section 3 of Article XIIC of the California Constitution, as adopted at the November 5, 1996 general election, will not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protection by Section 10 of Article I of the United States Constitution." Government Code Section 5854 appears to limit the voters' power to repeal or reduce Wastewater System fees and charges if such reduction would interfere with the City's payment of Debt Service on the Bonds. If Government Code Section 5854 becomes the subject of a challenge, however, no guarantee can be made that the courts will agree with such interpretation.

Article XIIC does not define the terms "local tax," "assessment," "fee" or "charge." In *Bighorn-Desert View Water Agency v. Verjil* ("Bighorn"), 39 Cal. 4th 205 (2006), decided by the California Supreme Court on July 24, 2006, the petitioner sought to establish his right to reduce a local water agency's water delivery charges through use of the initiative power. In holding for the petitioner on this issue, the court stated that the absence of a restrictive definition of "fee" or "charge" in Article XIIC suggests that those terms include all levies that are ordinarily understood to be fees or charges, including all of the property-related fees and charges subject to Article XIID. Though the Supreme Court did not arrive at an exact definition of such terms, it did determine that fees and charges that are fees and charges within the meaning of Article XIID are necessarily fees and charges within the meaning of Article XIIC.

The Court held that Article XIIC authorizes the use of the initiative process to reduce water delivery charges but that it does not authorize use of the initiative power to impose a voter-approval requirement on future increases in water delivery charges. The court declined to determine whether the initiative power is limited by other statutory provisions requiring that water service charges be set at a level that will pay system operating expenses and debt service since that issue was not before the court.

Consequently, the voters of the City could, by future initiative, seek to repeal or reduce any local tax, assessment, fee or charge, including the City's water and wastewater service fees and charges, which are the source of Net Revenues pledged to the payment of Debt Service on the Bonds. Though the use of the initiative power is arguably limited in a case such as this where fees and charges have been imposed by the City for services of the Wastewater System that are pledged to the payment of Debt Service on the Bonds, there can be no assurance that the voters of the City will not seek to approve such an initiative which attempts to reduce the fees and charges imposed by the City for services of the Wastewater System that are pledged to the payment of Debt Service on the Bonds.

Article XIID imposes various procedural and substantive requirements on local governments that levy an "assessment," "fee," or "charge." Article XIID defines "fees" or "charges" 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 a user fee or charge for a property related service." "Property related service" means a public service having a direct relationship to property ownership (property ownership includes tenancies where tenants are directly liable to pay the fee or charge). In particular, a fee or charge (i) may not exceed the funds required to provide the property related service, (ii) may not be used for any purpose other than that for which the fee or charge was imposed, (iii) may not exceed the proportional

cost of the service attributable to the parcel, (iv) may not be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question, and (v) may not be imposed for general governmental services.

In addition, before any property related fee or charge may be imposed or increased, the local government agency must provide mailed notice forty-five (45) days in advance of a hearing regarding the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the local government agency may not impose or increase the fee or charge. Moreover, except for fees or charges for water, wastewater, and refuse collection services (or fees for electrical and gas service, which are expressly exempted from Proposition 218), no property related fee or charge may be imposed or increased without a majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds approval by those residing in the affected area and voting at the election. Article XIID states that, beginning July 1, 1997, all fees or charges must comply with its provisions.

In *Richmond et al. v. Shasta Community Services City* (“Richmond”), the California Supreme Court held that a water connection fee was not a “property-related” fee or charge subject to Article XIID. However, in the opinion the California Supreme Court suggested in dicta that fees for ongoing water service through an existing connection were “property related” fees and charges imposed on a person as an incident of property ownership. The court addressed this issue directly in the *Bighorn* case discussed above. In its decision, the court cited its discussion in *Richmond* in support of its conclusion that a public agency’s fees and charges for ongoing water service through an existing connection are “property-related” fees and charges imposed on a person as an incident of property ownership for purposes of Article XIID, whether the fees and charges are calculated based on usage or are imposed as a fixed monthly fee.

The City believes that it has complied with the procedures required by Article XIID, as such article has been construed by the California Supreme Court, in connection with the increases in the Wastewater fees and charges approved by the City Council of the City on April 4, 2016. See “THE WASTEWATER SYSTEM – Rate Setting and Collection Process” herein.

The ability of the City to comply with the covenants in each of the Indenture, including the rate covenants described under “SECURITY FOR THE BONDS – Rate Covenant,” in connection with the levy and collection of Wastewater System service charges could be adversely affected by actions taken or not taken by voters, property owners or other persons obligated to pay Wastewater System service charges. Furthermore, the interpretation and application of Proposition 218 will likely be subject to further judicial determinations, and it is not possible at this time to predict with certainty the outcome of such determinations. See also “RISK FACTORS – Rate Process” herein.

## **Proposition 26**

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIIC of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege;

(2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. The City does not believe that the enactment of Proposition 26 will affect its ability to levy rates and charges for wastewater services.

### **Future Initiatives**

Articles XIII A, XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the Wastewater System revenues, including the ability to increase or expend such revenues.

### **RISK FACTORS**

*The purchase of the Bonds involves investment risk. If a risk factor materialized to a sufficient degree, it could delay or prevent payment of principal of and interest on the Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various issues. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors. There can be no assurance that other risk factors will not become material in the future.*

### **General**

The payment of principal of and interest on the Bonds is secured solely by a pledge of the Net Revenues and other payments paid by the City pursuant to the Indenture. The obligation of the City to make the Debt Service on the Bonds is a limited obligation of the City payable solely from a pledge of Net Revenues. The realization of the Net Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide wastewater services to its users, and the ability of the City to establish and maintain wastewater fees and charges sufficient to provide the required debt service coverage as well as pay for Maintenance and Operation Costs. Among other matters, natural disasters, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums) could adversely affect the amount of Net Revenues realized by the City.

## **Accuracy of Assumptions**

To estimate projected financial results of the Wastewater System, including the Coverage Projections set forth in Table 8, and the corresponding projected Net Revenues available to pay debt service on the Bonds, the City has made certain financial forecasts and assumptions with regard to the rates and charges to be imposed in future years, estimated foreseeable Parity Debt, the expenses associated with Wastewater System operations and the interest rate at which funds will be invested.

The City believes these financial forecasts and assumptions to be reasonable, but variations in the any one of the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those forecasted and such variations may be material, with a possible result being that Net Revenues may prove to be significantly less than projected in this Official Statement. Accordingly, such assumptions and projections are at best educated estimates, and are not in any way a guaranty of future performance, and the City assumes no responsibility for the accuracy of such financial forecasts and projections.

## **Limited Obligation**

The obligation of the City to pay Debt Service on the Bonds is a limited obligation of the City and is not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net Revenues. The obligation of the City to Debt Service on the Bonds does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. No owner of any Bond may compel the exercise of the taxing power by the City or the forfeiture of any of its property.

## **Limited Recourse on Default**

If the City defaults on its obligation to make payment on the Bonds, the Trustee has the right to accelerate the total unpaid principal amount of the Bonds. However, in the event of a default and such acceleration, there can be no assurance that the City will have sufficient Net Revenues to pay the accelerated unpaid principal amount of the Bonds.

## **Increased Maintenance and Operation Costs**

There can be no assurance that expenses of the City with respect to the Wastewater System will be consistent with the levels contemplated in this Official Statement. Maintenance and Operation Costs could increase at higher rates than currently expected as a result of various factors, including increases in personnel costs, energy costs, chemical costs, pumping costs, technology, safety or regulatory costs, unforeseen costs associated with spills or other accidents involving the Wastewater System, and other factors beyond the City's control.

Increases in Maintenance and Operation Costs could require an increase in rates or charges in order to comply with the Rate Covenants in the Indenture. There can be no assurance that such future rate increases, if necessary, will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. See "RISK FACTORS – Rate Covenant" herein.

## **Project Management**

The City has agreed under the Indenture to maintain and operate the Wastewater System in an efficient and economical manner and to operate, maintain and preserve the Wastewater System in good repair and working order. Should management prove deficient, it is possible that the Wastewater System could fall into disrepair, possibly to levels that would require significant rate increases to properly remediate conditions. The City has covenanted to prescribe, revise and collect rates and charges for the Wastewater System at certain levels; however, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to make timely payments with respect to the Bonds. Additionally, the ability of the City to comply with its covenants under the Indenture, and to generate Net Revenues sufficient to pay principal of and interest on the Bonds, may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES” herein. Any remedies available to the owners of the Bonds, upon the occurrence of an event of default under the Indenture, are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. See “Limitations on Remedies and Bankruptcy.”

## **Financial Controls**

The City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City, including the Wastewater System, are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. While the City believes that it has established an internal control structure designed to protect against such events, no assurance can be given as to the adequacy of thereof, or any insurance coverage related thereto. If there were to be an occurrence of a loss, theft, or misappropriation, there could be a substantial reduction in the City’s ability to pay Debt Service on the Bonds.

## **Insurance**

The Indenture requires the City to obtain and keep in force various forms of insurance or self-insurance, subject to deductibles, for repair or replacement of applicable portions of the Wastewater System in the event of damage or destruction thereto. 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 such applicable portions of the Wastewater System. Significant damage to the Wastewater System could result in a lack of the ability to generate sufficient Net Revenues to repay the Bonds.

Further, the City is not legally obligated under the Indenture to maintain, or cause to be maintained, earthquake or flood insurance on either the Wastewater System, and the City does not presently maintain earthquake or flood insurance on behalf of the Wastewater System. No assurance is made that any earthquake or flood insurance will be provided in the future, or if provided, that such insurance will continue to be maintained in the future. If there were to be an occurrence of a flood or severe seismic activity in the City,

there could be substantial damage to the Wastewater System, the cost of repair of which could exceed the net equity available therefore. In the event of significant flood or earthquake damage to the Wastewater System, there can be no assurance that Net Revenues would be sufficient to pay principal of and interest on the Bonds.

### **Limitations on Remedies and Bankruptcy**

The ability of the City to increase wastewater service charges and to comply with its covenants under the Indenture and to generate Net Revenues in amounts sufficient to pay Debt Service on the Bonds may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitution Articles XIIC and XIID” herein.

Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the Bonds may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against municipalities in the State of California. Various legal opinions to be delivered concurrently with the issuance of the Bonds will be so qualified. In addition, the opinion to be delivered by Bond Counsel concurrently with the issuance of the Bonds, will also state that the enforceability of the Indenture is subject to the limitations on the imposition of fees and charges by the City relating to the Wastewater System, under Article XIIC and XIID of the California Constitution. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto. In the event the City fails to comply with its covenants under the Indenture or to pay Debt Service on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Bonds.

As noted above, the enforcement of the remedies provided in the Indenture and the Indenture could prove both expensive and time consuming. In addition, the rights and remedies provided in the Indenture may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors’ rights. If the City were to file a petition under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), the Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Indenture. So long as the Bonds are held in book-entry form, DTC (or its nominee) will be the sole registered Bondholder and will be entitled to exercise all rights and remedies of Bondholders.

### **Physical Condition of Wastewater System Facilities**

The reliability of the Wastewater System is affected by a number of factors including physical and operational vulnerabilities of its facilities. Certain of the Wastewater System facilities are near the end of their useful life. Long-lived facilities result in decreased reliability due to unplanned outages and place a greater maintenance burden on operations. The City budgets for the maintenance and operations of its facilities; however, the City gives no assurance that any future significant diminished physical status of its facilities

would not materially adversely affect the operations of the Wastewater System. Partial or complete failure of components of the Wastewater System could cause a material increase in costs for repairs or a corresponding material adverse impact on Net Revenues.

### **Energy Costs**

No assurance can be given that any future significant reduction or loss of power would not materially adversely affect the operations of the Wastewater System. The volume of wastewater processed and treated in the Wastewater System on a daily basis requires a significant amount of power. Electricity is needed to run several assets including, among other things, pumps, lights, computers, mechanical valves and machinery. The City cannot guarantee that prices for electricity or gas will not increase, which could adversely affect the Wastewater System's financial condition. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitution Articles XIII C and XIII D" herein.

### **Statutory and Regulatory Impact**

Laws and regulations governing treatment and disposal of wastewater are enacted and promulgated by government agencies on the federal, state and local levels. Compliance with these laws and regulations may be extremely costly, and, as more stringent standards are developed to protect the environment, these costs will likely increase.

Claims against the City for violations of regulations with respect to its facilities and services could be significant. Such claims are payable from assets of the Wastewater System or from other legally available sources. Although the City has covenanted in the Indenture to fix, prescribe and collect rates, fees and charges during each Fiscal Year at specified levels, no assurance can be given that the cost of compliance with such laws and regulations will not materially adversely affect the ability of the City to generate Net Revenues in the amounts required by the Indenture to pay Debt Service on the Bonds. Certain potential increasing regulatory standards could materially increase the cost to the City of providing sewer services.

### **Permit Renewal**

The City's current State Permit expires in October 30, 2022. While the City does not anticipate that the discharge limits and other requirements will be significantly different in the new State Permit when it is issued, there can be no assurances that significant new and potentially more stringent conditions and requirements on the operations of the Wastewater System will not be imposed in connection with such renewal more stringent conditions could result in significant increases in capital and/or operating costs.

### **Natural Disasters**

The area in and surrounding the City, like those in much of California, may be subject to unpredictable droughts, storms, floods, fires, soil expansion and liquefaction and seismic activity that could negatively affect the value of the Wastewater System, as well as other assets of the City. The possibility of the occurrence of some of these conditions and events has not been taken into account in the design of the Wastewater System and has not been taken into account in the designs of other public improvements which may be acquired or constructed by the City or other public agencies.

The City expects that one or more of these conditions will likely occur in the future, and, even if design criteria have been implemented to mitigate certain geologic events, which may or may not prove to be the case, such conditions may nevertheless result in damage to or destruction of part or all of the Wastewater System. If there were to be an occurrence of a severe geotechnical condition or natural disaster in the area of the City, there could be an interruption in the service provided by the Wastewater System resulting in a reduction in the amount of Net Revenues available to pay Debt Service on the Bonds. Further, damage to components of the Wastewater System could cause a material increase in costs for repairs or a corresponding material adverse impact on respective Net Revenues.

### **Safety and Security**

The safety of the facilities of the Wastewater System is maintained by a combination of regular inspections by City employees, electronic monitoring, and analysis of unusual incident reports. All above-ground facilities operated and maintained by the City, are controlled access facilities with fencing and gates. Despite the security measures and precautions that are in place, military conflicts and terrorist activities could adversely impact operations of the Wastewater System and the finances of the City.

The City continually plans and prepares for emergency situations and immediately responds to ensure services are maintained. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the assets of the Wastewater System or that costs of security measures will not be greater than presently anticipated. Furthermore, damage to the Wastewater System could require the City to increase expenditures for repairs significantly enough to adversely impact the City's ability to pay Debt Service on the Bonds.

### **Economic, Political, Social, and Environmental Conditions**

Prospective investors are encouraged to evaluate current and prospective economic, political, social, and environmental conditions as part of an informed investment decision. Changes in economic, political, social, or environmental conditions on a local, state, federal, and/or international level may adversely affect investment risk generally.

Such conditional changes may include (but are not limited to): fluctuations in business production, consumer prices, financial markets, or unemployment rates; technological advancements; shortages or surpluses in natural resources or energy supplies; changes in law; social unrest, fluctuations in the crime rate, political conflict, acts of war or terrorism; environmental damage; and natural disasters.

### **Rate Process**

The passage of Proposition 218 by the California electorate, which added Articles XIIC and XIID to the California Constitution, affects the City's ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or initiative action under Proposition 218. In the event that future proposed rate increases cannot be imposed as a result of a majority protest or initiative, it may adversely affect the ability of the City to generate Net Revenues in the amounts required by the Indenture to pay Debt Service on the Bonds. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitution Articles XIIC and XIID."

The City's ability to comply with the rate covenant under the Indenture may also be limited by the provisions of Proposition 218. The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the issues. The City does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard. Interim rulings, final decisions, legislative proposals and legislative enactments may all affect the impact of Proposition 218 on the Bonds as well as the market for the Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of Proposition 218.

### **Investment of Funds**

All funds and accounts held under the Indenture are required to be invested in Authorized Investments as provided under the Indenture. See APPENDIX A attached hereto for a summary of the definition of Authorized Investments. All investments, including the Authorized Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, loss of market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture or by the City could have a material adverse effect on the security of the Bonds.

### **Secondary Market Risk**

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse historical 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.

### **Loss of Tax Exemption**

As discussed under the caption "TAX MATTERS," interest on the Bonds could fail to be excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for purposes of federal income taxation, in some cases retroactive to the date of execution and delivery of the Bonds, as a result of future acts or omissions of the City in violation of certain covenants contained in the Indenture. Should such an event of taxability occur, the Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed pursuant to the Indenture.

In addition, Congress has considered in the past, is currently considering and may consider in the future, legislative proposals, including some that carry retroactive effective dates that, if enacted, would alter or eliminate the exclusion from gross income for federal income tax purposes of interest on municipal bonds, such as the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. The City can provide no assurance that federal tax law will not change while the Bonds are outstanding or that any such changes will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes. If the exclusion of interest on the Bonds from gross income for federal income tax purposes were amended or eliminated, it is likely that the market price for the Bonds would be adversely impacted.

## **IRS Audit**

The Internal Revenue Service (the “IRS”) has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Tax Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

## **Uncertainties of Projections, Forecasts and Assumptions**

Compliance with certain of the covenants contained in the Indenture is based upon assumptions and projections. Projections and assumptions are inherently subject to significant uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur and actual results are likely to differ, perhaps materially, from those projected. Accordingly, such projections are not necessarily indicative of future performance, and the City assumes no responsibility for the accuracy of such projections.

## **FINANCIAL STATEMENTS**

Attached as APPENDIX B are the audited financial statements of the City (the “Financial Statements”) for Fiscal Year 2015-16, which include financial statements for the Wastewater System, prepared by the City’s Finance Department and audited by Terry E. Krieg, CPA, Santa Rosa, California (the “Auditor”).

The Auditor’s letter concludes that the Financial Statements, as presented, are accurate in all material respects and are presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. The Financial Statements include information regarding other certain funds of the City, which are not pledged to pay Debt Service on the Bonds.

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

## **TAX MATTERS**

In the opinion of The Weist Law Firm, Scotts Valley, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the Bonds. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “original issue premium” for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium 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 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

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

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

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative

proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

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

### **CERTAIN LEGAL MATTERS**

The Weist Law Firm, Scotts Valley, California, Bond Counsel, will render an opinion with respect to the validity of the Bonds, the form of which opinion is set forth in APPENDIX E. Certain legal matters will also be passed upon for the City by The Weist Law Firm, as Disclosure Counsel. Certain legal matters will be passed upon for the City by the City Attorney.

### **CONTINUING DISCLOSURE**

The City has covenanted in a Continuing Disclosure Certificate for the benefit of the Owners and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City's Wastewater System by not later than nine months following the end of the City's Fiscal Year (currently, the City's fiscal year ends on June 30), commencing with the report of Fiscal Year ending June 30, 2017 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. Such Annual Reports and notices of enumerated events are required to be filed with EMMA. The specific nature of the information to be contained in the Annual Report and the notice of enumerated events is described in "Appendix C – FORM OF CONTINUING DISCLOSURE CERTIFICATE," hereto. These covenants have been made in order to assist the Underwriter in complying with the Rule.

Pursuant to the continuing disclosure certificate relating to the 2006 Bonds, the City agreed to provide certain financial information and operating data relating to the City's Wastewater System by not later than March 31 of each year. As of the date hereof, the City is in compliance in all material respects with its continuing disclosure undertakings for the last five years, except as described below.

The City and its related governmental entities have previously entered into several disclosure undertakings under the Rule in connection with the issuance of long-term obligations. During the past five years, the City and its related entities have failed to materially comply with their respective undertakings. In particular, \_\_\_\_\_.

Each of the Annual Reports, audited financial statements and event notices were subsequently filed. Accordingly, the City believes it is currently in compliance with its existing continuing disclosure undertakings.

The City has adopted necessary policies and procedures and has retained \_\_\_\_\_ to provide continuing disclosure services to ensure compliance with the continuing disclosure undertakings of the City, and its related entities, in the future.

## **LITIGATION**

To the best knowledge of the City there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the City to restrain or enjoin the authorization, execution or delivery of the Bonds, the pledge of Net Revenues or the collection of the payments to be made pursuant to the Indenture, the obligation of the City to pay Debt Service on the Bonds made pursuant to the Indenture, or in any way contesting or affecting validity of the Bonds, the Indenture, or the agreement for the sale of the Bonds.

The City is engaged in routine litigation incidental to the conduct of its business. However, there is no litigation pending or threatened against the City which, in the opinion of the City Attorney, would materially adversely affect the Wastewater System or the sources of payment for the Bonds.

## **RATING**

S&P Global Ratings (“S&P”) has assigned an underlying municipal bond rating of “\_\_” to the Bonds. Such rating reflects only the view of S&P and any desired explanation of the significance of such rating should be obtained from S&P. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. The City and the Underwriter have undertaken no responsibility either to bring to the attention of the Owners of the Bonds any proposed change in or withdrawal of the rating or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of the rating might have an adverse effect on the market price or marketability of the Bonds.

## **MUNICIPAL ADVISOR**

The City has retained Public Financial Management Inc. (the “Municipal Advisor”) in connection with the issuance of the Bonds. The Municipal Advisor is a financial advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Municipal Advisor will receive compensation from the City contingent upon the sale and delivery of the Bonds.

## **UNDERWRITING**

The Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the “Underwriter”). The Underwriter has agreed to purchase the Bonds at a price of \$ \_\_\_\_\_ (which price is equal to the

[\$Par Amount] aggregate principal amount of the Bonds, [plus] [less] net Original Issue [Premium] [Discount] of \$ \_\_\_\_\_, and less Underwriter's Discount of \$ \_\_\_\_\_).

The Bond Purchase Contract pursuant to which the Underwriter has agreed to purchase the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Contract, including the approval of certain legal matters by counsel and certain other conditions.

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

### **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Upon delivery of the Bonds, \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, independent certified public accountants, will deliver a report stating that the firm has verified the mathematical accuracy of certain computations relating to the adequacy of the amounts deposited pursuant to the Escrow Agreement to pay the applicable redemption price of and accrued interest on, the 2006 Bonds on their respective payment and redemption dates.

### **MISCELLANEOUS**

So far as any statements made in this Official Statement involve matters of opinion, assumptions, projections, anticipated events or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and actual results may differ substantially from those set forth herein. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the Bonds.

The summaries of certain provisions of the Bonds, statutes and other documents or agreements referred to in this Official Statement do not purport to be complete, and interested parties must refer to each of them for a complete statement of their provisions. Copies are available for review by making requests to the City.

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement. The audited financial statements of the City (including financial statements of the City's Wastewater System), including a summary of significant accounting policies, for the Fiscal Year ended June 30, 2016 is contained in APPENDIX B.

**EXECUTION AND DELIVERY**

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

CITY OF FORTUNA, CALIFORNIA

By:  /s/ \_\_\_\_\_

## APPENDIX A

### SUMMARY OF INDENTURE

*Certain provisions of the Indenture are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture. In the event of a conflict between this summary and the Indenture, the terms of the Indenture shall govern.*

**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2015-16**

## APPENDIX C

### FORM OF THE CONTINUING DISCLOSURE CERTIFICATE

*Upon issuance of the Bonds, the City proposes to enter into a Continuing Disclosure Certificate in substantially the following form:*

This Continuing Disclosure Certificate (the “Disclosure Certificate”), dated as of September 1, 2017, is executed and delivered by the City of Fortuna (the “City”) and \_\_\_\_\_, as dissemination agent (the “Disclosure Dissemination Agent”), for the benefit of the Beneficial Owner (hereinafter defined) of the \$[Par Amount] City of Fortuna, Series 2017 Wastewater Revenue Refunding Bonds (Wastewater Enterprise Project) (the “Bonds”) in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “Rule”).

The City and the Disclosure Dissemination Agent covenant and agree as follows:

SECTION 1. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Financial Information*” means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Certificate.

“*Annual Report*” means an Annual Report described in and consistent with Section 3 of this Disclosure Certificate.

“*Annual Filing Date*” means the date, set forth in Section 2(a) and Section 2(f), by which the Annual Report is to be filed with the MSRB.

“*Audited Financial Statements*” means the financial statements (if any) of the City for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(b) of this Disclosure Certificate.

“*Beneficial Owner*” means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“*Bonds*” means the \$[Par Amount] City of Fortuna, Series 2017 Wastewater Revenue Refunding Bonds (Wastewater Enterprise Project) issued pursuant to the Indenture.

“*Certification*” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice delivered to the Disclosure Dissemination Agent is the Annual

Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice, required to be submitted to the MSRB under this Disclosure Certificate. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the City and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“*City*” means the City of Fortuna, California.

“*Disclosure Representative*” means the Finance Director of the City or his or her designee, or such other person as the City shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“*Disclosure Dissemination Agent*” means \_\_\_\_\_, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the City.

“*Failure to File Event*” means the City’s failure to file an Annual Report on or before the Annual Filing Date.

“*Force Majeure Event*” means: (i) acts of God, war, or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access system maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent’s reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Certificate.

“*Indenture*” means the Indenture of Trust, dated as of September 1, 2017 (the “*Indenture*”), by and between the City and U.S. Bank National Association, as trustee thereunder.

“*Information*” means, collectively, the Annual Reports, the Audited Financial Statements (if any), the Notice Event notices, and the Failure to File Event notices.

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

“*MSRB*” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Marketplace Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“*Notice Event*” means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Certificate.

“*Obligated Person*” means any person, including the City, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities). With respect to the Bonds, only the City constitutes the Obligated Person.

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

“*Participating Underwriter*” means Stifel, Nicolaus & Company, Incorporated, the original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

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

“*State*” means the State of California.

“*Trustee*” means U.S. Bank National Association, as trustee under the Indenture, or any successor Trustee designated in writing by the City.

## SECTION 2. Provision of Annual Reports and Other Disclosures.

(a) The City shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent not later than nine months after the end of the City’s Fiscal Year (currently March 31 based on the City’s Fiscal Year end of June 30), commencing with the Annual Report for the Fiscal Year ended June 30, 2017. Such date and each anniversary thereof is the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide such Annual Report to the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Certificate.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the City of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the City will not be able to file the Annual Report within the time required under this Disclosure Certificate, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent that

a Failure to File Event has occurred and to immediately send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 6:00 p.m. Eastern time on the Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the City irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to the MSRB in substantially the form attached as Exhibit A without reference to the anticipated filing date for the Annual Report.

(d) If Audited Financial Statements of the City are prepared but not available prior to the Annual Filing Date, the City shall, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

(i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;

(ii) upon receipt, promptly file each Annual Report received under Sections 2(a) and 2(b) with the MSRB;

(iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with the MSRB;

(iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) with the MSRB, identifying the Notice Event as instructed by the City pursuant to Section 4(a) or 4(b)(ii) (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Certificate:

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, IRS notices or events affecting the tax status of the security;"
7. "Modifications to rights of securities holders, if material;"

8. “Bond calls, if material;”
9. “Defeasances;”
10. “Release, substitution, or sale of property securing repayment of the securities, if material;”
11. “Rating changes;”
12. “Tender offers;”
13. “Bankruptcy, insolvency, receivership or similar event of the obligated person;”
14. “Merger, consolidation, or acquisition of the obligated person, if material;” and
15. “Appointment of a successor or additional trustee, or the change of name of a trustee, if material;”

(v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Certificate, as applicable), promptly file a completed copy of Exhibit A to this Disclosure Certificate with the MSRB, identifying the filing as “Failure to provide annual financial information as required” when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Certificate;

(f) The City may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) Any Information received by the Disclosure Dissemination Agent before 6:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Certificate and that is accompanied by a Certification and all other information required by the terms of this Disclosure Certificate will be filed by the Disclosure Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

### SECTION 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information consisting of updated information comparable to the information in the following tables as they appear in Official Statement:

1. Information in the form of Table \_ of the Official Statement concerning operating revenues and expenses of the Wastewater System for the then-preceding fiscal year, including Net Revenue of the Wastewater System and debt service coverage.
2. The outstanding principal amount of the Bonds and any Parity Debt as of June 30 of the most recently completed fiscal year.
3. A description of any Parity Debt issued during the most recently completed fiscal year.
4. A description of any changes in Wastewater System rates and charges adopted by the City Council during the most recently completed fiscal year.
5. Information for the most recently-completed fiscal year in the form of Table \_ of the Official Statement (Ten Largest Wastewater Customers).

(b) Audited Financial Statements prepared in accordance with generally accepted accounting principles (“GAAP”) as described in the Official Statement will also be included in the Annual Report. If audited financial statements are not available, then, unaudited financial statements, prepared in accordance with GAAP as described in the Official Statement will be included in the Annual Report. Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the City is an Obligated Person, which have been previously filed with the Securities and Exchange Commission or available to the public on the MSRB Internet website. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The City will clearly identify each such document so incorporated by reference.

Any Annual Financial Information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

#### SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events with respect to the Bonds constitutes a Notice Event:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

7. Modifications to rights of Bond holders, if material;

8. Bond calls, if material, and tender offers;

9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the Bonds, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the Obligated Person (*Note to subsection (a)(12) of this Section 4*: For the purposes of the event described in this subsection (a)(12) of Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, 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 Obligated Person);

13. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The City shall, in a timely manner not in excess of ten business days after its occurrence, notify the Disclosure Dissemination Agent in writing of the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Certificate), include the text of the disclosure that the City desires to make, contain the written authorization of the City for the Disclosure Dissemination Agent to disseminate such information, and identify the date the City desires for the Disclosure

Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the City or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within two business days of receipt of such notice (but in any event in a timely manner not later than the tenth business day after the occurrence of the Notice Event, if the City determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Certificate), include the text of the disclosure that the City desires to make, contain the written authorization of the City for the Disclosure Dissemination Agent to disseminate such information, and identify the date the City desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed by the City as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with the MSRB in accordance with Section 2(e)(iv) hereof.

SECTION 5. CUSIP Numbers. Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements, Notice Event notices, and Failure to File Event notices, the City shall indicate the full name of the Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided information relates.

SECTION 6. Additional Disclosure Obligations. The City acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the City, and that the failure of the Disclosure Dissemination Agent to so advise the City shall not constitute a breach by the Disclosure Dissemination Agent of any of its duties and responsibilities under this Disclosure Certificate. The City acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Certificate.

SECTION 7. Voluntary Filings. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Certificate or including any other information in any Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice, in addition to that required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice 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, Audited Financial Statements, Notice Event notice, or Failure to File Event notice.

SECTION 8. Termination of Reporting Obligation. The obligations of the City and the Disclosure Dissemination Agent under this Disclosure Certificate shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the City is no longer an Obligated Person with respect to such Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required with respect to such Bonds.

SECTION 9. Disclosure Dissemination Agent. The City has appointed \_\_\_\_\_ as the initial Disclosure Dissemination Agent under this Disclosure Certificate. The City may, upon thirty days written notice to the Disclosure Dissemination Agent, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of the Disclosure Dissemination Agent, whether by notice of the City or the Disclosure Dissemination Agent, the City agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Certificate for the benefit of the Beneficial Owners of the Bonds. Notwithstanding any replacement or appointment of a successor, the City shall remain liable, until payment in full, for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the City.

SECTION 10. Remedies in Event of Default. In the event of a failure of the City or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Certificate, the Beneficial Owners' rights to enforce the provisions of this Disclosure Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Certificate. Any failure by a party to perform in accordance with this Disclosure Certificate shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) Article VII of the Indenture is hereby made applicable to this Disclosure Certificate as if this Disclosure Certificate were (solely for this purpose) contained in the Indenture. The Disclosure Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement and the City agrees to indemnify and save the Disclosure Dissemination Agent, the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of the disclosure of information pursuant to this Disclosure Certificate or 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 Disclosure Dissemination Agent's negligence or willful misconduct. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the City has provided such information to the

Disclosure Dissemination Agent as required by this Disclosure Certificate. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the City and shall not be deemed to be acting in any fiduciary capacity for the City, the Beneficial Owners of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the City's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the City has complied with this Disclosure Certificate. The Disclosure Dissemination Agent may conclusively rely upon certifications of the City at all times.

The obligations of the City under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the City.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Disclosure Certificate shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City and the Disclosure Dissemination Agent may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the City and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Beneficial Owners of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the City nor the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Certificate necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days prior written notice of the intent to do so together with a copy of the proposed amendment to the City. No such amendment shall become effective until counsel to the City of nationally recognized standing in the field of law relating to municipal bonds determines in writing that such amendments are necessary to comply with modifications to and interpretations of the provisions of the Rule as

announced by the Securities and Exchange Commission, or if the City shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Trustee of the Bonds, the Disclosure Dissemination Agent, the participating underwriters (as defined in the Rule), and the Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Certificate shall be governed by the laws of the State of California (other than with respect to conflicts of laws).

SECTION 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

The Disclosure Dissemination Agent and the City have caused this Disclosure Certificate to be executed, on the date first written above, by their respective officers duly authorized.

**CITY OF FORTUNA, CALIFORNIA**  
As Obligated Person

By: \_\_\_\_\_  
Finance Director

\_\_\_\_\_,  
As Disclosure Dissemination Agent

By: \_\_\_\_\_  
Authorized Signatory

**EXHIBIT A**

**NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: City of Fortuna  
Obligated Person: City of Fortuna  
Name of Issue: \$[Par Amount]  
City of Fortuna  
Series 2017 Wastewater Revenue Refunding Bonds  
(Wastewater Enterprise Project)  
Date of Issuance: September \_\_, 2017

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate between the City and the Disclosure Dissemination Agent named therein. The City has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

\_\_\_\_\_,  
as Disclosure Dissemination Agent  
on behalf of the City

## APPENDIX D

### GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA

*The following information, unless otherwise cited, was directly transcribed from material provided by the City of Fortuna, the County of Humboldt, and the area Chamber of Commerce. The following information is intended to merely provide the reader with a better understanding of certain socioeconomic and demographic characteristics of the City and surrounding area. The information set forth in this Appendix “D” has not been researched for accuracy or veracity. The Bonds are limited obligations of the City and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the City or any of its income or receipts, except the Net Revenues. The full faith and credit of City is not pledged for the payment of the interest on or principal of the Bonds and no tax or other source of funds, other than the Net Revenues, is pledged to pay the interest on or principal of the Bonds. The payment of principal of or interest on the Bonds does not constitute a debt, liability or obligation of the City for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation. See “SECURITY FOR THE BONDS” in the forepart of this Official Statement.*

#### **General**

**The City.** The City of Fortuna (the “City”) encompasses approximately five square miles and is located in Humboldt County (the “County”), approximately 18 miles south of Eureka and 250 miles north of San Francisco on U.S. Highway 101. The City was incorporated on February 20, 1906 as a general law city, and became a charter city in 1996. Fortuna is surrounded by national, state and county redwood parks, and is the gateway to the redwood forests of Northern California.

**The County.** The County is the largest and most populous of the north coast counties, encompassing 2.3 million acres, 80 percent of which is forest lands, protected redwoods and recreation areas. The County has approximately 110 miles of coastline—more than any other county in the State. The County was created from the western portion of Trinity County in 1853. The County’s name is derived from Humboldt Bay. Originally discovered in 1806 by a hunting party, the bay was not rediscovered until 1849 and then named in honor of the naturalist and explorer Baron Alexander Von Humboldt. The County is home to the biggest and oldest redwood trees in the world. Natural resources also make the County a primary tourist destination. Popular sites include: Six Rivers National Forest, King Range National Conservation Area, Humboldt Redwoods State Park, Redwoods National Park, and Richardson Grove State Park.

#### **Topography and Climate**

The County is situated along the Pacific Coast in Northern California’s rugged coast and mountain ranges, offering a great variety of elevations, terrain and microclimates. The climate in the coastal zone of the County generally experiences very wet, cool winters and dry, mild foggy summers. The inland areas of the County also experience wet, cool winters, with snowfall being common at elevations over 3,000 feet throughout the winter months. Summer displays the sharpest difference between the coastal and inland climates. Inland regions of the County experience highs of 80–99°F depending on the elevation and distance from the ocean. The average annual rainfall is 36 inches. Approximately 90% of average annual rainfall occurs in the six-month period extending from November to April.

#### **Population**

The following table lists population figures for the County and major cities in the County (including the City) as of January 1, for the last five completed calendar years.

**HUMBOLDT COUNTY**  
**Population Estimates - Calendar Years 2012 through 2016**

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Arcata	17,918	18,002	17,983	18,085	18,169
Blue Lake	1,270	1,279	1,278	1,278	1,287
Eureka	27,060	26,894	26,874	26,811	26,765
Ferndale	1,396	1,426	1,429	1,435	1,434
<b>Fortuna</b>	<b>11,870</b>	<b>11,787</b>	<b>11,840</b>	<b>11,882</b>	<b>11,848</b>
Rio Dell	3,384	3,409	3,412	3,414	3,416
Trinidad	368	370	368	368	367
Balance of County	72,023	71,831	71,759	71,779	71,830
County Total	135,289	134,998	134,943	135,052	135,116

*Source: State Department of Finance estimates*

**Major Employers**

The following tables list the major employers within the County as of January 2017, listed alphabetically.

**HUMBOLDT COUNTY**  
**Major Employers**  
**(Listed Alphabetically)**

<b>Employer Name</b>	<b>Location</b>	<b>Industry</b>
Bettendorf Trucking	Arcata	Trucking
Blue Lake Casino & Hotel	Blue Lake	Casinos
County-Humboldt-Health & Human	Eureka	Government Offices-County
Eureka City Clerk	Eureka	Government Offices-City, Village & Twp
Eureka High School	Eureka	Schools
Green Diamond Resource Co	Trinidad	Foresters-Consulting
Green Diamond Resource Co	Korbel	Foresters-Consulting
Humboldt Cnty Office-Education	Eureka	Schools
Humboldt County Dept-Health	Eureka	Clinics
Humboldt County Mental Health	Eureka	Hospitals
Humboldt County Sheriff Dept	Eureka	Government Offices-County
Humboldt County Social Svc	Eureka	Government Offices-County
Mad River Community Hospital	Arcata	Hospitals
Pacific Choice Seafood Inc	Eureka	Prepared Fish & Seafood Products (mfrs)
Redwood Memorial Hospital	Fortuna	Hospitals
Schmidbauer Lumber Inc	Eureka	Logging (mfrs)
St Joseph Home Health	Eureka	Health Services
St Joseph Hospital	Eureka	Hospitals
Sun Valley Group	Arcata	Greenhouses
Sunset Restaurant-Cher Ae Csn	Trinidad	Casinos
Trinidad Rancheria	Trinidad	Associations
Umpqua Bank	Eureka	Banks
United Indian Health Svc	Arcata	Clinics
US Post Office	Eureka	Post Offices
Winco Foods	Eureka	Grocers-Retail

*Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2017 2nd Edition.*

## Commercial Activity

Summaries of historic taxable sales within the City and the County during 2011 through 2015 are shown in the following tables. Figures are not available for 2016.

Total taxable sales during the calendar year 2015 in the City were reported to be \$143,263,000, a 5.3% increase over the total taxable sales of \$136,011,000 that were reported during the calendar year 2014. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City is presented in the following table. Annual figures are not yet available for 2016 or beyond.

### CITY OF FORTUNA Taxable Transactions<sup>(1)</sup> (dollars in thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2011	259	\$102,994	377	\$130,380
2012	263	102,297	375	130,714
2013	274	102,793	378	134,201
2014	291	106,008	397	136,011
2015	(2)	112,518	(2)	143,263

(1) Detail may not compute to total due to rounding.

(2) Information not yet available.

Source: "Taxable Sales in California," California State Board of Equalization.

Total taxable sales during the calendar year 2015 in the County were reported to be \$1,985,208,747, a 4.5% increase over the total taxable sales of \$1,899,619,000 that were reported during the calendar year 2014. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the County is presented in the following table. Annual figures are not yet available for 2016 or beyond.

### COUNTY OF HUMBOLDT Taxable Transactions<sup>(1)</sup> (dollars in thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2011	3,172	\$1,224,525	4,491	\$1,698,178
2012	3,208	1,298,773	4,499	1,768,170
2013	3,343	1,370,743	4,600	1,869,677
2014	3,440	1,412,669	4,706	1,899,619
2015	3,213	1,474,165	5,105	1,985,209

(1) Detail may not compute to total due to rounding.

Source: "Taxable Sales in California," California State Board of Equalization.

The valuation of taxable transactions within the County is presented in the following table. Total taxable sales during the calendar year 2015 in the County were reported to be \$1,985,209,000, a 4.5% increase from the total taxable sales reported during the calendar year 2014 of \$1,899,619,000. Annual figures are not yet available for 2016 or beyond.

**COUNTY OF HUMBOLDT**  
**Taxable Retail Sales<sup>(1)</sup>**  
**Valuation of Taxable Transactions**  
**(dollars in thousands)**

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Retail and Food Services</b>					
Motor Vehicle and Parts Dealers	\$170,895	\$193,277	\$203,517	\$218,176	\$239,795
Home Furnish and Appliance Stores	21,435	21,003	22,121	23,563	25,848
Electronics and Appliance Stores	23,182	23,003	24,570	26,995	29,424
Bldg. Mat'l & Garden Equip/Supplies	177,004	186,282	197,895	203,737	242,461
Food and Beverage Stores	120,568	124,300	128,236	132,758	142,322
Health and Personal Care Stores	40,765	41,161	43,125	44,643	46,214
Gasoline Stations	176,188	188,740	191,965	188,154	165,575
Clothing and Accessories Stores	46,445	49,922	54,422	55,823	59,301
Sporting Goods, Book, and Music Stores	43,579	45,349	48,917	47,635	50,036
General Merchandise Stores	188,516	200,740	204,042	204,609	181,305
Miscellaneous Store Retailers	60,098	63,765	64,034	71,659	80,191
Non-Store Retailers	14,641	13,294	23,470	24,887	26,389
Food Services and Drinking Places	141,211	147,867	164,429	170,030	185,305
<b>Total Retail and Food Services</b>	<b>\$1,224,525</b>	<b>\$1,298,773</b>	<b>\$1,370,743</b>	<b>\$1,412,669</b>	<b>\$1,474,166</b>
All Other Outlets	473,653	469,397	498,934	486,950	511,043
<b>Total All Outlets</b>	<b>\$1,698,178</b>	<b>\$1,768,170</b>	<b>\$1,869,677</b>	<b>\$1,899,619</b>	<b>\$1,985,209</b>
<b>Permits – All Outlets</b>	<b>4,491</b>	<b>4,499</b>	<b>4,600</b>	<b>4,706</b>	<b>5,105</b>

<sup>(1)</sup> Detail may not compute to total due to rounding.

Source: "Taxable Sales in California," California State Board of Equalization.

## Employment and Industry

The below table summarizes the civilian labor force, civilian employment and civilian unemployment figures over the period from 2011 through 2016 in the City, the County and the State.

### CITY AND COUNTY AND STATE Civilian Labor Force, Employment and Unemployment Rate<sup>(1)</sup> (Calendar Years 2011 through 2016)

Year	City			County		State
	Labor Force	Employed	Unemployment Rate	Labor Force	Unemployment Rate	Unemployment Rate
2011	4,600	4,200	8.7%	60,500	11.4%	11.8%
2012	4,600	4,200	8.7%	60,100	10.5%	10.4%
2013	4,500	4,100	7.8%	58,400	8.8%	8.9%
2014	4,500	4,200	6.8%	62,700	6.8%	7.5%
2015	4,520	4,260	5.6%	62,630	5.6%	6.2%
2016	4,520	4,300	4.9%	62,670	4.9%	5.4%

(1) Data is based on annual averages, unless otherwise specified, and is not seasonally adjusted.

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

The distribution of employment in the Humboldt County is presented in the following table for the calendar years 2012 through 2016. These figures are countywide statistics and may not necessarily accurately reflect employment trends in the City.

### COUNTY OF HUMBOLDT Industry Employment & Labor Force<sup>(1)</sup> (Calendar Years 2012 through 2016)

Type of Employment	2012	2013	2014	2015	2016
Agriculture	870	810	820	870	880
Mining, Logging, and Construction	2,060	1,960	1,940	2,070	2,060
Manufacturing	2,000	2,070	2,070	2,030	2,080
Wholesale Trade	1,030	1,000	980	920	980
Retail Trade	6,840	6,920	7,010	7,230	7,440
Transportation, Warehousing, Utilities	1,290	1,280	1,270	1,230	1,170
Information	520	500	500	500	460
Financial Activities	1,600	1,600	1,590	1,630	1,620
Professional and Business Services	2,650	2,630	2,580	2,700	2,780
Educational and Health Services	7,440	7,770	8,000	8,110	8,330
Leisure and Hospitality	5,130	5,130	5,280	5,570	5,860
Other Services	1,840	1,920	1,890	1,880	1,800
Government	13,530	13,470	13,730	13,950	14,220
Total, All Industries <sup>(2)</sup>	46,790	47,070	47,650	48,630	49,710

(1) Data is based on annual averages, unless otherwise specified.

(2) Totals may not add due to rounding.

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

## **Transportation**

The Humboldt Transit Authority (HTA) operates two fixed route transit bus systems:

- The Redwood Transit System provides intercity service to and within communities between Trinidad and Garberville, including Manila, King Salmon, Field's Landing, Loleta, Fernbridge and Fortuna. HTA also offers service between McKinleyville or Arcata and Willow Creek and an express bus between Arcata and College of the Redwoods when classes are in session.
- The Eureka Transit Service operates in the City of Eureka, and provides local service on four scheduled routes in Eureka and its adjacent unincorporated communities. Connections can be made to the Redwood Transit System at several places in Eureka.

Eureka. Some other local public transit systems are: Arcata and Mad River Transit System, Blue Lake Rancheria Transit Authority and Del Norte County's Redwood Coast Transit.

Amtrak Thruway bus has stops in many cities in the region, including Eureka, Arcata, and Fortuna.

The Arcata-Eureka Airport is located in the City of McKinleyville (northern part of the County). Commercial flights are available. Other (general aviation) airports are located at Dinsmore, Garberville, Kneeland, Murray Field (Eureka), Samoa Field and Rohnerville (Fortuna).

The Port of Humboldt Bay (sometimes also referred to as the Port of Eureka) is a deep-water port with harbor facilities including large industrial docks at Fairhaven, Samoa, and Fields Landing designed to serve cargo and other vessels, while several marinas also located in Greater Eureka have the capacity to serve hundreds of small to mid-size boats and pleasure craft.

## **Education**

The City is served by the Fortuna Elementary School District and the Fortuna Union High School District. The Elementary District currently operates four schools, consisting of three elementary schools and one middle school. The High School District operates two high schools and one academy. The City is also served by the College of the Redwoods which has its main campus located approximately 9 miles from the City, but also offers classes at campuses in down-town Eureka, Del Norte, and Klamath-Trinity. California State University, Humboldt is located approximately 27 miles north of the City.

**APPENDIX E**

**FORM OF OPINION OF BOND COUNSEL**

\_\_\_\_\_, 2017

City Council  
City of Fortuna  
621 11th Street  
Fortuna, CA 95540

**OPINION:** City of Fortuna  
\$[Par Amount] Series 2017 Wastewater Revenue Refunding Bonds  
(Wastewater Enterprise Project)

Members of the Council:

We have acted as bond counsel to the City of Fortuna (the “City”) in connection with the issuance by the City of the captioned bonds (the “Bonds”). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to Articles 10 (commencing with Section 53570) and 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the “Bond Law”), the Indenture of Trust, dated as of September 1, 2017 (the “Indenture”), by and between the City and U.S. Bank National Association, as trustee (the “Trustee”), and a resolution (the “Resolution”) of the Council of the City adopted \_\_\_\_\_, 2017. Under the Indenture, the City has pledged certain revenues (the “Revenues”) for the payment of principal, premium (if any), and interest on the Bonds when due.

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

Based on the foregoing, we are of the opinion that, under existing law:

1. The City is a duly created and validly existing municipal corporation duly organized and existing under the laws of the State of California with the power to adopt the Resolution, enter into the Indenture and perform the agreements on its part contained therein, and issue the Bonds.
2. The Indenture has been duly authorized, executed and delivered by the City, and constitutes a valid and binding obligation of the City, enforceable against the City.

3. The Indenture creates a valid lien on the Revenues and other funds pledged by the Indenture for the security of the Bonds, on parity with other existing obligations and potentially with future obligations (if any) to be issued in compliance with the Indenture.

4. The Bonds have been duly authorized and executed by the City, and are valid and binding limited obligations of the City, payable solely from the Revenues and other funds provided therefor in the Indenture.

5. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the delivery of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on the Bonds.

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

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

## APPENDIX F

### INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



§ \_\_\_\_\_  
**CITY OF FORTUNA**  
**SERIES 2017 WATER REVENUE REFUNDING BONDS**  
**(WATER ENTERPRISE PROJECT)**

**PURCHASE CONTRACT**

\_\_\_\_\_, 2017

City of Fortuna  
 621 11<sup>th</sup> Street  
 Fortuna, California 95540

Ladies and Gentlemen:

Stifel, Nicolaus & Company, Incorporated (the “Underwriter”), acting on behalf of itself and not as an agent or fiduciary for you, offers to enter into this Purchase Contract (the “Purchase Contract”) with the City of Fortuna (the “City”), which Purchase Contract will be binding upon the City and the Underwriter upon the acceptance hereof by the City. This offer is made subject to its acceptance by the City, by the execution of this Purchase Contract and its delivery to the Underwriter on or before 11:59 p.m., California time, on the date hereof. Capitalized terms used herein and not otherwise defined shall have the respective meanings given to such terms in the Indenture (as hereinafter defined).

1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties and agreements hereinafter set forth, the Underwriter hereby agrees to purchase for offering to the public, and the City hereby agrees to cause to be delivered to the Underwriter all (but not less than all) of the \$ \_\_\_\_\_ aggregate principal amount of the City of Fortuna Series 2017 Water Revenue Refunding Bonds (Water Enterprise Project) (the “Bonds”), at the interest rates shown on Exhibit A hereto, which is incorporated herein by this reference, and subject to purchase and redemption as set forth in the Indenture. The City has received a written commitment from \_\_\_\_\_ (the “Insurer”) to issue, upon fulfillment of certain conditions, a debt service reserve insurance policy (the “Reserve Policy”) for deposit into the Reserve Fund established under the Indenture.

The aggregate purchase price for the Bonds shall be \$ \_\_\_\_\_ (representing the aggregate principal amount of the Bonds, [plus/less] [net] original issue [premium/discount] of \$ \_\_\_\_\_, less an underwriting discount of \$ \_\_\_\_\_).

2. Description and Purpose of the Bonds. The Bonds shall be issued pursuant to an Indenture of Trust, dated as of August 1, 2017 (the “Indenture”), by and between the City and U.S. Bank National Association, as trustee (the “Trustee”).

The Bonds are being issued to: (i) refund the outstanding Fortuna Public Financing Authority Water Revenue Bonds, Series 2006 (the “2006 Bonds”); (ii) purchase the Reserve Policy; and (iii) pay costs of issuance of the Bonds.

3. Public Offering.

(a) The Underwriter agrees to make an initial bona fide public offering of all the Bonds at a price of 100% of the principal amount thereof. Subsequent to the initial public offering, the Underwriter reserves the right to change such initial offering price or prices as the Underwriter shall deem necessary in connection with the marketing of the Bonds and to offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the initial offering price or prices set forth in the hereinafter referred to Official Statement. The Underwriter also reserves the right (i) to engage in transactions that stabilize, maintain or otherwise affect the market price of the Bonds at a level above that which might otherwise prevail in the open market and (ii) to discontinue such transactions, if commenced, at any time.

(b) The Underwriter agrees to assist the City in establishing the issue price of the Bonds and shall execute and deliver to the City at Closing (as defined below) an “issue price” or similar certificate, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Exhibit B, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Underwriter, the City and Bond Counsel (as defined below), to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the Bonds. All actions to be taken by the City under this section to establish the issue price of the Bonds may be taken on behalf of the City by the City’s municipal advisor, Public Financial Management, Inc. (the “Municipal Advisor”) and any notice or report to be provided to the City may be provided to the City’s Municipal Advisor.

(c) [Except as otherwise set forth in Exhibit A attached hereto,] the City will treat the first price at which 10% of each maturity of the Bonds (the “10% test”), identified under the column “10% Test Used” in Exhibit A, is sold to the public as the issue price of that maturity (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% test). At or promptly after the execution of this Purchase Contract, the Underwriter shall report to the City the price or prices at which it has sold to the public each maturity of Bonds. If at that time the 10% test has not been satisfied as to any maturity of the Bonds, the Underwriter agrees to promptly report to the City the prices at which it sells the unsold Bonds of that maturity to the public. That reporting obligation shall continue, whether or not the Closing Date (as defined below) has occurred, until the 10% test has been satisfied as to the Bonds of that maturity or until all Bonds of that maturity have been sold to the public.

(d) [The Underwriter confirms that it has offered the Bonds to the public on or before the date of this Purchase Contract at the offering price or prices (the “initial offering price”), or at the corresponding yield or yields, set forth in Exhibit A attached hereto, except as otherwise set forth therein. Exhibit A also sets forth, identified under the column “Hold the Offering Price Rule Used,” as of the date of this Purchase Contract, the maturities, if any, of the Bonds for which the 10% test has not been satisfied and for which the City and the Underwriter agree that the restrictions set forth in the next sentence shall apply, which will allow the City to treat the initial offering price to the public of each such maturity as of the sale date as the issue price of that maturity (the “hold-the-offering-price rule”). So long as the hold-the-offering-price rule remains applicable to any maturity of the Bonds, the Underwriter will neither offer nor sell unsold Bonds of that maturity to any person at a price

that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

(i) the close of the fifth (5th) business day after the sale date; or

(ii) the date on which the Underwriter has sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The Underwriter shall promptly advise the City when it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.]

(e) The Underwriter acknowledges that sales of any Bonds to any person that is a related party to the Underwriter shall not constitute sales to the public for purposes of this section. Further, for purposes of this section:

(i) “public” means any person other than an underwriter or a related party;

(ii) “underwriter” means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public);

(iii) a purchaser of any of the Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other); and

(iv) “sale date” means the date of execution of this Purchase Contract by all parties.

4. Delivery of Official Statement. Pursuant to the authorization of the City, the Underwriter has distributed copies of the Preliminary Official Statement, dated \_\_\_\_\_, 2017, relating to the Bonds, which, together with the cover page and appendices thereto, is herein called the “Preliminary Official Statement.” By its acceptance of this proposal, the City hereby approves and ratifies the distribution and use by the Underwriter of the Preliminary Official Statement. The **Agency** ratifies, confirms and approves the use by the Underwriter prior to the date hereof of the

Preliminary Official Statement. The City has previously deemed the Preliminary Official Statement to be final as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 (“Rule 15c2-12”), except for information permitted to be omitted therefrom by Rule 15c2-12, and has executed a certificate to that effect in the form attached as Exhibit C.

The City agrees to execute and deliver a final Official Statement (the “Official Statement”) in substantially the same form as the Preliminary Official Statement with such changes as may be made thereto, with the consent of the City and the Underwriter, and to provide copies thereof to the Underwriter as set forth in Section 6(n) hereof. The City hereby authorizes the Underwriter to use and distribute, in connection with the offer and sale of the Bonds: the Preliminary Official Statement, the Official Statement, the Indenture and other documents or contracts to which the City is a party in connection with the transactions contemplated by this Purchase Contract, including this Purchase Contract and all information contained herein, and all other documents, certificates and statements furnished by the City to the Underwriter in connection with the transactions contemplated by this Purchase Contract.

5. The Closing. At 8:00 a.m., California time, on \_\_\_\_\_, 2017 or at such other time or on such earlier or later business day as shall have been mutually agreed upon by the City and the Underwriter, the City will cause to be executed and delivered: (i) the Bonds in book-entry form through the facilities of The Depository Trust Company, or its agent, on behalf of the Underwriter, (ii) the closing documents hereinafter mentioned, at the offices of The Weist Law Firm (“Bond Counsel”), in Scotts Valley, California or another place to be mutually agreed upon by the City and the Underwriter. The Underwriter will accept such delivery of the Bonds and pay the purchase price of such Bonds set forth in Section 1 hereof in immediately available funds to the order of the City, less \$ \_\_\_\_\_ with respect to the premium for the Reserve Policy, which shall be wired by the Underwriter directly to the Insurer on behalf of the City. This payment for and delivery of the Bonds, together with the execution and delivery of the aforementioned documents is herein called the “Closing.”

6. The City’s Representations, Warranties and Covenants. The City represents, warrants and covenants to the Underwriter that:

(a) Due Organization, Existence and Authority. The City is a charter city duly organized and existing under the Constitution and laws of the State of California (the “State”), with full right, power and authority to execute, deliver and perform its obligations under this Purchase Contract, the Indenture and the Continuing Disclosure Certificate (collectively, the “City Documents”) and to carry out and consummate the transactions contemplated by the City Documents and the Official Statement.

(b) Due Authorization and Approval. By all necessary official action of the City, the City has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations contained or described in, the Preliminary Official Statement, the Official Statement and the City Documents and as of the date hereof, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. When executed and delivered, each City Document will constitute the legally valid and binding obligation of the City enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or similar laws or equitable principles relating to or

affecting creditors' rights generally or by the exercise of judicial discretion in appropriate cases or by limitations on legal remedies against public agencies in the State.

(c) Official Statement Accurate and Complete. The Preliminary Official Statement was as of its date, and the Official Statement is, true and correct in all material respects, and the Preliminary Official Statement and the Official Statement contain no misstatement of any material fact and do not omit any statement necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading (except no representation is made with respect to information relating to DTC or DTC's book-entry system or the Insurer or the Reserve Policy).

(d) Underwriter's Consent to Amendments and Supplements to Official Statement. The City will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent will not be unreasonably withheld. The City will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise affecting the use of the Official Statement in connection with the offering, sale or distribution of the Bonds.

(e) City Agreement to Amend or Supplement Official Statement. If after the date of this Purchase Contract and until 25 days after the end of the "underwriting period" (as defined in Rule 15c2-12), any event occurs as a result of which the Official Statement as then amended or supplemented would include an untrue statement of a material fact, or omit to state any material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading, and, in the reasonable opinion of the Underwriter, an amended or supplemented Official Statement should be delivered in connection with the offers or sales of the Bonds to reflect such event, the City promptly will prepare at its expense an amendment or supplement which will correct such statement or omission and the City shall promptly furnish to the Underwriter a reasonable number of copies of such amendment or supplement. The Underwriter hereby agrees to deposit the Official Statement with the Municipal Securities Rulemaking Board. The Underwriter acknowledges that the end of the "underwriting period" will be the date of Closing.

(f) No Material Change in Finances. Except as otherwise described in the Official Statement, there shall not have been any material adverse changes in the financial condition of the Water System since June 30, 2016.

(g) No Breach or Default. As of the time of acceptance hereof, (A) the City is not in default, nor has it been in default, as to principal or interest with respect to an obligation issued by the City, and (B) the City is not, in any manner which would materially adversely affect the transactions contemplated by the City Documents, in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the City is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute, in any manner which would materially adversely affect the transactions contemplated by the City

Documents, a default or event of default under any such instrument; and, as of such time, the authorization, execution and delivery of the City Documents and compliance with the provisions of each of such agreements or instruments do not in any manner which would materially adversely affect the transactions contemplated by the City Documents, conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the City (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound, nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the City Documents.

(h) No Litigation. As of the time of acceptance hereof, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending or, to the best knowledge of the City after due investigation, threatened (A) in any way questioning the corporate existence of the City or the titles of the officers of the City to their respective offices; (B) affecting, contesting or seeking to prohibit, restrain or enjoin the execution or delivery of any of the Bonds, or in any way contesting or affecting the validity of the Bonds or the City Documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of interest on the Bonds from gross income for federal income tax purposes or contesting the powers of the City to enter into the City Documents; (C) which, except as described in the Official Statement, may result in any material adverse change to the financial condition of the Water System or to the sufficiency of Net Revenues to pay the principal of and interest on the Bonds when due; or (D) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (A) through (D) of this sentence.

(i) No Prior Liens on Net Revenues. Except as otherwise described in the Official Statement, the City does not and will not have outstanding any indebtedness which indebtedness is secured by a lien on the Net Revenues superior to or equal to the lien of the Bonds on the Net Revenues.

(j) Further Cooperation: Blue Sky. The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (A) to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and (B) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualifications in effect so long as required for the distribution of the Bonds; provided, however, that the City shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction.

(k) Consents and Approvals. All authorizations, approvals, licenses, permits, consents and orders of or filings with any governmental authority, legislative body, board, agency or commission having jurisdiction in the matters which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the City of its obligations in connection with the City Documents have been duly obtained or made, except as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Bonds.

(l) No Other Obligations. Between the date of this Purchase Contract and the date of Closing, the City will not, without the prior written consent of the Underwriter, offer or issue any bonds, notes or other obligations for borrowed money, or incur any material liabilities, directly or contingently payable from the Net Revenues.

(m) Certificates. Any certificate signed by any official of the City and delivered to the Underwriter shall be deemed to be a representation and warranty by the City to the Underwriter as to the statements made therein.

(n) Provision of Official Statement. The City hereby covenants and agrees that no later than the date of Closing, the City shall cause final printed copies of the Official Statement to be delivered to the Underwriter in such number of copies as shall reasonably be requested by the Underwriter.

(o) Continuing Disclosure. Except as disclosed in the Preliminary Official Statement, for the previous five years, the City has been and the City is currently in compliance with all continuing disclosure undertakings that it has entered into pursuant to Rule 15c2-12 in all material respects.

7. Closing Conditions. The Underwriter has entered into this Purchase Contract in reliance upon the representations, warranties and covenants herein and the performance by the City of its obligations hereunder, both as of the date hereof and as of the date of the Closing. The Underwriter's obligations under this Purchase Contract to purchase and pay for the Bonds shall be subject to the following additional conditions:

(a) Bring-Down Representation. The representations, warranties and covenants of the City contained herein, shall be true, complete and correct at the date hereof and at the time of the Closing, as if made on the date of the Closing.

(i) Executed Agreements and Performance Thereunder. At the time of the Closing (i) the City Documents shall be in full force and effect, and shall not have been amended, modified or supplemented except with the written consent of the Underwriter, (ii) there shall be in full force and effect such resolutions (the "Resolutions") as, in the opinion of Bond Counsel, shall be necessary in connection with the transactions contemplated by the Official Statement and the City Documents, (iii) the City shall perform or have performed its obligations required or specified in the City Documents to be performed at or prior to Closing, and (iv) the Official Statement shall not have been supplemented or amended, except pursuant to Paragraphs 6(d) and 6(e) hereof or as otherwise may have been agreed to in writing by the Underwriter.

(ii) No Default. At the time of the Closing, no default, or any event that with the passage of time would be reasonably likely to result in default, shall have occurred or be existing under the Resolutions, the City Documents, or any other agreement or document pursuant to which any of the City's financial obligations was issued and the City shall not be in default in the payment of principal or interest on any of its financial obligations which default would materially adversely impact the ability of the City to pay the principal of and interest on the Bonds.

(b) Termination Events. The Underwriter shall have the right to terminate this Purchase Contract, without liability therefor, by written notification to the City if at any time at or prior to the Closing:

(i) any event shall occur which causes any statement contained in the Official Statement to be materially misleading or results in a failure of the Official Statement to state a material fact necessary to make the statements in the Official Statement, in the light of the circumstances under which they were made, not misleading; or

(ii) the marketability of the Bonds or the market price thereof, in the opinion of the Underwriter, has been materially adversely affected by an amendment to the Constitution of the United States or by any legislation in or by the Congress of the United States or by the State, or the amendment of legislation pending as of the date of this Purchase Contract in the Congress of the United States, or the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority materially adversely affecting the federal or State tax status of the City, or the status of the interest on bonds or notes or obligations of the general character of the Bonds; or

(iii) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State, or a decision by any court of competent jurisdiction within the State or any court of the United States shall be rendered which, in the reasonable opinion of the Underwriter, materially adversely affects the market price of the Bonds; or

(iv) legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling,

regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the execution, delivery, offering or sale of obligations of the general character of the Bonds, or the execution, delivery, offering or sale of the Bonds, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of, or that obligations of the general character of the Bonds, or the Bonds, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Indenture needs to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or

(v) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange which restrictions materially adversely affect the Underwriter's ability to trade the Bonds; or

(vi) a general banking moratorium shall have been established by federal or state authorities or any material disruption in commercial banking or securities settlement or clearance services, including, but not limited to, those of DTC, shall have occurred; or

(vii) the United States has become engaged in hostilities which have resulted in a declaration of war or a national emergency or there has occurred any other outbreak or escalation of hostilities or a national or international calamity or crises, financial or otherwise, including but not limited to, bombings or terrorism (whether alleged or proven) relating to the effective operation of government or financial community, the effect of such outbreak, calamity or crisis on the financial markets of the United States, being such as, in the reasonable opinion of the Underwriter, would affect materially and adversely the ability of the Underwriter to market or deliver the Bonds; or

(viii) any rating of the securities of the City reflecting the creditworthiness of the City shall have been downgraded, suspended, withdrawn or have had any action taken with respect thereto by a national rating service, which, in the Underwriter's reasonable opinion, materially adversely affects the marketability or market price of the Bonds; or

(ix) the commencement of any action, suit or proceeding described in Paragraph 6(h) hereof which, in the reasonable judgment of the Underwriter, materially adversely affects the market price of the Bonds; or

(x) there shall be in force a general suspension of trading on the New York Stock Exchange.

(c) Closing Documents. At or prior to the Closing, the Underwriter shall receive with respect to the Bonds the following documents:

(i) Bond Opinion. An approving opinion of Bond Counsel dated the date of the Closing and substantially in the form included as Appendix \_\_ to the Official Statement, together with a letter from such counsel, dated the date of the Closing and addressed to the Underwriter, to the effect that the foregoing opinion addressed to the City may be relied upon by the Underwriter to the same extent as if such opinion were addressed to it.

(ii) Supplemental Opinion. A supplemental opinion or opinions of Bond Counsel addressed to the Underwriter, in form and substance acceptable to the Underwriter, and dated the date of the Closing substantially to the following effect:

(A) The Purchase Contract has been duly authorized, executed and delivered by the City and is a valid and binding agreement of the City enforceable in accordance with its terms, except that the rights and obligations under the Purchase Contract are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State;

(B) The statements contained in the Official Statement on the cover page (excluding statements with respect to the Insurer and the Reserve Policy) and under the captions ["INTRODUCTION," "THE BONDS," "SECURITY FOR THE BONDS," "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES," and "TAX MATTERS" and in Appendix \_\_ and Appendix \_\_] thereto, insofar as such statements purport to summarize certain provisions of the Bonds, the Indenture, State law and Bond Counsel's opinions concerning certain federal and State tax matters relating to the Bonds, are accurate in all material respects as of the date of the Official Statement and as of the date of Closing; and

(iii) City Counsel Opinion. An opinion of the City Attorney, dated the date of the Closing and addressed to the Underwriter, in form and substance acceptable to the Underwriter substantially to the following effect:

(A) The City is a charter city duly organized and validly existing under the constitution and the laws of the State;

(B) The City Documents have been duly authorized, executed and delivered by the City, and the City has full right, power and authority to carry out and consummate all transactions contemplated by the City Documents as of the date of the Official Statement and as of the date of Closing;

(C) The resolution of the City approving and authorizing the execution and delivery of the City Documents, and approving the Official Statement (the "City Resolution"), has been duly adopted at a meeting of the governing body of the City, which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and

acting throughout and the City Resolution is in full force and effect and has not been modified, amended or rescinded;

(D) The execution and delivery of the City Documents and compliance with the provisions thereof, under the circumstances contemplated thereby, do not and will not, in any respect which will have a material adverse impact on the transactions contemplated by the City Documents conflict with, or constitute, or with the giving of notice or the passage of time would constitute, on the part of the City a breach of or default under, any material agreement or other instrument to which the City is a party or by which it is bound (and based in part on a factual certificate of the City) or any existing law, administrative rule, regulation, order, decree, judgment, license or permit to which the City is subject (excluding, however, any opinion as to compliance with any applicable federal securities laws); or by which the City or any of its property is bound;

(E) The Official Statement has been prepared by, or on behalf of, the City under the supervision of the City's Finance Director, and executed on its behalf by authorized officers of the City;

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

(G) No litigation, proceeding, action, suit, or investigation (or any basis therefor) at law or in equity before or by any court, governmental agency or body, pending or threatened, against the City challenging the creation, organization or existence of the City, or the validity of the City Documents or seeking to restrain or enjoin the Bonds or in any way contesting or affecting the validity of the City Documents or any of the transactions referred to therein or contemplated thereby or contesting the authority of the City to enter into or perform its obligations under any of the City Documents, or under which a determination adverse to the City would have a material adverse effect upon the financial condition of the Water System, or which, in any manner, questions or affects the right or ability of the City to enter into the City Documents or affects in any manner the right or ability of the City to use the Net Revenues for repayment of the Bonds or in any manner the right or ability of the City to collect or pledge the Net Revenues.

(iv) Authority Counsel Opinion. An opinion of the City Attorney, as general counsel to the Fortuna Public Financing Authority (the "Authority"), dated the date of the Closing and addressed to the Underwriter, in form and substance acceptable to the Underwriter substantially to the following effect:

(A) The Authority is a public body duly organized and validly existing under the constitution and the laws of the State;

(B) The Escrow Agreement, dated as of August 1, 2017, by and between the Authority and the Trustee, as escrow agent (the “Escrow Agreement”), has been duly authorized, executed and delivered by the Authority, and the Authority has full right, power and authority to carry out and consummate all transactions contemplated by the Escrow Agreement as of the date of the Official Statement and as of the date of Closing;

(C) The resolution of the Authority approving and authorizing the execution and delivery of the Escrow Agreement, and approving the Official Statement (the “Authority Resolution”), has been duly adopted at a meeting of the governing body of the Authority, which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and the Authority Resolution is in full force and effect and has not been modified, amended or rescinded;

(D) The execution and delivery of the Escrow Agreement and compliance with the provisions thereof, under the circumstances contemplated thereby, do not and will not, in any respect which will have a material adverse impact on the transactions contemplated by the Escrow Agreement conflict with, or constitute, or with the giving of notice or the passage of time would constitute, on the part of the Authority a breach of or default under, any material agreement or other instrument to which the Authority is a party or by which it is bound (and based in part on a factual certificate of the Authority) or any existing law, administrative rule, regulation, order, decree, judgment, license or permit to which the Authority is subject (excluding, however, any opinion as to compliance with any applicable federal securities laws); or by which the Authority or any of its property is bound;

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

(F) No litigation, proceeding, action, suit, or investigation (or any basis therefor) at law or in equity before or by any court, governmental agency or body, pending or threatened, against the Authority challenging the creation, organization or existence of the Authority, or the validity of the Escrow Agreement or seeking to restrain or enjoin the Bonds or in any way contesting or affecting the validity of the Escrow Agreement or any of the transactions referred to therein or contemplated thereby or contesting the authority of the Authority to enter into or perform its obligations under any of the Escrow Agreement, or which, in any manner, questions or affects the right or ability of the Authority to enter into the Escrow Agreement.

(v) Trustee Counsel Opinion. The opinion or opinions of counsel to the Trustee, dated the date of the Closing, addressed to the Underwriter, to the effect that:

(A) The Trustee is a national banking association, duly organized and validly existing under the laws of the United States of America, having full corporate power to undertake the trust created under the Indenture;

(B) The Indenture and the Escrow Agreement have been duly authorized, executed and delivered by the Trustee and, assuming due authorization, execution and delivery by the other parties thereto, the Indenture and the Escrow Agreement constitute the valid and binding obligation of the Trustee enforceable in accordance with their terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought;

(C) The Trustee has duly executed and delivered the Bonds upon the order of the City;

(D) The Trustee's actions in executing and delivering the Indenture and the Escrow Agreement are in full compliance with, and do not conflict with any applicable law or governmental regulation and, to the best of such counsel's knowledge, after reasonable inquiry with respect thereto, do not conflict with or violate any contract to which the Trustee is a party or any administrative or judicial decision by which the Trustee is bound; and

(E) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the banking or trust powers of the Trustee that has not been obtained is or will be required for the execution and delivery of the Bonds or the consummation by the Trustee of its obligations under the Indenture and the Escrow Agreement.

(vi) Underwriter's Counsel Opinion. An opinion of Stradling, Yocca, Carlson & Rauth, a Professional Corporation, counsel to the Underwriter ("Underwriter's Counsel"), dated the date of Closing and addressed to the Underwriter in form and substance acceptable to the Underwriter.

(vii) City Certificate. A certificate of the City, dated the date of the Closing, signed on behalf of the City by the City Manager or other duly authorized officer of the City to the effect that:

(A) The representations, warranties and covenants of the City contained in the Purchase Contract are true and correct in all material respects on and as of the date of the Closing as if made on the date of the Closing and the City has complied with all of the terms and conditions of the Purchase Contract required to be complied with by the City at or prior to the date of the closing;

(B) No event affecting the City has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements therein, in the light of the

circumstances under which they were made, not misleading (except no representation is made with respect to information relating to DTC or DTC's book-entry system or the Insurer or the Reserve Policy); and

(C) No event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute an event of default under the City Documents.

(viii) Trustee's Certificate(s). A certificate or certificates, dated the date of Closing, signed by a duly authorized official of the Trustee satisfactory in form and substance to the Underwriter, to the effect that:

(A) The Trustee is duly organized and existing as a national banking association under the laws of the United States of America, having the full corporate power and authority to enter into and perform its duties under the Indenture;

(B) The Trustee is duly authorized to enter into the Indenture and the Escrow Agreement and has duly executed and delivered the Indenture and the Escrow Agreement, and assuming due authorization and execution by the other parties thereto, the Indenture and the Escrow Agreement are legal, valid and binding upon the Trustee, and enforceable against the Trustee in accordance with their terms;

(C) The Trustee has duly authenticated the Bonds under the Indenture and delivered the Bonds to or upon the order of the Underwriter; and

(D) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the banking or trust powers of the Trustee that has not been obtained is or will be required for the issuance of the Bonds or the consummation by the Trustee of its obligations under the Indenture and the Escrow Agreement.

(ix) Disclosure Counsel Opinion. A letter of The Weist Law Firm, as disclosure counsel to the City ("Disclosure Counsel"), addressed to the Underwriter and the City, to the effect that nothing has come to such counsel's attention that would lead them to believe that the Official Statement, as of its date and as of the Closing (but excluding therefrom the appendices thereto, financial statements and statistical data, and information regarding The Depository Trust Company and its book-entry system, and information regarding the Insurer and the Reserve Policy, as to which no opinion need be expressed), contains an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(x) Defeasance Opinion. An opinion of Bond Counsel addressed to the City and the Underwriter to the effect that (i) the Escrow Agreement has been duly authorized by the Authority and is a valid and binding obligation of the Authority;

and (ii) the 2006 Bonds are no longer outstanding under the trust agreement pursuant to which they were issued.

(xi) Transcripts. Two transcripts of all proceedings relating to the authorization and issuance of the Bonds.

(xii) Official Statement. The Official Statement and each supplement or amendment, if any, thereto, executed on behalf of the City by duly authorized officers of the City.

(xiii) City Documents. An original executed copy of each of the City Documents.

(xiv) Escrow Agreement. An original executed copy of the Escrow Agreement.

(xv) City Resolution. Two certified copies of the City Resolution, certified by the City Clerk.

(xvi) Authority Resolution. Two certified copies of the resolution of the Authority approving the Escrow Agreement.

(xvii) Trustee Resolution. Two certified copies of the general resolution of U.S. Bank National Association authorizing the execution and delivery of certain documents by certain officers and employees of U.S. Bank National Association, which resolution authorizes the execution and delivery of the Indenture and the Escrow Agreement.

(xviii) 8038-G. Evidence that the federal tax information form 8038-G has been prepared for filing.

(xix) Tax Certificate. A tax certificate in form satisfactory to Bond Counsel.

(xx) CDAIC Statements. A copy of the Notices of Sale required to be delivered to the California Debt Advisory and Investment Commission pursuant to Sections 8855(g) and 53583 of the California Government Code.

(xxi) Rating. Evidence from S&P Global Ratings, a Standard & Poor's Financial Services LLC business that the Bonds have been assigned a rating of "\_\_\_."

(xxii) Reserve Policy. The Reserve Policy, a Rule 10b-5 certificate and a Rule 15c2-12 certificate of the Insurer, and an opinion of counsel to the Insurer addressed to the City and the Underwriter in form and substance acceptable to Bond Counsel and to counsel to the Underwriter.

(xxiii) 15c2-12 Certificate. In connection with printing and distribution of the Preliminary Official Statement, an executed certificate of the City in the form attached hereto as Exhibit C.

(xxiv) Additional Documents. Such additional certificates, instruments and other documents as the Underwriter may reasonably deem necessary.

If the City shall be unable to satisfy the conditions contained in this Purchase Contract, or if the obligations of the Underwriter shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriter nor the City shall be under further obligation hereunder, except as further set forth in Section 8 hereof.

8. Expenses. The Underwriter shall be under no obligation to pay and the City shall pay or cause to be paid the expenses incident to the performance of the obligations of the City hereunder including but not limited to (a) the costs of the preparation and printing, or other reproduction (for distribution on or prior to the date hereof) of the City Documents and the cost of preparing, printing, issuing, and delivering the Bonds, (b) the fees and disbursements of any counsel, financial advisors, accountants, or other experts or consultants retained by the City; (c) the fees and disbursements of Bond Counsel and Counsel of the City; (d) the cost of printing the Official Statement and any supplements and amendments thereto, including the requisite number of copies thereof for distribution by the Underwriter; (e) charges of rating agencies for any rating with respect to the Bonds; (f) expenses (included in the expense component of the Underwriter's spread) incurred on behalf of the City's officers or employees which are incidental to implementing this Purchase Contract, including, but not limited to, meals, transportation, lodging, and entertainment of those officers or employees; (g) CUSIP Service Bureau fees and charges; and (h) Trustee and Escrow Agent's fees.

The Underwriter shall pay and the City shall be under no obligation to pay all expenses incurred by it in connection with the public offering and distribution of the Bonds, including any advertising expenses, and the Underwriter shall pay any costs and expenses incurred in connection with the preparation and distribution of any blue sky surveys or any legal investment memoranda and the costs and fees of counsel to the Underwriter.

9. Notice. Any notice or other communication to be given to the City under this Purchase Contract may be given by delivering the same in writing to City of Fortuna, 621 11th Street, Fortuna, California 95540, Attention: City Manager.

Any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to Stifel, Nicolaus & Company, Incorporated, One Montgomery Street, 35<sup>th</sup> Floor, San Francisco, California 94104, Attention: Holly Vocal.

10. Entire Agreement. This Purchase Contract, when accepted by the City shall constitute the entire agreement among the City and the Underwriter with respect to the subject matter hereof and is made solely for the benefit of the City, and the Underwriter (including the successors of the Underwriter). No other person shall acquire or have any right hereunder by virtue hereof, except as provided herein.

11. No Advisory or Fiduciary Role. The City acknowledges and agrees that: (a) the purchase and sale of the Bonds pursuant to this Purchase Contract is an arm's-length commercial transaction between the City and the Underwriter; (b) in connection therewith and with the discussions, undertakings and procedures leading up to the consummation of such transaction, the Underwriter is and has been acting solely as a principal and is not acting as the agent, advisor or

fiduciary of the City; (c) the Underwriter has not assumed an advisory or fiduciary responsibility in favor of the City with respect to the offering contemplated hereby or the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the City on other matters) and the Underwriter has no obligation to the City with respect to the offering contemplated hereby except the obligations expressly set forth in this Purchase Contract; (d) the Underwriter is not acting as municipal advisor (as defined in Section 15B of the Securities Exchange Act of 1934, as amended); and (e) the City has consulted its own legal, financial and other advisors to the extent they deemed appropriate in connection with the offering of the Bonds.

12. Benefit. This Purchase Contract is made solely for the benefit of the City and the Underwriter (including the successors thereof) and no other person, partnership or association, shall acquire or have any right hereunder or by virtue hereof. All representations and agreements by the City in this Purchase Contract shall remain operative and in full force and effect except as otherwise provided herein, regardless of any investigations made by or on behalf of the Underwriter and shall survive the delivery of and payment of the Bonds.

13. Counterparts. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

14. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

15. State Law Governs. THE VALIDITY, INTERPRETATION AND PERFORMANCE OF THIS PURCHASE CONTRACT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA.

16. No Assignment. The rights and obligations created by this Purchase Contract shall not be subject to assignment by the Underwriter or the City without the prior written consent of the other parties hereto.

STIFEL, NICOLAUS & COMPANY,  
INCORPORATED

By: \_\_\_\_\_  
Authorized Officer

Accepted as of \_\_\_\_\_ p.m.:

CITY OF FORTUNA

By: \_\_\_\_\_  
City Manager

**EXHIBIT A**

**MATURITY SCHEDULE**

\$ \_\_\_\_\_  
**CITY OF FORTUNA**  
**SERIES 2017 WATER REVENUE REFUNDING BONDS**  
**(WATER ENTERPRISE PROJECT)**

**MATURITY SCHEDULE**

<i>Maturity Date (June 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Initial Offering Price</i>	<i>10% Test Used</i>	<i>Hold the Offering Price Rule Used</i>
---------------------------------------	-----------------------------	----------------------	-----------------------------------	----------------------	--

\* Term Bonds.

<sup>c</sup> Priced to the optional redemption date of June 1, 20\_\_, at par.

Optional Redemption. The Bonds maturing on or before June 1, 20\_\_ shall not be subject to optional redemption prior to maturity. The Bonds maturing on or after June 1, 20\_\_ shall be subject to redemption prior to their respective maturity dates, at the option of the City, as a whole, or in part, as determined by the City, on any date on or after June 1, 20\_\_, from any source of available funds, at the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds that are Term Bonds are subject to mandatory redemption in whole, or in part by lot, from Sinking Fund Installments, at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest to the date of redemption, in the aggregate respective principal amounts and on June 1 in the years as set forth in the following table:

<b>Sinking Fund Redemption Date (June 1)</b>	<b>Principal Amount</b>
--	-----------------------------

(maturity)

**EXHIBIT B**

**§ \_\_\_\_\_  
CITY OF FORTUNA  
SERIES 2017 WATER REVENUE REFUNDING BONDS  
(WATER ENTERPRISE PROJECT)**

**FORM OF ISSUE PRICE CERTIFICATE**

The undersigned, on behalf of Stifel, Nicolaus & Company, Incorporated (“Stifel”) hereby certifies as set forth below with respect to the sale and issuance of the above-captioned bonds (the “Bonds”).

1. ***Sale of the General Rule Maturities.*** As of the date of this certificate, for each Maturity of the General Rule Maturities, the first price at which at least 10% of such Maturity was sold to the Public is the respective price listed in Schedule A.

2. ***[Initial Offering Price of the Hold-the-Offering-Price Maturities.***

(a) Stifel offered the Hold-the-Offering-Price Maturities to the Public for purchase at the respective initial offering prices listed in Schedule A (the “Initial Offering Prices”) on or before the Sale Date. A copy of the pricing wire or equivalent communication for the Bonds is attached to this certificate as Schedule B.

(b) As set forth in the Purchase Contract, dated \_\_\_\_\_, 2017, by and between Stifel and the City of Fortuna, Stifel has agreed in writing that, (i) for each Maturity of the Hold-the-Offering-Price Maturities, it would neither offer nor sell any of the Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the “hold-the-offering-price rule”), and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any retail distribution agreement shall contain the agreement of each broker-dealer who is a party to the retail distribution agreement, to comply with the hold-the-offering-price rule. Pursuant to such agreement, no Underwriter (as defined below) has offered or sold any Maturity of the Hold-the-Offering-Price Maturities at a price that is higher than the respective Initial Offering Price for that Maturity of the Bonds during the Holding Period.]

3. ***Defined Terms.***

(a) *General Rule Maturities* means those Maturities of the Bonds listed in Schedule A hereto as the “General Rule Maturities.”

(b) *[Hold-the-Offering-Price Maturities* means those Maturities of the Bonds listed in Schedule A hereto as the “Hold-the-Offering-Price Maturities.”

(c) *Holding Period* means, with respect to a Hold-the-Offering-Price Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date (\_\_\_\_\_, 2017), or (ii) the date on which Stifel has sold at least 10% of such

Hold-the-Offering-Price Maturity to the Public at prices that are no higher than the Initial Offering Price for such Hold-the-Offering-Price Maturity.]

(d) *Issuer* means the City of Fortuna.

(e) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate maturities.

(f) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(g) [*Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is \_\_\_\_\_, 2017.

(h) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).]

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents Stifel’s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by **Stradling Yocca Carlson & Rauth** in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

STIFEL, NICOLAUS & COMPANY,  
INCORPORATED

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

Name: \_\_\_\_\_

Dated: \_\_\_\_\_, 2017

**SCHEDULE A**

**SALE PRICES OF THE GENERAL RULE MATURITIES [AND INITIAL OFFERING  
PRICES OF THE HOLD-THE-OFFERING-PRICE MATURITIES]**

*(Attached)*

**SCHEDULE B**

**PRICING WIRE OR EQUIVALENT COMMUNICATION**

*(Attached)*

**EXHIBIT C**

**\$ \_\_\_\_\_ \***  
**CITY OF FORTUNA**  
**SERIES 2017 WATER REVENUE REFUNDING BONDS**  
**(WATER ENTERPRISE PROJECT)**

**RULE 15c2-12 CERTIFICATE**

The undersigned hereby certifies and represents to Stifel, Nicolaus & Company, Incorporated (the “Underwriter”) that the undersigned is a duly appointed and acting officer of the City of Fortuna (the “City”) authorized to execute this Certificate, and further hereby certifies and confirms on behalf of the City to the Underwriter as follows:

(1) This Certificate is delivered to enable the Underwriter to comply with Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934 (the “Rule”) in connection with the offering and sale of the City’s Series 2017 Water Revenue Refunding Bonds (Water Enterprise Project) (the “Bonds”).

(2) In connection with the offering and sale of the Bonds, there has been prepared a Preliminary Official Statement, dated \_\_\_\_\_, 2017, setting forth information concerning the Bonds, the City’s water system and the City, as issuer of the Bonds (the “Preliminary Official Statement”).

(3) As used herein, “Permitted Omissions” shall mean the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the Bonds depending on such matters and the identity of the underwriter(s), all with respect to the Bonds.

(4) The Preliminary Official Statement is, except for the Permitted Omissions, deemed final within the meaning of the Rule and has been, and the information therein is accurate and complete in all material respects except for the Permitted Omissions.

IN WITNESS WHEREOF, I have hereunto set my hand as of the \_\_\_\_\_ day of \_\_\_\_\_, 2017.

CITY OF FORTUNA

By \_\_\_\_\_  
City Manager

\_\_\_\_\_  
\* Preliminary, subject to change.

§ \_\_\_\_\_  
**CITY OF FORTUNA**  
**SERIES 2017 WASTEWATER REVENUE REFUNDING BONDS**  
**(WASTEWATER ENTERPRISE PROJECT)**

**PURCHASE CONTRACT**

\_\_\_\_\_, 2017

City of Fortuna  
 621 11<sup>th</sup> Street  
 Fortuna, California 95540

Ladies and Gentlemen:

Stifel, Nicolaus & Company, Incorporated (the “Underwriter”), acting on behalf of itself and not as an agent or fiduciary for you, offers to enter into this Purchase Contract (the “Purchase Contract”) with the City of Fortuna (the “City”), which Purchase Contract will be binding upon the City and the Underwriter upon the acceptance hereof by the City. This offer is made subject to its acceptance by the City, by the execution of this Purchase Contract and its delivery to the Underwriter on or before 11:59 p.m., California time, on the date hereof. Capitalized terms used herein and not otherwise defined shall have the respective meanings given to such terms in the Indenture (as hereinafter defined).

1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties and agreements hereinafter set forth, the Underwriter hereby agrees to purchase for offering to the public, and the City hereby agrees to cause to be delivered to the Underwriter all (but not less than all) of the \$ \_\_\_\_\_ aggregate principal amount of the City of Fortuna Series 2017 Wastewater Revenue Refunding Bonds (Wastewater Enterprise Project) (the “Bonds”), at the interest rates shown on Exhibit A hereto, which is incorporated herein by this reference, and subject to purchase and redemption as set forth in the Indenture. The City has received a written commitment from \_\_\_\_\_ (the “Insurer”) to issue, upon fulfillment of certain conditions, a debt service reserve insurance policy (the “Reserve Policy”) for deposit into the Reserve Fund established under the Indenture.

The aggregate purchase price for the Bonds shall be \$ \_\_\_\_\_ (representing the aggregate principal amount of the Bonds, [plus/less] [net] original issue [premium/discount] of \$ \_\_\_\_\_, less an underwriting discount of \$ \_\_\_\_\_).

2. Description and Purpose of the Bonds. The Bonds shall be issued pursuant to an Indenture of Trust, dated as of August 1, 2017 (the “Indenture”), by and between the City and U.S. Bank National Association, as trustee (the “Trustee”).

The Bonds are being issued to: (i) refund the outstanding Fortuna Public Financing Authority Wastewater Revenue Bonds, Series 2006 (the “2006 Bonds”); (ii) purchase the Reserve Policy; and (iii) pay costs of issuance of the Bonds.

3. Public Offering.

(a) The Underwriter agrees to make an initial bona fide public offering of all the Bonds at a price of 100% of the principal amount thereof. Subsequent to the initial public offering, the Underwriter reserves the right to change such initial offering price or prices as the Underwriter shall deem necessary in connection with the marketing of the Bonds and to offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the initial offering price or prices set forth in the hereinafter referred to Official Statement. The Underwriter also reserves the right (i) to engage in transactions that stabilize, maintain or otherwise affect the market price of the Bonds at a level above that which might otherwise prevail in the open market and (ii) to discontinue such transactions, if commenced, at any time.

(b) The Underwriter agrees to assist the City in establishing the issue price of the Bonds and shall execute and deliver to the City at Closing (as defined below) an “issue price” or similar certificate, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Exhibit B, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Underwriter, the City and Bond Counsel (as defined below), to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the Bonds. All actions to be taken by the City under this section to establish the issue price of the Bonds may be taken on behalf of the City by the City’s municipal advisor, Public Financial Management, Inc. (the “Municipal Advisor”) and any notice or report to be provided to the City may be provided to the City’s Municipal Advisor.

(c) [Except as otherwise set forth in Exhibit A attached hereto,] the City will treat the first price at which 10% of each maturity of the Bonds (the “10% test”), identified under the column “10% Test Used” in Exhibit A, is sold to the public as the issue price of that maturity (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% test). At or promptly after the execution of this Purchase Contract, the Underwriter shall report to the City the price or prices at which it has sold to the public each maturity of Bonds. If at that time the 10% test has not been satisfied as to any maturity of the Bonds, the Underwriter agrees to promptly report to the City the prices at which it sells the unsold Bonds of that maturity to the public. That reporting obligation shall continue, whether or not the Closing Date (as defined below) has occurred, until the 10% test has been satisfied as to the Bonds of that maturity or until all Bonds of that maturity have been sold to the public.

(d) [The Underwriter confirms that it has offered the Bonds to the public on or before the date of this Purchase Contract at the offering price or prices (the “initial offering price”), or at the corresponding yield or yields, set forth in Exhibit A attached hereto, except as otherwise set forth therein. Exhibit A also sets forth, identified under the column “Hold the Offering Price Rule Used,” as of the date of this Purchase Contract, the maturities, if any, of the Bonds for which the 10% test has not been satisfied and for which the City and the Underwriter agree that the restrictions set forth in the next sentence shall apply, which will allow the City to treat the initial offering price to the public of each such maturity as of the sale date as the issue price of that maturity (the “hold-the-offering-price rule”). So long as the hold-the-offering-price rule remains applicable to any maturity of the Bonds, the Underwriter will neither offer nor sell unsold Bonds of that maturity to any person at a price

that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

(i) the close of the fifth (5th) business day after the sale date; or

(ii) the date on which the Underwriter has sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The Underwriter shall promptly advise the City when it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.]

(e) The Underwriter acknowledges that sales of any Bonds to any person that is a related party to the Underwriter shall not constitute sales to the public for purposes of this section. Further, for purposes of this section:

(i) “public” means any person other than an underwriter or a related party;

(ii) “underwriter” means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public);

(iii) a purchaser of any of the Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other); and

(iv) “sale date” means the date of execution of this Purchase Contract by all parties.

4. Delivery of Official Statement. Pursuant to the authorization of the City, the Underwriter has distributed copies of the Preliminary Official Statement, dated \_\_\_\_\_, 2017, relating to the Bonds, which, together with the cover page and appendices thereto, is herein called the “Preliminary Official Statement.” By its acceptance of this proposal, the City hereby approves and ratifies the distribution and use by the Underwriter of the Preliminary Official Statement. The City has previously deemed the Preliminary Official Statement to be final as of its date for purposes of

Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 (“Rule 15c2-12”), except for information permitted to be omitted therefrom by Rule 15c2-12, and has executed a certificate to that effect in the form attached as Exhibit C.

The City agrees to execute and deliver a final Official Statement (the “Official Statement”) in substantially the same form as the Preliminary Official Statement with such changes as may be made thereto, with the consent of the City and the Underwriter, and to provide copies thereof to the Underwriter as set forth in Section 6(n) hereof. The City hereby authorizes the Underwriter to use and distribute, in connection with the offer and sale of the Bonds: the Preliminary Official Statement, the Official Statement, the Indenture and other documents or contracts to which the City is a party in connection with the transactions contemplated by this Purchase Contract, including this Purchase Contract and all information contained herein, and all other documents, certificates and statements furnished by the City to the Underwriter in connection with the transactions contemplated by this Purchase Contract.

5. The Closing. At 8:00 a.m., California time, on \_\_\_\_\_, 2017 or at such other time or on such earlier or later business day as shall have been mutually agreed upon by the City and the Underwriter, the City will cause to be executed and delivered: (i) the Bonds in book-entry form through the facilities of The Depository Trust Company, or its agent, on behalf of the Underwriter, (ii) the closing documents hereinafter mentioned, at the offices of The Weist Law Firm (“Bond Counsel”), in Scotts Valley, California or another place to be mutually agreed upon by the City and the Underwriter. The Underwriter will accept such delivery of the Bonds and pay the purchase price of such Bonds set forth in Section 1 hereof in immediately available funds to the order of the City, less \$ \_\_\_\_\_ with respect to the premium for the Reserve Policy, which shall be wired by the Underwriter directly to the Insurer on behalf of the City. This payment for and delivery of the Bonds, together with the execution and delivery of the aforementioned documents is herein called the “Closing.”

6. The City’s Representations, Warranties and Covenants. The City represents, warrants and covenants to the Underwriter that:

(a) Due Organization, Existence and Authority. The City is a charter city duly organized and existing under the Constitution and laws of the State of California (the “State”), with full right, power and authority to execute, deliver and perform its obligations under this Purchase Contract, the Indenture and the Continuing Disclosure Certificate (collectively, the “City Documents”) and to carry out and consummate the transactions contemplated by the City Documents and the Official Statement.

(b) Due Authorization and Approval. By all necessary official action of the City, the City has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations contained or described in, the Preliminary Official Statement, the Official Statement and the City Documents and as of the date hereof, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. When executed and delivered, each City Document will constitute the legally valid and binding obligation of the City enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or similar laws or equitable principles relating to or affecting creditors’ rights generally or by the exercise of judicial discretion in appropriate cases or by limitations on legal remedies against public agencies in the State.

(c) Official Statement Accurate and Complete. The Preliminary Official Statement was as of its date, and the Official Statement is, true and correct in all material respects, and the Preliminary Official Statement and the Official Statement contain no misstatement of any material fact and do not omit any statement necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading (except no representation is made with respect to information relating to DTC or DTC's book-entry system or the Insurer or the Reserve Policy).

(d) Underwriter's Consent to Amendments and Supplements to Official Statement. The City will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent will not be unreasonably withheld. The City will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise affecting the use of the Official Statement in connection with the offering, sale or distribution of the Bonds.

(e) City Agreement to Amend or Supplement Official Statement. If after the date of this Purchase Contract and until 25 days after the end of the "underwriting period" (as defined in Rule 15c2-12), any event occurs as a result of which the Official Statement as then amended or supplemented would include an untrue statement of a material fact, or omit to state any material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading, and, in the reasonable opinion of the Underwriter, an amended or supplemented Official Statement should be delivered in connection with the offers or sales of the Bonds to reflect such event, the City promptly will prepare at its expense an amendment or supplement which will correct such statement or omission and the City shall promptly furnish to the Underwriter a reasonable number of copies of such amendment or supplement. The Underwriter hereby agrees to deposit the Official Statement with the Municipal Securities Rulemaking Board. The Underwriter acknowledges that the end of the "underwriting period" will be the date of Closing.

(f) No Material Change in Finances. Except as otherwise described in the Official Statement, there shall not have been any material adverse changes in the financial condition of the Wastewater System since June 30, 2016.

(g) No Breach or Default. As of the time of acceptance hereof, (A) the City is not in default, nor has it been in default, as to principal or interest with respect to an obligation issued by the City, and (B) the City is not, in any manner which would materially adversely affect the transactions contemplated by the City Documents, in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the City is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute, in any manner which would materially adversely affect the transactions contemplated by the City Documents, a default or event of default under any such instrument; and, as of such time, the authorization, execution and delivery of the City Documents and compliance with the provisions of each of such agreements or instruments do not in any manner which would

materially adversely affect the transactions contemplated by the City Documents, conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the City (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound, nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the City Documents.

(h) No Litigation. As of the time of acceptance hereof, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending or, to the best knowledge of the City after due investigation, threatened (A) in any way questioning the corporate existence of the City or the titles of the officers of the City to their respective offices; (B) affecting, contesting or seeking to prohibit, restrain or enjoin the execution or delivery of any of the Bonds, or in any way contesting or affecting the validity of the Bonds or the City Documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of interest on the Bonds from gross income for federal income tax purposes or contesting the powers of the City to enter into the City Documents; (C) which, except as described in the Official Statement, may result in any material adverse change to the financial condition of the Wastewater System or to the sufficiency of Net Revenues to pay the principal of and interest on the Bonds when due; or (D) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (A) through (D) of this sentence.

(i) No Prior Liens on Net Revenues. Except as otherwise described in the Official Statement, the City does not and will not have outstanding any indebtedness which indebtedness is secured by a lien on the Net Revenues superior to or equal to the lien of the Bonds on the Net Revenues.

(j) Further Cooperation: Blue Sky. The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (A) to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and (B) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualifications in effect so long as required for the distribution of the Bonds; provided, however, that the City shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction.

(k) Consents and Approvals. All authorizations, approvals, licenses, permits, consents and orders of or filings with any governmental authority, legislative body, board,

agency or commission having jurisdiction in the matters which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the City of its obligations in connection with the City Documents have been duly obtained or made, except as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Bonds.

(l) No Other Obligations. Between the date of this Purchase Contract and the date of Closing, the City will not, without the prior written consent of the Underwriter, offer or issue any bonds, notes or other obligations for borrowed money, or incur any material liabilities, directly or contingently payable from the Net Revenues.

(m) Certificates. Any certificate signed by any official of the City and delivered to the Underwriter shall be deemed to be a representation and warranty by the City to the Underwriter as to the statements made therein.

(n) Provision of Official Statement. The City hereby covenants and agrees that no later than the date of Closing, the City shall cause final printed copies of the Official Statement to be delivered to the Underwriter in such number of copies as shall reasonably be requested by the Underwriter.

(o) Continuing Disclosure. Except as disclosed in the Preliminary Official Statement, for the previous five years, the City has been and the City is currently in compliance with all continuing disclosure undertakings that it has entered into pursuant to Rule 15c2-12 in all material respects.

7. Closing Conditions. The Underwriter has entered into this Purchase Contract in reliance upon the representations, warranties and covenants herein and the performance by the City of its obligations hereunder, both as of the date hereof and as of the date of the Closing. The Underwriter's obligations under this Purchase Contract to purchase and pay for the Bonds shall be subject to the following additional conditions:

(a) Bring-Down Representation. The representations, warranties and covenants of the City contained herein, shall be true, complete and correct at the date hereof and at the time of the Closing, as if made on the date of the Closing.

(i) Executed Agreements and Performance Thereunder. At the time of the Closing (i) the City Documents shall be in full force and effect, and shall not have been amended, modified or supplemented except with the written consent of the Underwriter, (ii) there shall be in full force and effect such resolutions (the "Resolutions") as, in the opinion of Bond Counsel, shall be necessary in connection with the transactions contemplated by the Official Statement and the City Documents, (iii) the City shall perform or have performed its obligations required or specified in the City Documents to be performed at or prior to Closing, and (iv) the Official Statement shall not have been supplemented or amended, except pursuant to Paragraphs 6(d) and 6(e) hereof or as otherwise may have been agreed to in writing by the Underwriter.

(ii) No Default. At the time of the Closing, no default, or any event that with the passage of time would be reasonably likely to result in default, shall have occurred or be existing under the Resolutions, the City Documents, or any other agreement or document pursuant to which any of the City's financial obligations was issued and the City shall not be in default in the payment of principal or interest on any of its financial obligations which default would materially adversely impact the ability of the City to pay the principal of and interest on the Bonds.

(b) Termination Events. The Underwriter shall have the right to terminate this Purchase Contract, without liability therefor, by written notification to the City if at any time at or prior to the Closing:

(i) any event shall occur which causes any statement contained in the Official Statement to be materially misleading or results in a failure of the Official Statement to state a material fact necessary to make the statements in the Official Statement, in the light of the circumstances under which they were made, not misleading; or

(ii) the marketability of the Bonds or the market price thereof, in the opinion of the Underwriter, has been materially adversely affected by an amendment to the Constitution of the United States or by any legislation in or by the Congress of the United States or by the State, or the amendment of legislation pending as of the date of this Purchase Contract in the Congress of the United States, or the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority materially adversely affecting the federal or State tax status of the City, or the status of the interest on bonds or notes or obligations of the general character of the Bonds; or

(iii) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State, or a decision by any court of competent jurisdiction within the State or any court of the United States shall be rendered which, in the reasonable opinion of the Underwriter, materially adversely affects the market price of the Bonds; or

(iv) legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling,

regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the execution, delivery, offering or sale of obligations of the general character of the Bonds, or the execution, delivery, offering or sale of the Bonds, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of, or that obligations of the general character of the Bonds, or the Bonds, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Indenture needs to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or

(v) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange which restrictions materially adversely affect the Underwriter's ability to trade the Bonds; or

(vi) a general banking moratorium shall have been established by federal or state authorities or any material disruption in commercial banking or securities settlement or clearance services, including, but not limited to, those of DTC, shall have occurred; or

(vii) the United States has become engaged in hostilities which have resulted in a declaration of war or a national emergency or there has occurred any other outbreak or escalation of hostilities or a national or international calamity or crises, financial or otherwise, including but not limited to, bombings or terrorism (whether alleged or proven) relating to the effective operation of government or financial community, the effect of such outbreak, calamity or crisis on the financial markets of the United States, being such as, in the reasonable opinion of the Underwriter, would affect materially and adversely the ability of the Underwriter to market or deliver the Bonds; or

(viii) any rating of the securities of the City reflecting the creditworthiness of the City shall have been downgraded, suspended, withdrawn or have had any action taken with respect thereto by a national rating service, which, in the Underwriter's reasonable opinion, materially adversely affects the marketability or market price of the Bonds; or

(ix) the commencement of any action, suit or proceeding described in Paragraph 6(h) hereof which, in the reasonable judgment of the Underwriter, materially adversely affects the market price of the Bonds; or

(x) there shall be in force a general suspension of trading on the New York Stock Exchange.

(c) Closing Documents. At or prior to the Closing, the Underwriter shall receive with respect to the Bonds the following documents:

(i) Bond Opinion. An approving opinion of Bond Counsel dated the date of the Closing and substantially in the form included as Appendix \_\_ to the Official Statement, together with a letter from such counsel, dated the date of the Closing and addressed to the Underwriter, to the effect that the foregoing opinion addressed to the City may be relied upon by the Underwriter to the same extent as if such opinion were addressed to it.

(ii) Supplemental Opinion. A supplemental opinion or opinions of Bond Counsel addressed to the Underwriter, in form and substance acceptable to the Underwriter, and dated the date of the Closing substantially to the following effect:

(A) The Purchase Contract has been duly authorized, executed and delivered by the City and is a valid and binding agreement of the City enforceable in accordance with its terms, except that the rights and obligations under the Purchase Contract are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State;

(B) The statements contained in the Official Statement on the cover page (excluding statements with respect to the Insurer and the Reserve Policy) and under the captions ["INTRODUCTION," "THE BONDS," "SECURITY FOR THE BONDS," "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES," and "TAX MATTERS" and in Appendix \_\_ and Appendix \_\_] thereto, insofar as such statements purport to summarize certain provisions of the Bonds, the Indenture, State law and Bond Counsel's opinions concerning certain federal and State tax matters relating to the Bonds, are accurate in all material respects as of the date of the Official Statement and as of the date of Closing; and

(iii) City Counsel Opinion. An opinion of the City Attorney, dated the date of the Closing and addressed to the Underwriter, in form and substance acceptable to the Underwriter substantially to the following effect:

(A) The City is a charter city duly organized and validly existing under the constitution and the laws of the State;

(B) The City Documents have been duly authorized, executed and delivered by the City, and the City has full right, power and authority to carry out and consummate all transactions contemplated by the City Documents as of the date of the Official Statement and as of the date of Closing;

(C) The resolution of the City approving and authorizing the execution and delivery of the City Documents, and approving the Official Statement (the "City Resolution"), has been duly adopted at a meeting of the governing body of the City, which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and

acting throughout and the City Resolution is in full force and effect and has not been modified, amended or rescinded;

(D) The execution and delivery of the City Documents and compliance with the provisions thereof, under the circumstances contemplated thereby, do not and will not, in any respect which will have a material adverse impact on the transactions contemplated by the City Documents conflict with, or constitute, or with the giving of notice or the passage of time would constitute, on the part of the City a breach of or default under, any material agreement or other instrument to which the City is a party or by which it is bound (and based in part on a factual certificate of the City) or any existing law, administrative rule, regulation, order, decree, judgment, license or permit to which the City is subject (excluding, however, any opinion as to compliance with any applicable federal securities laws); or by which the City or any of its property is bound;

(E) The Official Statement has been prepared by, or on behalf of, the City under the supervision of the City's Finance Director, and executed on its behalf by authorized officers of the City;

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

(G) No litigation, proceeding, action, suit, or investigation (or any basis therefor) at law or in equity before or by any court, governmental agency or body, pending or threatened, against the City challenging the creation, organization or existence of the City, or the validity of the City Documents or seeking to restrain or enjoin the Bonds or in any way contesting or affecting the validity of the City Documents or any of the transactions referred to therein or contemplated thereby or contesting the authority of the City to enter into or perform its obligations under any of the City Documents, or under which a determination adverse to the City would have a material adverse effect upon the financial condition of the Wastewater System, or which, in any manner, questions or affects the right or ability of the City to enter into the City Documents or affects in any manner the right or ability of the City to use the Net Revenues for repayment of the Bonds or in any manner the right or ability of the City to collect or pledge the Net Revenues.

(iv) Authority Counsel Opinion. An opinion of the City Attorney, as general counsel to the Fortuna Public Financing Authority (the "Authority"), dated the date of the Closing and addressed to the Underwriter, in form and substance acceptable to the Underwriter substantially to the following effect:

(A) The Authority is a public body duly organized and validly existing under the constitution and the laws of the State;

(B) The Escrow Agreement, dated as of August 1, 2017, by and between the Authority and the Trustee, as escrow agent (the “Escrow Agreement”), has been duly authorized, executed and delivered by the Authority, and the Authority has full right, power and authority to carry out and consummate all transactions contemplated by the Escrow Agreement as of the date of the Official Statement and as of the date of Closing;

(C) The resolution of the Authority approving and authorizing the execution and delivery of the Escrow Agreement, and approving the Official Statement (the “Authority Resolution”), has been duly adopted at a meeting of the governing body of the Authority, which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and the Authority Resolution is in full force and effect and has not been modified, amended or rescinded;

(D) The execution and delivery of the Escrow Agreement and compliance with the provisions thereof, under the circumstances contemplated thereby, do not and will not, in any respect which will have a material adverse impact on the transactions contemplated by the Escrow Agreement conflict with, or constitute, or with the giving of notice or the passage of time would constitute, on the part of the Authority a breach of or default under, any material agreement or other instrument to which the Authority is a party or by which it is bound (and based in part on a factual certificate of the Authority) or any existing law, administrative rule, regulation, order, decree, judgment, license or permit to which the Authority is subject (excluding, however, any opinion as to compliance with any applicable federal securities laws); or by which the Authority or any of its property is bound;

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

(F) No litigation, proceeding, action, suit, or investigation (or any basis therefor) at law or in equity before or by any court, governmental agency or body, pending or threatened, against the Authority challenging the creation, organization or existence of the Authority, or the validity of the Escrow Agreement or seeking to restrain or enjoin the Bonds or in any way contesting or affecting the validity of the Escrow Agreement or any of the transactions referred to therein or contemplated thereby or contesting the authority of the Authority to enter into or perform its obligations under any of the Escrow Agreement, or which, in any manner, questions or affects the right or ability of the Authority to enter into the Escrow Agreement.

(v) Trustee Counsel Opinion. The opinion or opinions of counsel to the Trustee, dated the date of the Closing, addressed to the Underwriter, to the effect that:

(A) The Trustee is a national banking association, duly organized and validly existing under the laws of the United States of America, having full corporate power to undertake the trust created under the Indenture;

(B) The Indenture and the Escrow Agreement have been duly authorized, executed and delivered by the Trustee and, assuming due authorization, execution and delivery by the other parties thereto, the Indenture and the Escrow Agreement constitute the valid and binding obligation of the Trustee enforceable in accordance with their terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought;

(C) The Trustee has duly executed and delivered the Bonds upon the order of the City;

(D) The Trustee's actions in executing and delivering the Indenture and the Escrow Agreement are in full compliance with, and do not conflict with any applicable law or governmental regulation and, to the best of such counsel's knowledge, after reasonable inquiry with respect thereto, do not conflict with or violate any contract to which the Trustee is a party or any administrative or judicial decision by which the Trustee is bound; and

(E) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the banking or trust powers of the Trustee that has not been obtained is or will be required for the execution and delivery of the Bonds or the consummation by the Trustee of its obligations under the Indenture and the Escrow Agreement.

(vi) Underwriter's Counsel Opinion. An opinion of Stradling, Yocca, Carlson & Rauth, a Professional Corporation, counsel to the Underwriter ("Underwriter's Counsel"), dated the date of Closing and addressed to the Underwriter in form and substance acceptable to the Underwriter.

(vii) City Certificate. A certificate of the City, dated the date of the Closing, signed on behalf of the City by the City Manager or other duly authorized officer of the City to the effect that:

(A) The representations, warranties and covenants of the City contained in the Purchase Contract are true and correct in all material respects on and as of the date of the Closing as if made on the date of the Closing and the City has complied with all of the terms and conditions of the Purchase Contract required to be complied with by the City at or prior to the date of the closing;

(B) No event affecting the City has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements therein, in the light of the

circumstances under which they were made, not misleading (except no representation is made with respect to information relating to DTC or DTC's book-entry system or the Insurer or the Reserve Policy); and

(C) No event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute an event of default under the City Documents.

(viii) Trustee's Certificate(s). A certificate or certificates, dated the date of Closing, signed by a duly authorized official of the Trustee satisfactory in form and substance to the Underwriter, to the effect that:

(A) The Trustee is duly organized and existing as a national banking association under the laws of the United States of America, having the full corporate power and authority to enter into and perform its duties under the Indenture;

(B) The Trustee is duly authorized to enter into the Indenture and the Escrow Agreement and has duly executed and delivered the Indenture and the Escrow Agreement, and assuming due authorization and execution by the other parties thereto, the Indenture and the Escrow Agreement are legal, valid and binding upon the Trustee, and enforceable against the Trustee in accordance with their terms;

(C) The Trustee has duly authenticated the Bonds under the Indenture and delivered the Bonds to or upon the order of the Underwriter; and

(D) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the banking or trust powers of the Trustee that has not been obtained is or will be required for the issuance of the Bonds or the consummation by the Trustee of its obligations under the Indenture and the Escrow Agreement.

(ix) Disclosure Counsel Opinion. A letter of The Weist Law Firm, as disclosure counsel to the City ("Disclosure Counsel"), addressed to the Underwriter and the City, to the effect that nothing has come to such counsel's attention that would lead them to believe that the Official Statement, as of its date and as of the Closing (but excluding therefrom the appendices thereto, financial statements and statistical data, and information regarding The Depository Trust Company and its book-entry system, and information regarding the Insurer and the Reserve Policy, as to which no opinion need be expressed), contains an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(x) Defeasance Opinion. An opinion of Bond Counsel addressed to the City and the Underwriter to the effect that (i) the Escrow Agreement has been duly authorized by the Authority and is a valid and binding obligation of the Authority;

and (ii) the 2006 Bonds are no longer outstanding under the trust agreement pursuant to which they were issued.

(xi) Transcripts. Two transcripts of all proceedings relating to the authorization and issuance of the Bonds.

(xii) Official Statement. The Official Statement and each supplement or amendment, if any, thereto, executed on behalf of the City by duly authorized officers of the City.

(xiii) City Documents. An original executed copy of each of the City Documents.

(xiv) Escrow Agreement. An original executed copy of the Escrow Agreement.

(xv) City Resolution. Two certified copies of the City Resolution, certified by the City Clerk.

(xvi) Authority Resolution. Two certified copies of the resolution of the Authority approving the Escrow Agreement.

(xvii) Trustee Resolution. Two certified copies of the general resolution of U.S. Bank National Association authorizing the execution and delivery of certain documents by certain officers and employees of U.S. Bank National Association, which resolution authorizes the execution and delivery of the Indenture and the Escrow Agreement.

(xviii) 8038-G. Evidence that the federal tax information form 8038-G has been prepared for filing.

(xix) Tax Certificate. A tax certificate in form satisfactory to Bond Counsel.

(xx) CDAIC Statements. A copy of the Notices of Sale required to be delivered to the California Debt Advisory and Investment Commission pursuant to Sections 8855(g) and 53583 of the California Government Code.

(xxi) Rating. Evidence from S&P Global Ratings, a Standard & Poor's Financial Services LLC business that the Bonds have been assigned a rating of "\_\_\_."

(xxii) Reserve Policy. The Reserve Policy, a Rule 10b-5 certificate and a Rule 15c2-12 certificate of the Insurer, and an opinion of counsel to the Insurer addressed to the City and the Underwriter in form and substance acceptable to Bond Counsel and to counsel to the Underwriter.

(xxiii) 15c2-12 Certificate. In connection with printing and distribution of the Preliminary Official Statement, an executed certificate of the City in the form attached hereto as Exhibit C.

(xxiv) Additional Documents. Such additional certificates, instruments and other documents as the Underwriter may reasonably deem necessary.

If the City shall be unable to satisfy the conditions contained in this Purchase Contract, or if the obligations of the Underwriter shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriter nor the City shall be under further obligation hereunder, except as further set forth in Section 8 hereof.

8. Expenses. The Underwriter shall be under no obligation to pay and the City shall pay or cause to be paid the expenses incident to the performance of the obligations of the City hereunder including but not limited to (a) the costs of the preparation and printing, or other reproduction (for distribution on or prior to the date hereof) of the City Documents and the cost of preparing, printing, issuing, and delivering the Bonds, (b) the fees and disbursements of any counsel, financial advisors, accountants, or other experts or consultants retained by the City; (c) the fees and disbursements of Bond Counsel and Counsel of the City; (d) the cost of printing the Official Statement and any supplements and amendments thereto, including the requisite number of copies thereof for distribution by the Underwriter; (e) charges of rating agencies for any rating with respect to the Bonds; (f) expenses (included in the expense component of the Underwriter's spread) incurred on behalf of the City's officers or employees which are incidental to implementing this Purchase Contract, including, but not limited to, meals, transportation, lodging, and entertainment of those officers or employees; (g) CUSIP Service Bureau fees and charges; and (h) Trustee and Escrow Agent's fees.

The Underwriter shall pay and the City shall be under no obligation to pay all expenses incurred by it in connection with the public offering and distribution of the Bonds, including any advertising expenses, and the Underwriter shall pay any costs and expenses incurred in connection with the preparation and distribution of any blue sky surveys or any legal investment memoranda and the costs and fees of counsel to the Underwriter.

9. Notice. Any notice or other communication to be given to the City under this Purchase Contract may be given by delivering the same in writing to City of Fortuna, 621 11th Street, Fortuna, California 95540, Attention: City Manager.

Any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to Stifel, Nicolaus & Company, Incorporated, One Montgomery Street, 35<sup>th</sup> Floor, San Francisco, California 94104, Attention: Holly Vocal.

10. Entire Agreement. This Purchase Contract, when accepted by the City shall constitute the entire agreement among the City and the Underwriter with respect to the subject matter hereof and is made solely for the benefit of the City, and the Underwriter (including the successors of the Underwriter). No other person shall acquire or have any right hereunder by virtue hereof, except as provided herein.

11. No Advisory or Fiduciary Role. The City acknowledges and agrees that: (a) the purchase and sale of the Bonds pursuant to this Purchase Contract is an arm's-length commercial transaction between the City and the Underwriter; (b) in connection therewith and with the discussions, undertakings and procedures leading up to the consummation of such transaction, the Underwriter is and has been acting solely as a principal and is not acting as the agent, advisor or

fiduciary of the City; (c) the Underwriter has not assumed an advisory or fiduciary responsibility in favor of the City with respect to the offering contemplated hereby or the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the City on other matters) and the Underwriter has no obligation to the City with respect to the offering contemplated hereby except the obligations expressly set forth in this Purchase Contract; (d) the Underwriter is not acting as municipal advisor (as defined in Section 15B of the Securities Exchange Act of 1934, as amended); and (e) the City has consulted its own legal, financial and other advisors to the extent they deemed appropriate in connection with the offering of the Bonds.

12. Benefit. This Purchase Contract is made solely for the benefit of the City and the Underwriter (including the successors thereof) and no other person, partnership or association, shall acquire or have any right hereunder or by virtue hereof. All representations and agreements by the City in this Purchase Contract shall remain operative and in full force and effect except as otherwise provided herein, regardless of any investigations made by or on behalf of the Underwriter and shall survive the delivery of and payment of the Bonds.

13. Counterparts. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

14. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

15. State Law Governs. THE VALIDITY, INTERPRETATION AND PERFORMANCE OF THIS PURCHASE CONTRACT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA.

16. No Assignment. The rights and obligations created by this Purchase Contract shall not be subject to assignment by the Underwriter or the City without the prior written consent of the other parties hereto.

STIFEL, NICOLAUS & COMPANY,  
INCORPORATED

By: \_\_\_\_\_  
Authorized Officer

Accepted as of \_\_\_\_\_ p.m.:

CITY OF FORTUNA

By: \_\_\_\_\_  
City Manager

**EXHIBIT A**

**MATURITY SCHEDULE**

\$ \_\_\_\_\_  
**CITY OF FORTUNA**  
**SERIES 2017 WASTEWATER REVENUE REFUNDING BONDS**  
**(WASTEWATER ENTERPRISE PROJECT)**

**MATURITY SCHEDULE**

<i>Maturity Date (June 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Initial Offering Price</i>	<i>10% Test Used</i>	<i>Hold the Offering Price Rule Used</i>
-----------------------------------	-------------------------	----------------------	-------------------------------	----------------------	--

\* Term Bonds.

<sup>c</sup> Priced to the optional redemption date of June 1, 20\_\_, at par.

Optional Redemption. The Bonds maturing on or before June 1, 20\_\_ shall not be subject to optional redemption prior to maturity. The Bonds maturing on or after June 1, 20\_\_ shall be subject to redemption prior to their respective maturity dates, at the option of the City, as a whole, or in part, as determined by the City, on any date on or after June 1, 20\_\_, from any source of available funds, at the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds that are Term Bonds are subject to mandatory redemption in whole, or in part by lot, from Sinking Fund Installments, at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest to the date of redemption, in the aggregate respective principal amounts and on June 1 in the years as set forth in the following table:

<b>Sinking Fund Redemption Date (June 1)</b>	<b>Principal Amount</b>
--	-----------------------------

(maturity)

**EXHIBIT B**

**§ \_\_\_\_\_  
CITY OF FORTUNA  
SERIES 2017 WASTEWATER REVENUE REFUNDING BONDS  
(WASTEWATER ENTERPRISE PROJECT)**

**FORM OF ISSUE PRICE CERTIFICATE**

The undersigned, on behalf of Stifel, Nicolaus & Company, Incorporated (“Stifel”) hereby certifies as set forth below with respect to the sale and issuance of the above-captioned bonds (the “Bonds”).

1. ***Sale of the General Rule Maturities.*** As of the date of this certificate, for each Maturity of the General Rule Maturities, the first price at which at least 10% of such Maturity was sold to the Public is the respective price listed in Schedule A.

2. ***[Initial Offering Price of the Hold-the-Offering-Price Maturities.***

(a) Stifel offered the Hold-the-Offering-Price Maturities to the Public for purchase at the respective initial offering prices listed in Schedule A (the “Initial Offering Prices”) on or before the Sale Date. A copy of the pricing wire or equivalent communication for the Bonds is attached to this certificate as Schedule B.

(b) As set forth in the Purchase Contract, dated \_\_\_\_\_, 2017, by and between Stifel and the City of Fortuna, Stifel has agreed in writing that, (i) for each Maturity of the Hold-the-Offering-Price Maturities, it would neither offer nor sell any of the Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the “hold-the-offering-price rule”), and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any retail distribution agreement shall contain the agreement of each broker-dealer who is a party to the retail distribution agreement, to comply with the hold-the-offering-price rule. Pursuant to such agreement, no Underwriter (as defined below) has offered or sold any Maturity of the Hold-the-Offering-Price Maturities at a price that is higher than the respective Initial Offering Price for that Maturity of the Bonds during the Holding Period.]

3. ***Defined Terms.***

(a) ***General Rule Maturities*** means those Maturities of the Bonds listed in Schedule A hereto as the “General Rule Maturities.”

(b) ***[Hold-the-Offering-Price Maturities*** means those Maturities of the Bonds listed in Schedule A hereto as the “Hold-the-Offering-Price Maturities.”

(c) ***Holding Period*** means, with respect to a Hold-the-Offering-Price Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date (\_\_\_\_\_, 2017), or (ii) the date on which Stifel has sold at least 10% of such

Hold-the-Offering-Price Maturity to the Public at prices that are no higher than the Initial Offering Price for such Hold-the-Offering-Price Maturity.]

(d) *Issuer* means the City of Fortuna.

(e) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate maturities.

(f) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(g) [*Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is \_\_\_\_\_, 2017.

(h) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).]

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents Stifel’s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Stradling Yocca Carlson & Rauth in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

STIFEL, NICOLAUS & COMPANY,  
INCORPORATED

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

Name: \_\_\_\_\_

Dated: \_\_\_\_\_, 2017

**SCHEDULE A**

**SALE PRICES OF THE GENERAL RULE MATURITIES [AND INITIAL OFFERING  
PRICES OF THE HOLD-THE-OFFERING-PRICE MATURITIES]**

*(Attached)*

**SCHEDULE B**

**PRICING WIRE OR EQUIVALENT COMMUNICATION**

*(Attached)*

**EXHIBIT C**

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

**CITY OF FORTUNA**

**SERIES 2017 WASTEWATER REVENUE REFUNDING BONDS  
(WASTEWATER ENTERPRISE PROJECT)**

**RULE 15c2-12 CERTIFICATE**

The undersigned hereby certifies and represents to Stifel, Nicolaus & Company, Incorporated (the "Underwriter") that the undersigned is a duly appointed and acting officer of the City of Fortuna (the "City") authorized to execute this Certificate, and further hereby certifies and confirms on behalf of the City to the Underwriter as follows:

(1) This Certificate is delivered to enable the Underwriter to comply with Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule") in connection with the offering and sale of the City's Series 2017 Wastewater Revenue Refunding Bonds (Wastewater Enterprise Project) (the "Bonds").

(2) In connection with the offering and sale of the Bonds, there has been prepared a Preliminary Official Statement, dated \_\_\_\_\_, 2017, setting forth information concerning the Bonds, the City's wastewater system and the City, as issuer of the Bonds (the "Preliminary Official Statement").

(3) As used herein, "Permitted Omissions" shall mean the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the Bonds depending on such matters and the identity of the underwriter(s), all with respect to the Bonds.

(4) The Preliminary Official Statement is, except for the Permitted Omissions, deemed final within the meaning of the Rule and has been, and the information therein is accurate and complete in all material respects except for the Permitted Omissions.

IN WITNESS WHEREOF, I have hereunto set my hand as of the \_\_\_\_\_ day of \_\_\_\_\_, 2017.

CITY OF FORTUNA

By \_\_\_\_\_  
City Manager

\* Preliminary, subject to change.



**STAFF REPORT**  
***Successor Agency Board***  
***Business Agenda Item***

---

**DATE:** August 30, 2017

**TO:** Successor Agency Board Members

**FROM:** Mark Wheatley, Executive Director

**SUBJECT:** Refunding of Outstanding Former Fortuna Redevelopment Agency Bonds;  
Approving form of Preliminary Official Statement, Bond Purchase Agreement,  
Continuing Disclosure Certificate and other Related Matters

**STAFF RECOMMENDATION:**

It is recommended the Successor Agency adopt *Resolution SA 2017-02*, thereby approving the sale, execution and delivery of the Refunding Bonds.

**EXECUTIVE SUMMARY:**

Prior to dissolution, on October 30, 2007, the Fortuna Redevelopment Agency (the “Former Agency”) caused the Fortuna Public Financing Authority (the “Authority”) to issue Series 2007 Revenue Bonds in the original aggregate amount of \$17,500,000 (the “2007 Bonds”), which have a total remaining principal balance outstanding of approximately \$12,025,000. A substantial portion (which portion is referred to as the “Prior Bonds”) of the 2007 Bonds (originally \$13,280,000, and now a remaining balance of approximately \$9,765,000) was loaned to the Former Agency to finance and refinance certain redevelopment projects (the “RDA Projects”). The 2007 Bonds, as well as the Prior Bonds, bear interest at rates ranging from 4.00% to 5.00%, and have a final maturity date of November 1, 2038.

On May 1, 2017, the Successor Agency adopted Resolution No. SA 2017-01 (the “Authorizing Resolution”) approving certain documents and authorizing the sale and issuance of its Series 2017 Tax Allocation Refunding Bonds (Fortuna Redevelopment Project) (the “Refunding Bonds”) for the purpose of (i) prepaying and refunding the 2007 Bonds, as well as the Prior Bonds, (ii) paying the costs of issuing the Refunding Bonds including reasonable staff costs, (iii) funding a reserve account for the Refunding Bonds, and (iv) if advisable, paying for the cost of municipal bond insurance and/or a surety to fund the reserve account for the Refunding Bonds in lieu of funding all or a portion of such reserve account with Refunding Bond proceeds. The process of issuing the Refunding Bonds to replace existing 2007 Bonds is referred to as a “Refunding.”

On May 2, 2017, the Oversight Board to the Successor Agency (the “Oversight Board”) adopted Resolution No. OB 2017-03 approving the actions of the Successor Agency and the issuance of the Refunding Bonds (the “Oversight Board Resolution”). And, as required by redevelopment dissolution law, the California Department of Finance (DOF) issued its letter dated June 23, 2017, establishing DOF’s approval of the Oversight Board Resolution and the issuance of the Refunding Bonds.

## **REVIEW AND ANALYSIS:**

The final action required of the Successor Agency in connection with issuance of the Refunding Bonds is the adoption of the subject resolution which approves the form of (i) a Bond Purchase Agreement, (ii) a Preliminary Official Statement for the Refunding Bonds, and (iii) a Continuing Disclosure Certificate.

Based upon the results of a Request for Proposals (RFP) process, staff is recommending that the Successor Agency use Stifel, Nicolaus & Company, Inc. (“Underwriter”) as underwriter in connection with this transaction due to its extensive experience in the tax allocation bond market and its excellent proposal submitted in response to the RFP.

Approval of the attached resolution will authorize the execution of the following documents:

- ***Bond Purchase Agreement (BPA)***. This document contains the obligation of the Underwriter to accept and pay for the Bonds, provided that all of the covenants and representations of the City are met and certain other conditions excusing performance by the underwriter do not exist.

- ***Preliminary Official Statement (POS)***. This is the Successor Agency’s document pursuant to which the Refunding Bonds will be marketed and publicly offered. The POS has been prepared by The Weist Law Firm, as Disclosure Counsel to the Successor Agency, with the assistance of PFM – the Financial Advisor, the Underwriter, and Successor Agency staff. This document describes the Successor Agency, the Refunding, the Project Area, the structure and credit quality of the Refunding Bonds, the financing documents, and the risk factors associated with an investment in the Refunding Bonds. The POS is distributed by the Underwriter to prospective investors prior to the bond sale so that they can make informed purchase decisions. The POS is the central source of information to potential bond buyers, and as such it is essential that the information be accurate and complete. Once the BPA has been executed by the Successor Agency and Underwriter, the final pricing detail will be used to fill in the blanks of the POS, which will then be used as the basis for the final Official Statement (the “Official Statement”).

***Important Information about Securities Disclosure:*** The POS has been reviewed and approved for transmittal to the Board by staff and the financing team. The POS must include all facts that could be considered material to an investor in the Refunding Bonds. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the Refunding Bonds. It is important that this document does not contain any material misstatements or omissions. Members of the Board are encouraged to review the POS and/or question staff and consultants to make sure they feel comfortable that it includes all material facts.

- **Continuing Disclosure Certificate (CDC).** The CDC is an agreement between the Successor Agency and the Dissemination Agent pursuant to which the Successor Agency is obligated to make certain secondary market disclosures on an annual basis to comply with securities regulations.

### **NEXT STEPS:**

Upon the Successor Agency’s approval of the subject resolution, staff will work with the financing team to pursue a credit rating from Standard & Poor’s Global Ratings and solicit bids for bond insurance for the Refunding Bonds. The Successor Agency expects an underlying credit rating on the Refunding Bonds in the “A” category. The Successor Agency will determine closer to the pricing of the Refunding Bonds whether utilizing bond insurance provides economic benefit to the Refunding. The Oversight Board for the Successor Agency does not need to approve the POS or the BPA, or take any further action.

Upon receipt of the credit rating, the Refunding Bonds will be sold to the Underwriter pursuant to the BPA, which will contain all final rates and terms.

### **FISCAL IMPACT:**

Based on current market rates, a refinancing of the outstanding bonds will generate cash flow savings through November 1, 2038, which would be divided among the taxing entities.

### **RECOMMENDED SUCCESSOR AGENCY BOARD ACTION:**

1. Receive staff presentation and review Board questions with staff
2. Open the public hearing.
3. Close the public hearing.
4. Motion to adopt *Resolution SA 2017-02* and read by title only. Voice vote.

### **ATTACHMENTS:**

Attachment A      Successor Agency *Resolution SA 2017-02*

Attachment B      Form of Preliminary Official Statement

- Form of Continuing Disclosure Certificate (attached at Appendix E to the Preliminary Official Statement)

) Attachment C      Form of Bond Purchase Agreement



**ATTACHMENT A**

**FORTUNA SUCCESSOR AGENCY**

**RESOLUTION SA 2017-02**

**A RESOLUTION OF THE SUCCESSOR AGENCY TO THE FORTUNA REDEVELOPMENT AGENCY APPROVING THE FORM OF PRELIMINARY OFFICIAL STATEMENT AND BOND PURCHASE AGREEMENT IN CONNECTION WITH THE REFUNDING OF THE SUCCESSOR AGENCY'S LONG-TERM BONDED INDEBTEDNESS, AND APPROVING CERTAIN OTHER MATTERS AND OFFICIAL ACTIONS RELATED THERETO**

**WHEREAS**, the Redevelopment Agency of the City of Fortuna (the "Former Agency") was a public body, corporate and politic, duly established and authorized to transact business and exercise powers under and pursuant to the provisions of the Community Redevelopment Law of the State of California, constituting Part 1 of Division 24 of the Health and Safety Code of the State (the "Law"); and

**WHEREAS**, a redevelopment plan for the redevelopment project area designated the "Fortuna Redevelopment Project" in the City of Fortuna, California (the "Redevelopment Project") was adopted in compliance with all requirements of the Law; and

**WHEREAS**, pursuant to Section 34172(a) of the California Health and Safety Code (unless otherwise noted, Section references hereinafter being to such Code), the Former Agency has been dissolved and no longer exists as a public body, corporate and politic, and pursuant to Section 34173, and the City of Fortuna (the "City") has become the successor entity to the Former Agency (the "Successor Agency"); and

**WHEREAS**, in order to provide financing for the Redevelopment Project, the Former Agency entered into a Loan Agreement (the "Prior Loan Agreement"), dated as of October 1, 2007, by and among the Agency, the Fortuna Public Financing Authority (the "Authority") and the trustee named thereunder (the "Prior Trustee"), which was purchased by the Authority as a Local Obligation (the "Local Loan Obligation") under a Trust Agreement dated as of October 1, 2007, by and among the Authority, the Former Agency and Prior Trustee (the "Prior Trust Agreement," and together with the Prior Loan Agreement, the "Prior Bond Documents"); and

**WHEREAS**, the Authority issued its Revenue Bonds, Series 2007, on October 30, 2007 in the aggregate principal amount of \$17,500,000 (the "2007 Bonds"), which 2007 Bonds are secured in part (which portion is hereafter referred to as the "Prior Bonds") by the Loan Agreement; and

**WHEREAS**, Assembly Bill X1 26, effective June 29, 2011, together with AB 1484, effective June 27, 2012 ("AB 1484" and, collectively, as further amended, the "Dissolution Act"), resulted in the dissolution of the Former Agency as of February 1, 2012, and the vesting in the Successor Agency of all of the authority, rights, powers, duties and obligations of the Former Agency; and

**WHEREAS**, Section 34177.5 authorizes the Successor Agency to issue refunding bonds pursuant to Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title

5 of the Government Code (the “Refunding Law”) for the purpose of achieving debt service savings within the parameters set forth in Section 34177.5(a)(1) (the “Savings Parameters”); and

**WHEREAS**, the Successor Agency has determined that the Savings Parameter can be achieved and it is necessary and advisable to prepay and cause the refunding (the “Refunding”) of the Local Loan Obligation and corresponding Prior Bonds through the issuance pursuant to the Law, the Dissolution Act and the Refunding Law of its Successor Agency to the Fortuna Redevelopment Agency, Series 2017 Tax Allocation Refunding Bonds (Fortuna Redevelopment Project) (the “Refunding Bonds”); and

**WHEREAS**, the Successor Agency previously adopted Resolution No. SA 2017-01 on May 1, 2017 (the “Prior Successor Agency Resolution”), approving the issuance of the Refunding Bonds; and

**WHEREAS**, pursuant to Sections 34177.5(f) and 34180 of the Law, the issuance of the Refunding Bonds is subject to the prior approval of the Oversight Board and the California State Department of Finance (the “DOF”); and

**WHEREAS**, the Oversight Board adopted Resolution No. OB 2017-03 on May 2, 2017 (the “Oversight Board Resolution”), approving the issuance of the Refunding Bonds; and

**WHEREAS**, the DOF issued its letter dated June 23, 2017, specifying the DOF’s approval of the Refunding; and

**WHEREAS**, the Successor Agency, with the assistance of its disclosure counsel, The Weist Law Firm, has prepared a draft of the Official Statement for the Refunding Bonds (the “Official Statement”), which contains, among other things, information regarding the Refunding Bonds, the Former Agency and the Successor Agency, the preliminary form of which is on file with the City Clerk, as the secretary (the “Secretary”) of the Successor Agency; and

**WHEREAS**, the Successor Agency, with the aid of its staff, has reviewed the Official Statement and wishes at this time to approve the Official Statement’s use and distribution as in the public interests of the Successor Agency and applicable taxing entities; and

**WHEREAS**, the Successor Agency has determined that the Refunding Bonds will be sold to Stifel, Nicolaus & Company, Inc. (the “Underwriter”), and there has been presented to the Successor Agency a form of bond purchase agreement (the “Purchase Agreement”), copies of which have been presented at this meeting and are on file with the Secretary; and

**WHEREAS**, there has been prepared and filed with the Secretary a proposed form of Continuing Disclosure Certificate (the “Continuing Disclosure Certificate”) in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5), and this Board hereby finds and determines that it is in the public interest and for the public benefit that the form of Continuing Disclosure Certificate be approved and that certain policy and procedure be established therefore; and

**NOW, THEREFORE, BE IT RESOLVED** by the Successor Agency to the Fortuna Redevelopment Agency, as follows:

**Section 1. Finding as to Recitals.** The above recitals are true and correct and are a substantive part of this Resolution.

**Section 2. Affirmation of Issuance of the Bonds.** The approval of issuance of the Refunding Bonds pursuant to the Prior Successor Agency Resolution is hereby affirmed.

**Section 3. Authorized Representatives.** The Chairman, Vice Chairman, Executive Director, Treasurer, Secretary and any other person authorized by the Executive Director to act on behalf of the Successor Agency shall each be an “Authorized Representative” of the Successor Agency for the purposes of structuring and providing for the issuance of the Refunding Bonds and the execution of the Purchase Agreement, Official Statement, and the Continuing Disclosure Certificate presented at this meeting, and are hereby authorized, jointly and severally, for and in the name of and on behalf of the Successor Agency, to execute and deliver any and all documents and certificates that may be required to be executed in connection with the issuance of the Refunding Bonds, and to do any and all things and take any and all actions which may be necessary or advisable, in their discretion, to effectuate the actions approved in this Resolution.

**Section 4. Approval of Preliminary Official Statement.** The Successor Agency hereby approves the preliminary Official Statement in substantially the form on file with the Secretary of the Successor Agency. Distribution of the preliminary Official Statement by the Successor Agency and the Underwriter is hereby approved, and, prior to the distribution of the preliminary Official Statement, each Authorized Representative, acting alone, are authorized and directed, on behalf of the Successor Agency, to deem the preliminary Official Statement “final” pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934 (the “Rule”). The execution of the final Official Statement, which shall include such changes and additions thereto deemed advisable by the Authorized Representative executing the same, and such information permitted to be excluded from the preliminary Official Statement pursuant to the Rule, is hereby approved for delivery to the purchasers of the Refunding Bonds, and each Authorized Representative, acting alone, is authorized and directed to execute and deliver the final Official Statement for and on behalf of the Successor Agency, to deliver to the Underwriter a certificate with respect to the information set forth therein and to deliver to the Underwriter a continuing disclosure undertaking substantially in the form appended to the final Official Statement.

**Section 5. Approval of Continuing Disclosure Certificate.** The Board hereby approves the Continuing Disclosure Certificate, in substantially the form attached to the Preliminary Official Statement together with any changes therein or additions thereto deemed advisable by the Authorized Representatives, such approval to be conclusively evidenced by the execution and delivery thereof. The Authorized Representatives are hereby separately authorized and directed to execute, and the Secretary is hereby authorized and directed to attest the final form of the Continuing Disclosure Certificate, for and in the name and on behalf of the Successor Agency. The Board hereby authorizes the delivery and performance of the Continuing Disclosure Certificate.

**Section 6. Approval of Purchase Agreement.** The form of Purchase Agreement presented at this meeting is hereby approved and the Authorized Representatives are hereby authorized to accept, for and in the name of the Successor Agency, such Purchase Agreement in substantially the form hereby approved with such changes therein as the officer executing the same may approve, such approval to be conclusively evidenced by the execution and delivery thereof, provided that the Underwriter’s discount or fee (not including any original issue discount or premium on the Refunding Bonds) shall not exceed 1% of the principal amount of Refunding Bonds sold.

**Section 7. Official Actions.** The Authorized Representatives and any and all other officers of the Successor Agency are hereby authorized and directed, for and in the name and on behalf of the Successor Agency, to do any and all things and take any and all actions, which they, or any of them, may deem necessary or advisable in consummating the issuance, sale and delivery of the Refunding Bonds and the refunding of the Prior Bonds. Whenever in this Resolution any officer of the Successor Agency is directed to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer is absent or unavailable.

**Section 8. Effective Date.** This Resolution shall take effect from and after the date of approval and adoption thereof.

**ADOPTED THIS** 30th day of August 2017 by the Successor Agency by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

\_\_\_\_\_  
Chair of the Board

ATTEST:

\_\_\_\_\_  
Clerk of the Successor Agency

**NEW ISSUE—BOOK-ENTRY ONLY****RATINGS**S&P: “\_\_” (Insured) “\_\_” (Underlying)  
(See “RATINGS” herein)

*In the opinion of The Weist Law Firm, Scotts Valley, California, Bond Counsel, subject however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See “TAX MATTERS” herein.*

**\$(Par Amount)**  
**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA**  
**SERIES 2017 TAX ALLOCATION REFUNDING BONDS**  
**(FORTUNA REDEVELOPMENT PROJECT)**

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

*This cover page contains certain information for general reference only. It is not intended to be a summary of all factors relating to an investment in the Bonds. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. For a discussion of some of the risks associated with a purchase of the Bonds, see “RISK FACTORS” herein.*

The \$(Par Amount) aggregate principal amount of above-captioned Successor Agency to the Redevelopment Agency of the City of Fortuna, Series 2017 Tax Allocation Refunding Bonds (Fortuna Redevelopment Project) (the “Bonds”) are being issued by the Successor Agency to the Redevelopment Agency of the City of Fortuna (the “Successor Agency”) pursuant to an Indenture of Trust, dated as of \_\_\_\_\_ 1, 2017 (the “Indenture”), by and between the Successor Agency and U.S. Bank National Association, as trustee (the “Trustee”).

The Bonds are being issued to (i) redeem and defease certain tax allocation bonds of the Successor Agency, as described herein; (ii) pay the premium for a surety for the Reserve Account for the Bonds, (iii) pay the premium for a municipal bond insurance policy for the Bonds, and (iv) pay costs of issuance of the Bonds. See “PLAN OF REFUNDING” herein.

Interest on the Bonds will be payable on May 1 and November 1 of each year, commencing May 1, 2018 (each, an “Interest Payment Date”). The Bonds will be issued in fully registered form without coupons and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry form only in denominations of \$5,000 or any integral multiple thereof. Purchasers of such beneficial interests will not receive physical certificates representing their interests in the Bonds. Payment of principal of, interest and premium, if any, on the Bonds will be made directly to DTC or its nominee, Cede & Co., so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursement of such payments to the DTC Participants (as defined herein) is the responsibility of DTC and disbursement of such payments to the Beneficial Owners (as defined herein) is the responsibility of the DTC Participants, as more fully described herein. See “THE BONDS—Book-Entry-Only System” herein.

The Bonds are special obligations of the Successor Agency and are payable solely from and secured by a pledge of Tax Revenues (as defined herein) and moneys on deposit in the Redevelopment Property Tax Trust Fund and the Redevelopment Obligation Retirement Fund, and by a pledge of amounts in certain funds and accounts established under the Indenture, as further discussed herein.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by \_\_\_\_\_ (“Insurer”). See “BOND INSURANCE” herein.

[Insurer Logo]

**The Bonds are subject to optional redemption prior to maturity as described herein. See “THE BONDS - Optional Redemption” herein.**

THE BONDS ARE NOT A DEBT OF THE CITY OF FORTUNA (THE “CITY”) OR THE STATE OF CALIFORNIA (THE “STATE”), OR ANY OF THE STATE’S POLITICAL SUBDIVISIONS (OTHER THAN THE SUCCESSOR AGENCY), AND NEITHER THE CITY NOR THE STATE, NOR ANY OF THE STATE’S POLITICAL SUBDIVISIONS (OTHER THAN THE SUCCESSOR AGENCY), IS LIABLE THEREFOR. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NEITHER THE BOARD MEMBERS OF THE SUCCESSOR AGENCY NOR ANY PERSONS RESPONSIBLE FOR THE EXECUTION OF THE BONDS IS LIABLE PERSONALLY FOR PAYMENT OF THE BONDS BY REASON OF THEIR ISSUANCE. THE SUCCESSOR AGENCY HAS NO TAXING POWER.

*The Bonds are offered, when, as and if issued and accepted by the Underwriter, subject to the approval of validity by The Weist Law Firm, Scotts Valley, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed upon for the Successor Agency by The Weist Law Firm, Scotts Valley, California, Disclosure Counsel, and by David Tranberg, Esq., Eureka, California, as Successor Agency counsel, and for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, Newport Beach, California. It is anticipated that the Bonds in book-entry form will be available for delivery to DTC on or about \_\_\_\_\_, 2017.*

**Stifel, Nicolaus & Company, Inc. [Logo]**

Dated: \_\_\_\_\_, 2017

\*Preliminary, subject to change.

**MATURITY SCHEDULE**

**\$(Par Amount)\*  
SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA  
SERIES 2017 TAX ALLOCATION REFUNDING BONDS  
(FORTUNA REDEVELOPMENT PROJECT)**

(Base CUSIP<sup>†</sup> No.: \_\_\_\_\_)

<u>Maturity</u> (November 1)	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP<sup>†</sup></u>
---------------------------------	-----------------------------------	--------------------------------	--------------	--------------	--------------------------

\$ \_\_\_\_\_ . \_\_\_\_ % Term Bond due November 1, 20\_\_ Yield: . \_\_\_\_ % – Price \_\_\_\_ . \_\_\_\_ % CUSIP<sup>†</sup> No. \_\_\_\_

\$ \_\_\_\_\_ . \_\_\_\_ % Term Bond due November 1, 20\_\_ Yield: . \_\_\_\_ % – Price \_\_\_\_ . \_\_\_\_ % CUSIP<sup>†</sup> No. \_\_\_\_

\* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright© 2017 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. Such CUSIP® data are provided only for the convenience of the reader and are not intended to create a database and do not serve in any way as a substitute for the services and information provided by CGS. None of the Successor Agency, the Underwriter, or any of their agents or counsel, assumes any responsibility for the accuracy of any CUSIP® data set forth herein or for any changes or errors in such data.

No dealer, broker, salesperson or other person has been authorized by the Successor Agency 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 representations must not be relied upon as having been authorized by any of the foregoing.

The Successor Agency has undertaken to provide continuing disclosure on certain matters, including annual financial information and specific enumerated events, as more fully described herein under “CONTINUING DISCLOSURE.”

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended (“Rule 15c2-12”), this Preliminary Official Statement constitutes an “official statement” of the Successor Agency with respect to the Bonds that has been deemed “final” by the Successor Agency as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

The information set forth herein has been obtained from the Successor Agency and other sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed by, and should not be construed as a representation by, the Underwriter. The information and expressions of opinions herein are subject to change without notice and neither delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Successor Agency since the date hereof. All summaries contained herein of the Indenture or other documents are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All statements made herein are made as of the date of this document by the Successor Agency except statistical information or other statements where some other date is indicated in the text.

\_\_\_\_\_ (the “Insurer”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, the Insurer has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer supplied by the Insurer and presented under the heading “Bond Insurance” and “Appendix I - Specimen Municipal Bond Insurance Policy.”

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL ON THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly described herein, are intended solely as such and are not to be construed as representations of fact. Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget,” “project,” “forecast” or other similar words.

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Successor Agency does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based, occur.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA  
County of Humboldt, California**

---

**FORTUNA CITY COUNCIL / SUCCESSOR AGENCY BOARD**

Sue Long, *Mayor/Chairman*  
Tami Trent, *Mayor Pro Tem/Vice Chairman*  
Doug Strehl, *Council Member/Board Member*  
Tiara Brown, *Council Member/Board Member*  
Dean Glaser, *Council Member/Board Member*

**CITY/ SUCCESSOR AGENCY STAFF**

Mark Wheatley, *City Manager/Executor Director*  
Aaron Felmlee, *Finance Director/Treasurer*  
Siana Emmons, *City Clerk/Secretary*  
David Tranberg, Esq., *City Attorney*

---

**PROFESSIONAL SERVICES**

**Bond Counsel and Disclosure Counsel**

The Weist Law Firm  
*Scotts Valley, California*

**Municipal Advisor**

Public Financial Management Inc.  
*San Francisco, California*

**Fiscal Consultant**

HdL Coren & Cone  
*Diamond Bar, California*

**Trustee**

U.S. Bank National Association  
*San Francisco, California*

**TABLE OF CONTENTS**

**INTRODUCTION..... 1**

    General..... 1

    Authority for Issuance..... 1

    Purpose of Issuance..... 1

    The Successor Agency..... 2

    The City..... 2

    The Project Area..... 2

    The Bonds..... 3

    Book-Entry System..... 3

    Security for the Bonds..... 3

    Prior Payment Obligations..... 4

    Municipal Bond Insurance..... 4

    Reserve Account..... 4

    Limited Obligations..... 4

    Parity Bonds..... 4

    Continuing Disclosure..... 4

    Professionals Involved in the Offering..... 5

    Further Information..... 5

**PLAN OF REFUNDING..... 5**

    Redemption of Prior Bonds..... 5

    Sources and Uses of Funds..... 6

    Debt Service Schedule..... 6

**THE BONDS..... 8**

    Authority for Issuance..... 8

    Description of the Bonds..... 8

    Redemption Provisions..... 8

    Book-Entry Only System..... 9

**BOND INSURANCE..... 10**

    Bond Insurance Policy..... 10

**THE DISSOLUTION ACT..... 10**

**SECURITY FOR THE BONDS..... 11**

    Background..... 11

    The Dissolution Act..... 11

    Security and Sources of Payment for the Bonds..... 12

    Limitation on Additional Indebtedness..... 13

    Recognized Obligation Payment Schedules..... 13

    Last and Final Recognized Obligation Payment Schedule..... 16

    Pass-Through Agreements..... 17

    Section 33676 Tax Sharing Payments..... 18

    Flow of Fund; Reserve Account..... 18

    Elimination of Housing Set-Aside..... 20

    Humboldt County Auditor-Controller..... 20

    Certain Covenants of the Successor Agency..... 20

<b>THE SUCCESSOR AGENCY .....</b>	<b>23</b>
Former Agency .....	23
Establishment of Successor Agency .....	23
Members, Officers and Staff.....	23
Agency Powers and Duties .....	24
Due Diligence Reviews.....	24
Real Property Disposition; Long Range Property Management Plan.....	25
Audited Financial Statements .....	25
<b>THE PROJECT AREA .....</b>	<b>26</b>
The Redevelopment Plan .....	26
The Project Area .....	26
Top Ten Taxable Property Owners in the Project Area.....	27
<b>TAX REVENUES AND DEBT SERVICE COVERAGE .....</b>	<b>28</b>
Humboldt County Tax Increment Calculation; Teeter Plan .....	28
Historical Assessed Valuation and Tax Revenues .....	28
Historical Assessed Valuation and Tax Revenues .....	29
Tax Assessment Appeals .....	30
Projected Tax Revenues – Assuming No Growth .....	31
Projected Tax Revenues – Assuming 2% Annual Growth .....	33
Estimated Debt Service Coverage – Assuming No Annual Growth.....	35
Estimated Debt Service Coverage – Assuming 2% Annual Growth .....	36
<b>RISK FACTORS.....</b>	<b>37</b>
Reduction in Taxable Value.....	37
Limited Powers and Resources .....	37
Risks to Real Estate Market.....	38
Reduction in Inflationary Rate.....	39
Development Risks .....	39
Concentration of Ownership .....	39
Levy and Collection of Taxes .....	39
Recognized Obligation Payment Schedule .....	40
Last and Final Recognized Obligation Payment Schedule .....	42
Future Implementation of Dissolution Act .....	42
State Budget.....	43
Bankruptcy and Foreclosure .....	44
Bond Insurance Risk Factors .....	44
Effect of Assessment Appeals .....	45
Estimated Revenues .....	45
Assumptions and Projections.....	45
Limitations on Remedies .....	46
Hazardous Substances.....	46
Natural Disasters.....	46
Changes in the Law.....	46
Economic Risk.....	47
Investment Risk .....	47
Additional Obligations.....	47
Secondary Market.....	47
Financial Statements .....	47

No Validation Proceeding Undertaken .....	48
IRS Audit of Tax-Exempt Bond Issues.....	48
Loss of Tax Exemption.....	48
<b>PROPERTY TAXATION IN CALIFORNIA.....</b>	<b>49</b>
Constitutional Amendments Affecting Tax Revenues.....	49
Implementing Legislation .....	49
Constitutional Challenges to Property Tax System .....	50
Property Tax Collection Procedures .....	50
Supplemental Assessments .....	51
Tax Collection Fees .....	51
Rate of Collections.....	51
Unitary Property Tax .....	52
Business Inventory and Replacement Revenue .....	52
Future Initiatives .....	52
<b>CERTAIN LEGAL MATTERS .....</b>	<b>53</b>
<b>ABSENCE OF LITIGATION .....</b>	<b>53</b>
<b>FINANCIAL STATEMENTS.....</b>	<b>53</b>
<b>TAX MATTERS .....</b>	<b>53</b>
<b>MUNICIPAL ADVISOR.....</b>	<b>54</b>
<b>UNDERWRITING.....</b>	<b>55</b>
<b>RATINGS .....</b>	<b>55</b>
<b>CONTINUING DISCLOSURE .....</b>	<b>55</b>
<b>MISCELLANEOUS .....</b>	<b>56</b>
<b>EXECUTION AND DELIVERY.....</b>	<b>56</b>

APPENDICES

APPENDIX A – FISCAL CONSULTANT’S REPORT .....	A-1
APPENDIX B – GENERAL INFORMATION REGARDING THE CITY .....	B-1
APPENDIX C – AUDITED FINANCIAL STATEMENTS OF THE CITY OF FORTUNA FOR THE FISCAL YEAR ENDED JUNE 30, 2016 .....	C-1
APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE .....	D-1
APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE .....	E-1
APPENDIX F – BOOK-ENTRY ONLY SYSTEM.....	F-1
APPENDIX G – STATE DEPARTMENT OF FINANCE APPROVAL LETTER .....	G-1
APPENDIX H – FORM OF BOND COUNSEL OPINION .....	H-1
APPENDIX I – SPECIMEN MUNICIPAL BOND INSURANCE POLICY .....	I-1

**[THIS PAGE INTENTIONALLY LEFT BLANK]**

## OFFICIAL STATEMENT

**[\$Par Amount]  
SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA  
SERIES 2017 TAX ALLOCATION REFUNDING BONDS  
(FORTUNA REDEVELOPMENT PROJECT)**

*The following introduction is not a summary of this Official Statement, but rather is only a brief description of and guide to, and is qualified in its entirety by, more complete and detailed information contained in the entire Official Statement, the appendices hereto and the actual documents summarized or described herein. Potential investors are encouraged to read the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in APPENDIX A – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” or, if not defined therein, shall have the meanings assigned to such terms in the Indenture.*

### INTRODUCTION

#### General

This Official Statement, including the cover page, the inside front cover and appendices hereto, is being provided in connection with the issuance by the Successor Agency to the Redevelopment Agency of the City of Fortuna (the “Successor Agency”) of the Successor Agency’s \$[Par Amount] Series 2017 Tax Allocation Refunding Bonds (Fortuna Redevelopment Project) (the “Bonds”).

The Bonds are special obligations of the Successor Agency and are payable solely from and secured by a pledge of Tax Revenues (as defined herein) and by a pledge of amounts in certain funds and accounts established under an Indenture of Trust, dated as of \_\_\_\_\_ 1, 2017 (the “Indenture”), by and between the Successor Agency and U.S. Bank National Association, as trustee (the “Trustee”).

#### Authority for Issuance

The Bonds are being issued pursuant to the Indenture and the Constitution and laws of the State of California (the “State”), including Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the “Bond Law”), the Dissolution Act (as defined below) and the Community Redevelopment Law, Part 1 of Division 24 (commencing with Section 33000) of the Health and Safety Code of the State of California (the “Redevelopment Law”).

#### Purpose of Issuance

The Bonds are being issued to (i) redeem and defease (a) the Fortuna Public Financing Authority, Fortuna Redevelopment Project, Revenue Bonds, 2006 Series A, issued on October 26, 2006 in the aggregate principal amount of \$14,120,000 (the “Series 2006A Bonds”), and (b) the Fortuna Public Financing Authority, Fortuna Redevelopment Project, Revenue Bonds, 2006 Series B, issued on October 26, 2006 issued in the aggregate principal amount of \$3,735,000 (the “Series 2006B Bonds,” and together with the Series 2006A Bonds, the “Prior Bonds”), (ii) pay the premium for a surety for the Reserve Account for the Bonds, (iii) pay the premium for a municipal bond insurance policy for the Bonds, and (iv) pay costs of issuance of the Bonds. See “PLAN OF REFUNDING” herein.

## **The Successor Agency**

The Redevelopment Agency of the City of Fortuna (the “Former Agency”) was established pursuant to the Redevelopment Law and was activated by the City Council of the City of Fortuna (the “City”) in 1989 by an ordinance of the City Council, at which time the City Council declared itself to be the governing board of the Former Agency.

In June 2011, Assembly Bill No. 26 (“AB X1 26”) was enacted as Chapter 5, Statutes of 2011, together with a companion bill, Assembly Bill No. 27 (“AB X1 27”). A lawsuit was brought in the California Supreme Court, *California Redevelopment Association, et al. v. Matosantos, et al.*, 53 Cal. 4<sup>th</sup> 231 (Cal. Dec. 29, 2011), challenging the constitutionality of AB X1 26 and AB X1 27. The California Supreme Court largely upheld AB X1 26, invalidated AB X1 27, and held that AB X1 26 may be severed from AB X1 27 and enforced independently. As a result of AB X1 26 and the decision of the California Supreme Court in the *California Redevelopment Association* case, as of February 1, 2012, all redevelopment agencies in the State of California (the “State”) were dissolved, including the Former Agency.

Under the operative provisions of AB X1 26, successor agencies were created and designated as successor entities to the former redevelopment agencies to expeditiously wind down the affairs of the former redevelopment agencies. The primary provisions enacted by AB X1 26 relating to the dissolution and wind down of former redevelopment agency affairs are Parts 1.8 (commencing with Section 34161) and 1.85 (commencing with Section 34170) of Division 24 of the Health and Safety Code of the State, as amended on June 27, 2012 by Assembly Bill No. 1484 (“AB 1484”), enacted as Chapter 26, Statutes of 2012 and as further amended on September 22, 2015 by Senate Bill 107 (“SB 107”), enacted as Chapter 325, Statutes of 2015 (collectively, as amended from time to time, the “Dissolution Act”).

Pursuant to Section 34173 of the Dissolution Act, the City acts as the Successor Agency to the Former Agency. Subdivision (g) of Section 34173 of the Dissolution Act expressly affirms that the Successor Agency is a separate public entity from the City, that the two entities shall not merge, and that the liabilities of the Former Agency will not be transferred to the City nor will the assets of the Former Agency become assets of the City.

## **The City**

The City is located in Humboldt County (the “County”), approximately 18 miles south of Eureka and 250 miles north of San Francisco on U.S. Highway 101. The City was incorporated on February 20, 1906 as a general law city, and became a charter city in 1996. The City is a full-service city operating under a council-manager form of government. The City Council consists of 5 members, elected at-large to four-year terms. The City Council selects the Mayor from one of the City Council members. The City Manager and City Attorney are appointed by the City Council. The City provides wastewater service to residential and nonresidential customers in the City. See “APPENDIX B – GENERAL INFORMATION REGARDING THE CITY” for a more complete description of the City and the surrounding region. The Bonds are not a debt of the City in any respect.

## **The Project Area**

The Fortuna Redevelopment Project was formally established with the adoption by the City Council of a redevelopment plan (the “Redevelopment Plan”) by Ordinance No. 89-537, adopted on July 5, 1989.

The total Redevelopment Plan project area (the “Project Area”) consists of approximately 483 acres and includes the City’s major commercial areas and several residential areas. The total assessed value

(including secured, unsecured and utility values) of the taxable property in the Project Area for fiscal year 2017-18 is approximately \$275,333,718. See “THE PROJECT AREA” for further information regarding the Project Area.

## **The Bonds**

The Bonds will be issued and delivered as one fully-registered Bond in the denomination of \$5,000 and any integral multiple thereof (each an “Authorized Denomination”) for each maturity of Bonds, initially in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), as registered owner. The Bonds will be dated the date of their delivery (the “Delivery Date”) and mature on November 1 in the years and in the amounts shown on the inside cover pages of this Official Statement. Interest on the Bonds will be payable on each May 1 and November 1, commencing May 1, 2018 (each an “Interest Payment Date”) to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check or draft of the Trustee mailed on the Interest Payment Date by first class mail to such Owner at the address of such Owner as it appears on the Registration Books; provided, however, that upon the written request of any Owner of at least \$1,000,000 in principal amount of Bonds received by the Trustee at least fifteen (15) days prior to such Record Date, payment shall be made by wire transfer in immediately available funds to an account in the United States designated by such Owner. Principal of and redemption premium (if any) on any Bond shall be paid only upon presentation and surrender thereof, at maturity or redemption, at the Corporate Trust Office of the Trustee. Both the principal of and interest and premium (if any) on the Bonds shall be payable in lawful money of the United States of America. Interest shall be calculated based upon a 360-day year of twelve thirty-day months. “Record Date” in respect of any Interest Payment Date means the fifteenth calendar day of the month preceding such Interest Payment Date whether or not such day is a Business Day. See “THE BONDS” herein.

## **Book-Entry System**

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See “APPENDIX F – BOOK-ENTRY ONLY SYSTEM” herein.

## **Security for the Bonds**

The Dissolution Act requires the Humboldt County Auditor-Controller (the “County Auditor-Controller”) to determine the amount of property taxes that would have been allocated to the Former Agency had the Former Agency not been dissolved pursuant to the operation of AB x1 26, using current assessed values on the last equalized roll on August 20, and to deposit that amount in the Redevelopment Property Tax Trust Fund for the Successor Agency established and held by the County Auditor-Controller (the “Redevelopment Property Tax Trust Fund”).

The Bonds will be secured by a pledge of and lien on Tax Revenues (as defined herein) pursuant to the Indenture and by a lien created by Section 34177.5(g) of the Health and Safety Code (added by the Dissolution Act) on monies deposited from time to time in the Redevelopment Property Tax Trust Fund. Under the Indenture, the Successor Agency must remit, from time to time, directly to the Trustee the amount of Tax Revenues to make the deposits required by the Indenture to pay debt service on the Bonds and to replenish the Reserve Account, if necessary. See “SECURITY FOR THE BONDS” herein

## **Prior Payment Obligations**

The use of Tax Revenues from the Project Area to pay debt service on the Bonds is subject to the prior payment of permitted administrative costs of the County Auditor-Controller. See the captions “PROPERTY TAXATION IN CALIFORNIA – Property Tax Collection Procedures” for a description of the County’s administrative costs and “SECURITY FOR THE BONDS – Pass-Through Agreements” for a description of the Subordinate Pass-Through Agreements.

Immediately following issuance of the Bonds, the Successor Agency will not have any bonds that are secured by a pledge of tax increment other than the Bonds.

## **Municipal Bond Insurance**

Concurrently with the issuance of the Bonds, \_\_\_\_\_ (the “Insurer”) will issue its Municipal Bond Insurance Policy (the “Policy”) for the Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due. A form of the Policy is included as Appendix I to this Official Statement.

## **Reserve Account**

In order to further secure the payment of the principal of and interest on the Bonds, a Reserve Account in the Debt Service Fund is established by the Indenture. The Reserve Account will initially be funded by the purchase of a Municipal Bond Debt Service Reserve Account Policy (the “Reserve Policy”) issued by the Insurer in an amount equal to the Reserve Requirement as defined in the Indenture (the “Reserve Requirement”). The initial Reserve Requirement for the Bonds is \$ \_\_\_\_\_. See “SECURITY FOR THE BONDS – Security for the Bonds – Reserve Account.”

## **Limited Obligations**

The Bonds will not be a debt, liability or obligation of the City, the State, or any of its political subdivisions other than the Successor Agency as described in this Official Statement. None of the City, the State nor any of its political subdivisions, other than the Successor Agency, will be liable for the Bonds. None of the members of the governing bodies or officers of the Successor Agency, the City nor any person executing the Bonds or the Indenture will be liable personally with respect to the Bonds. The obligations of the Successor Agency with respect to the Bonds will be payable solely from Tax Revenues and the funds pledged pursuant to the Indenture. The Successor Agency has no taxing power.

## **Parity Bonds**

The Indenture provides that the Successor Agency may issue and sell refunding bonds payable from and secured by Tax Revenues on a parity with Outstanding Bonds (the “Parity Bonds”) exclusively for the purpose of refunding a portion of the Outstanding Bonds, if (a) annual debt service on such refunding bonds is lower than annual debt service on the Bonds or Parity Bonds being refunded over the term of the refunding bonds, and (b) the final maturity of any such refunding bonds does not exceed the final maturity of the Bonds or Parity Bonds being refunded. See “SECURITY FOR THE BONDS – Issuance of Parity Bonds” herein.

## **Continuing Disclosure**

In connection with the sale of the Bonds, the Successor Agency will execute and deliver a Continuing Disclosure Certificate, covenanting to prepare and file an annual report and certain other notices

with the Municipal Securities Rulemaking Board. See “CONTINUING DISCLOSURE” and “APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE” herein.

### **Professionals Involved in the Offering**

The Successor Agency has retained Public Financial Management Inc., San Francisco, California, as municipal advisor (the “Municipal Advisor”) in connection with the issuance of the Bonds. HdL Coren & Cone, Diamond Bar, California, has been retained to serve as fiscal consultant to the Successor Agency (the “Fiscal Consultant”) and to advise the Successor Agency as to the taxable values and Tax Revenues projected to be available to pay debt service on the Bonds as referenced in this Official Statement. The report prepared by the Fiscal Consultant is referred to as the “Fiscal Consultant’s Report” and is attached as Appendix A. The proceedings of the Successor Agency in connection with the issuance of the Bonds are subject to the approval as to their legality of The Weist Law Firm, Scotts Valley, California, Bond Counsel to the Successor Agency. Certain legal matters will be passed upon for the Successor Agency by The Weist Law Firm, Scotts Valley, California, Disclosure Counsel, and by David Tranberg, Esq., Eureka, California, as Successor Agency counsel, and for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, Newport Beach, California.

### **Further Information**

Brief descriptions of the Bonds, certain risk factors, the Indenture, the Project Area, the Successor Agency, the City and certain other documents and information relevant to the issuance of the Bonds are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Bonds, the Indenture, the Redevelopment Law, the Bond Law, the Dissolution Act, the Constitution and the laws of the State, and the proceedings of the Successor Agency, are qualified in their entirety by reference to each such document, law or to the Constitution. References herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of the Indenture and other documents described in this Official Statement may be obtained from the Trustee at its corporate trust office in San Francisco, California.

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

## **PLAN OF REFUNDING**

### **Redemption of Prior Bonds**

On the Closing Date, a portion of the proceeds will be transferred to the Trustee as escrow agent (“Escrow Agent”) for deposit pursuant to separate Escrow Agreements for each series of the Prior Bonds, each dated as of \_\_\_\_\_ 1, 2017 (the “Escrow Agreements”) between the Successor Agency and the Escrow Agent.

The amount deposited under the Escrow Agreements, together with other available moneys, will be held uninvested, or invested in certain federal securities and irrevocably pledged for the payment of the Prior Bonds as follows:

- to the redemption in full of the outstanding Series 2006A Bonds on \_\_\_\_\_, 2017, at a redemption price equal to 100% of the principal amount of the Series 2006A Bonds to be redeemed together with accrued interest thereon to the date fixed for redemption, without premium, and

- to the redemption in full of the outstanding Series 2006B Bonds on \_\_\_\_\_, 2017, at a redemption price equal to 100% of the principal amount of the Series 2006B Bonds to be redeemed together with accrued interest thereon to the date fixed for redemption, without premium.

Amounts so deposited under the Escrow Agreements will be pledged to the payment of principal and interest on the Prior Bonds and to the redemption price of the Prior Bonds on the respective redemption dates. The lien of the Prior Bonds will be discharged, terminated and of no further force and effect upon the deposit with the Escrow Agent of the amounts required pursuant to the Escrow Agreements. Neither the funds deposited in the redemption account for the Prior Bonds nor the interest on the invested funds will be available for the payment of debt service on the Bonds.

**Sources and Uses of Funds**

The following Table 1 sets forth a summary of the estimated sources and uses of funds associated with the issuance and sale of the Bonds.

**Table 1  
SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA  
SERIES 2017 TAX ALLOCATION REFUNDING BONDS**

ESTIMATED SOURCES AND USES OF FUNDS
<b><u>Sources of Funds:</u></b>
Principal Amount of Bonds
<i>Plus</i> Available Funds Relating to the Prior Bonds
<i>[Plus][less]</i> Net Original Issue <i>[Premium][Discount]</i>
<i>Less</i> Underwriter’s Discount
Total Sources
<b><u>Uses of Funds:</u></b>
Deposit to 2006A Escrow Fund <sup>[1]</sup>
Deposit to 2006B Escrow Fund <sup>[1]</sup>
Deposit to Costs of Issuance Fund <sup>[2]</sup>
Total Uses

<sup>[1]</sup> Moneys in the 2006A Escrow Fund established for the Series 2006A Bonds, and the 2006B Escrow Fund established for the Series 2006B Bonds, which Escrow Funds will be funded with Bond proceeds, together with certain other available moneys, will be used to call and redeem all of the outstanding Prior Bonds on \_\_\_\_\_ 1, 2017. The Escrow Funds will be held and administered by the Escrow Agent. See “PLAN OF REFUNDING – Redemption of Prior Bonds” above.

<sup>[2]</sup> Moneys deposited in the Costs of Issuance Fund are expected to be used to pay the policy premium for the Reserve Policy, the fees and expenses of Bond Counsel, Disclosure Counsel, Municipal Advisor, Trustee, Escrow Agent and the rating agency, as well as printing and other miscellaneous costs and expenses in connection with the issuance, sale and delivery of the Bonds. The Costs of Issuance Fund will be held and administered by the Trustee.

**Debt Service Schedule**

Table 2 sets forth the annual principal and interest on the Bonds (assuming no redemptions of the Bonds, other than mandatory sinking fund redemptions).

**Table 2**  
**CITY OF FORTUNA**  
**SERIES 2017 WASTEWATER REVENUE REFUNDING BONDS**

---

**ANNUAL DEBT SERVICE SCHEDULE**

---

<u>Year Ending</u> <u>November 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual</u> <u>Debt Service</u>
---	------------------	-----------------	--------------------------------------

Totals

---

*Source:* The Underwriter.

## THE BONDS

### Authority for Issuance

The Bonds were authorized for issuance pursuant to the Indenture, the Redevelopment Law, the Bond Law, and the Dissolution Act. The issuance of the Bonds and the Indenture were authorized by the Successor Agency pursuant to Resolution No. SA 2017-01 adopted on May 1, 2017 (the “Resolution”) and by the Oversight Board for the Successor Agency pursuant to Resolution No. OB 2017-03, adopted on May 2, 2017 (the “Oversight Board Resolution”).

Written notice of the Oversight Board Resolution was provided to the Department of Finance (the “DOF”) pursuant to the Dissolution Act, on May 3, 2017, and the DOF requested a review within five business days of such written notice. On June 23, 2017, the DOF provided a letter to the Successor Agency stating that based on the DOF’s review and application of the law, the Oversight Board Resolution approving the Bonds was approved by the DOF. See APPENDIX G – “STATE DEPARTMENT OF FINANCE APPROVAL LETTER” herein.

### Description of the Bonds

The Bonds will be issued and delivered as one fully-registered Bond in the denomination of \$5,000 and any integral multiple thereof (each an “Authorized Denomination”) for each maturity of Bonds, initially in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), as registered owner. See “APPENDIX F – BOOK-ENTRY ONLY SYSTEM” herein.

The Bonds will be dated the date of their delivery (the “Delivery Date”) and mature on November 1 in the years and in the amounts shown on the inside cover pages of this Official Statement. Interest on the Bonds will be payable on each May 1 and November 1, commencing May 1, 2018 (each an “Interest Payment Date”) to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check or draft of the Trustee mailed on the Interest Payment Date by first class mail to such Owner at the address of such Owner as it appears on the Registration Books; provided, however, that upon the written request of any Owner of at least \$1,000,000 in principal amount of Bonds received by the Trustee at least fifteen (15) days prior to such Record Date, payment shall be made by wire transfer in immediately available funds to an account in the United States designated by such Owner. Principal of and redemption premium (if any) on any Bond shall be paid only upon presentation and surrender thereof, at maturity or redemption, at the Corporate Trust Office of the Trustee. Both the principal of and interest and premium (if any) on the Bonds shall be payable in lawful money of the United States of America. Interest shall be calculated based upon a 360-day year of twelve thirty-day months. “Record Date” in respect of any Interest Payment Date means the fifteenth calendar day of the month preceding such Interest Payment Date whether or not such day is a Business Day. See “THE BONDS” herein.

### Redemption Provisions

**Optional Redemption.** The Bonds maturing before November 1, 2028 are not subject to redemption prior to maturity. The Bonds maturing on and after November 1, 2028, are subject to redemption, at the option of the Successor Agency on any date on or after November 1, 2027, as a whole or in part, by such maturities as shall be determined by the Successor Agency, and by lot within a maturity, from any available source of funds, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

***Notice of Redemption; Rescission of Notice.*** The Trustee will mail notice of redemption to the registered owners of Bonds designated for redemption not less than thirty (30) nor more than sixty (60) days prior to the redemption date. Neither failure to receive such notice nor any defect therein will affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest thereon.

The Successor Agency has the right to rescind any notice of the optional redemption of Bonds by written notice to the Trustee on or prior to the dated fixed for redemption. Any notice of optional redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default. The Successor Agency and the Trustee have no liability to the Bond Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the notice of redemption.

***Effect of Redemption.*** When notice of redemption has been given as provided above and when the amount necessary for the redemption of the Bonds called for redemption (principal, interest and premium, if any) have been duly provided, such Bonds shall cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest will accrue on such Bonds called for redemption from and after the redemption date specified in such notice.

***Manner of Redemption.*** Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of the same series and maturity, the Trustee shall select the Bonds of such series and maturity to be redeemed by lot in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, the Bonds shall be comprised of separate \$5,000 denominations and such separate denominations shall be treated as separate Bonds which may be separately redeemed.

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds 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 Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. Ultimate purchasers of Bonds will not receive physical certificates representing their interest in the Bonds. Payment of the principal of, premium, if any, and interest on the Bonds will be made directly to DTC, or its nominee, Cede & Co., by the Trustee so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursement of such payments to DTC's Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC's Participants and Indirect Participants. See "APPENDIX F – BOOK-ENTRY ONLY SYSTEM" herein.

## BOND INSURANCE

*The following information has been furnished by the Insurer for use in this Official Statement. Such information has not been independently confirmed or verified by the Successor Agency. The Successor Agency makes no representation as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. Reference is made to Appendix I for a specimen of the municipal bond insurance policy.*

### Bond Insurance Policy

[To be determined]

## THE DISSOLUTION ACT

The Dissolution Act requires the County Auditor-Controller to determine the amount of property taxes that would have been allocated to the Former Agency (pursuant to subdivision (b) of Section 16 of Article XVI of the State Constitution) had the Former Agency not been dissolved pursuant to the operation of AB x1 26, using current assessed values on the last equalized roll on August 20, and to deposit that amount in the Redevelopment Property Tax Trust Fund for the Successor Agency established and held by the County Auditor-Controller pursuant to the Dissolution Act. The Dissolution Act provides that any bonds authorized thereunder to be issued by the Successor Agency will be considered indebtedness incurred by the dissolved Former Agency, with the same legal effect as if the bonds had been issued prior to effective date of AB x1 26, in full conformity with the applicable provision of the Redevelopment Law that existed prior to that date, and will be included in the Successor Agency's Recognized Obligation Payment Schedules. see "SECURITY FOR THE BONDS – Recognized Obligation Payment Schedules" herein.

The Dissolution Act further provides that bonds authorized thereunder to be issued by the Successor Agency will be secured by a pledge of, and lien on, and will be repaid from moneys deposited from time to time in the Redevelopment Property Tax Trust Fund, and that property tax revenues pledged to any bonds authorized to be issued by the Successor Agency under the Dissolution Act, including the Bonds, are taxes allocated to the Successor Agency pursuant to subdivision (b) of Section 33670 of the Redevelopment Law and Section 16 of Article XVI of the State Constitution.

Pursuant to subdivision (b) of Section 33670 of the Redevelopment Law and Section 16 of Article XVI of the State Constitution and as provided in a Redevelopment Plan, taxes levied upon taxable property in the Project Area each year by or for the benefit of the State, any city, county, city and county, district, or other public corporation (herein sometimes collectively called "taxing agencies") after the effective date of the ordinance approving such Redevelopment Plan, or the respective effective dates of ordinances approving amendments to the Redevelopment Plan that added territory to the Project Area are to be divided as follows:

- (a) *To Taxing Agencies:* That portion of the taxes which would be produced by the rate upon which the tax is levied each year by or for each of the taxing agencies upon the total sum of the assessed value of the taxable property in the applicable project area as shown upon the assessment roll used in connection with the taxation of such property by such taxing agency last equalized prior to the effective date of the ordinance adopting the applicable Redevelopment Plan, or the respective effective dates of ordinances approving amendments to the Redevelopment Plan that added territory to the applicable project area (each, a "base year valuation"), will be allocated to, and when collected will be paid into, the funds of the respective taxing agencies as taxes by or for the taxing agencies on all other property are paid; and

(b) *To the Former Agency/Successor Agency:* Except for that portion of the taxes in excess of the amount identified in (a) above that is attributable to a tax rate levied by a taxing agency for the purpose of producing revenues in an amount sufficient to make annual repayments of the principal of, and the interest on, any bonded indebtedness approved by the voters of the taxing agency on or after January 1, 1989 for the acquisition or improvement of real property, which portion shall be allocated to, and when collected shall be paid into, the fund of that taxing agency, that portion of the levied taxes each year following the Delivery Date, when collected will be paid into a special fund of the Successor Agency. Section 34172 of the Dissolution Act provides that, for purposes of Section 16 of Article XVI of the State Constitution, the Redevelopment Property Tax Trust Fund shall be deemed to be a special fund of the Successor Agency to pay the debt service on indebtedness incurred by the Former Agency or the Successor Agency to finance or refinance the redevelopment projects of the Former Agency.

That portion of the levied taxes described in paragraph (b) above, less amounts deducted pursuant to Section 34183(a) of the Dissolution Act for permitted administrative costs of the County Auditor-Controller and required pass-through payments, if any, constitutes the amount required under the Dissolution Act to be deposited by the County Auditor-Controller into the Redevelopment Property Tax Trust Fund. In addition, Section 34183 of the Dissolution Act effectively eliminates the January 1, 1989 date from paragraph (b) above.

## SECURITY FOR THE BONDS

### Background

Prior to the enactment of the Dissolution Act, the Redevelopment Law authorized the financing of redevelopment projects through the use of tax increment revenues. This method provided that the taxable valuation of the property within a redevelopment project area on the property tax roll last equalized prior to the effective date of the ordinance which adopts the redevelopment plan becomes the base year valuation. Assuming the taxable valuation never dropped below the base year level, the taxing agencies receiving property taxes thereafter would receive only that portion of the taxes produced by applying then current tax rates to the base year valuation; the redevelopment agency was allocated the remaining portion of property taxes (i.e., the portion measured by applying then current tax rates to the increase in valuation over the base year valuation). Such “incremental tax revenues” allocated to a redevelopment agency were authorized to be pledged to the payment of redevelopment agency obligations, including the Prior Bonds.

### The Dissolution Act

The Dissolution Act requires the County Auditor-Controller to determine the amount of property taxes that would have been allocated to the Former Agency (pursuant to subdivision (b) of Section 16 of Article XVI of the State Constitution) had the Former Agency not been dissolved pursuant to the operation of AB x1 26, using current assessed values on the last equalized roll on August 20, and to deposit that amount in the Redevelopment Property Tax Trust Fund for the Successor Agency established and held by the County Auditor-Controller pursuant to the Dissolution Act. The Dissolution Act provides that any bonds authorized thereunder to be issued by the Successor Agency will be considered indebtedness incurred by the dissolved Former Agency, with the same legal effect as if the bonds had been issued prior to effective date of AB x1 26, in full conformity with the applicable provision of the Redevelopment Law that existed prior to that date, and will be included in the Successor Agency’s Recognized Obligation Payment Schedules, as defined and described below.

The Dissolution Act further provides that bonds authorized thereunder to be issued by the Successor Agency will be secured by a pledge of, and lien on, and will be repaid from moneys deposited from time to time in the Redevelopment Property Tax Trust Fund, and that tax revenues pledged to any bonds authorized to be issued by the Successor Agency under the Dissolution Act, including the Bonds, are taxes allocated to the Successor Agency pursuant to subdivision (b) of Section 33670 of the Redevelopment Law and Section 16 of Article XVI of the State Constitution.

Under the Dissolution Act, property tax revenues are distributed to the Successor Agency on a semi-annual basis (on January 2 and June 1) based on a Recognized Obligation Payment Schedule submitted by the Successor Agency to the Oversight Board and the DOF.

Pursuant to SB 107, the functions of the Oversight Board will be assumed by an oversight board established for all successor agencies within the County commencing on July 1, 2018. The County Auditor-Controller distributes funds from the Redevelopment Property Tax Trust Fund for each six-month period in the order specified in the Dissolution Act. See “SECURITY FOR THE BONDS – Recognized Obligation Payment Schedules” herein.

The County Auditor-Controller will deposit property tax revenues into the Redevelopment Property Tax Trust Fund pursuant to the requirements of the Dissolution Act, including inter alia Health and Safety Code sections 34183 and 34170.5(b). The Bonds and any Parity Debt are equally secured by a pledge of, security interest in and lien on all of the Tax Revenues (as defined below), including all of the Tax Revenues in the Redevelopment Obligation Retirement Fund and all of the moneys in certain funds and accounts established and held by the Trustee under the Indenture as described below.

### **Security and Sources of Payment for the Bonds**

Pursuant to the Indenture, the Bonds are equally secured by a pledge of, security interest in and a first and exclusive lien on all of the Tax Revenues (as defined below), whether held in the Redevelopment Property Tax Trust Fund or by the Successor Agency or the Trustee, and a first and exclusive pledge of, security interest in and lien upon all of the moneys in the Revenue Fund (including the Interest Account, the Principal Account, and the Redemption Account and all subaccounts in the foregoing) and in the Reserve Account to the Trustee for the benefit of the applicable Owners of the Outstanding Bonds, without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery. The principal of and interest or redemption premium (if any) on the Bonds shall be payable from Tax Revenues. In addition, pursuant to Health and Safety Code section 34177.5(g), the Bonds shall be specifically secured by a pledge of, and lien on, and shall be repaid from moneys deposited from time to time in the Redevelopment Property Tax Trust Fund. Under the Health and Safety Code the County administrative fee is not deposited into the Redevelopment Property Tax Trust Fund.

“Tax Revenues” means moneys deposited from time to time in the Redevelopment Property Tax Trust Fund under Section 34183(a)(2) and Section 34183(a)(4)(b) of the Redevelopment Law, and that are paid to the Successor Agency for deposit into the Redevelopment Obligation Retirement Fund, excluding amounts, if any, payable by the Successor Agency pursuant to Sections 33676, 33607.5 and 33607.7 of the Redevelopment Law and Section 34183(a)(1) of the Redevelopment Law, except to the extent such amounts are payable on a basis subordinate to the payment of Annual Debt Service on the Bonds or any Parity Bond pursuant to Sections 33607.5(e) and 34177.5(c) of the Redevelopment Law. If, and to the extent, that the provisions of Section 34172 or Section 34183(a)(2) of the Redevelopment Law are invalidated by a final judicial decision, then Tax Revenues shall include all tax revenues allocated to the payment of indebtedness of the Successor Agency pursuant to Section 33670 of the Redevelopment Law or such other section as may be in effect at the time providing for the allocation of Tax Increment Revenues to the Successor Agency in accordance with Article XVI, Section 16 of the California Constitution.

Except for the Tax Revenues and moneys in the Revenue Fund (including the Interest Account, the Principal Account, and the Redemption Account and all subaccounts in the foregoing) and the Reserve Account, no funds or properties of the Successor Agency shall be pledged to, or otherwise liable for, the payment of principal of or interest or redemption premium (if any) on the Bonds.

Notwithstanding anything in the Indenture to the contrary, however, if Tax Revenues are insufficient for the deposits required under the Indenture or the payment of the principal of and interest or redemption premium (if any) on the Bonds, the Successor Agency may, but shall not be obligated, to make such deposits or pay such principal of and interest or redemption premium (if any) on the Bonds from other legally available funds.

The Indenture will constitute a contract between the Successor Agency and the Trustee for the benefit of the Owners, and the covenants and agreements therein set forth to be performed on behalf of the Successor Agency and the Trustee are for the equal and proportionate benefit, security and protection of all Owners without preference, priority or distinction as to security or otherwise of any of the Bonds over any of the others by reason of the number or date thereof or the time of sale, execution and delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or in the Indenture.

Other than the Prior Bonds, the Successor Agency has no other bonds outstanding.

#### **Limitation on Additional Indebtedness**

The Successor Agency covenants that it will not issue any bonds, notes or other obligations, enter into any agreement or otherwise incur any indebtedness, payable, either as to principal or interest, from the Tax Revenues which have any lien upon the Tax Revenues on a parity with or superior to the lien under the Indenture for the Bonds; provided, that the Successor Agency may issue and sell refunding bonds payable from Tax Revenues on a parity with Outstanding Bonds, if (a) the Successor Agency complies with the requirements of Section 34177.5 of the Redevelopment Law, and (b) annual debt service on such refunding bonds is lower than annual debt service on the Parity Bonds being refunded over the term of the refunding bonds, (c) the debt service payment dates with respect to such refunding bonds are the same as for the Parity Bonds being refunded, and (d) the final maturity of any such refunding bonds does not exceed the final maturity of the Parity Bonds being refunded.

The Successor Agency may issue or incur Subordinate Debt in such principal amount as shall be determined by the Successor Agency. Any Subordinate Debt shall be payable on the same dates as the Bonds and shall be in all respect, including security and payments, subordinate and junior to the Bonds.

#### **Recognized Obligation Payment Schedules**

***Submission of Recognized Obligation Payment Schedule.*** The Dissolution Act requires successor agencies to prepare, and submit to the successor agency's oversight board and the DOF for approval, a Recognized Obligation Payment Schedule (the "Recognized Obligation Payment Schedule") pursuant to which enforceable obligations (as defined in the Dissolution Act) of the successor agency are listed, together with the source of funds to be used to pay for each enforceable obligation.

Commencing on February 1, 2016, successor agencies were transitioned to an annual Recognized Obligation Payment Schedule process pursuant to which successor agencies are required to file Recognized Obligation Payment Schedules with the DOF and the County Auditor-Controller for approval on or before each February 1 for the July 1 through June 30 period immediately following such February 1. For example,

on February 1, 2017, the Successor Agency was required to file a Recognized Obligation Payment Schedule for the period commencing July 1, 2017 through June 30, 2018.

In addition, commencing on September 22, 2015, successor agencies that have received a Finding of Completion and the concurrence of the DOF as to the items that qualify for payment, among other conditions, may at their option, file a “Last and Final” Recognized Obligation Payment Schedule. If approved by the DOF, the Last and Final Recognized Obligation Payment Schedule will be binding on all parties, and the Successor Agency will no longer submit a Recognized Obligation Payment Schedule to the DOF or the Oversight Board. The County Auditor-Controller will remit the authorized funds to the Successor Agency in accordance with the approved Last and Final Recognized Obligation Payment Schedule until each remaining enforceable obligation has been fully paid. A Last and Final Recognized Obligation Payment Schedule may only be amended twice, and only with approval of the DOF and the County Auditor-Controller. The Successor Agency currently has no plans to file a Last and Final Recognized Obligation Payment Schedule.

***Payment of Amounts Listed on the Recognized Obligation Payment Schedule.*** As defined in the Dissolution Act, “enforceable obligation” includes bonds, including the required debt service, reserve set-asides (including the Reserve Account), and any other payments required under the Indenture or similar documents governing the issuance of the outstanding bonds of the former redevelopment agency or the successor agency, as well as other obligations such as loans, judgments or settlements against the former redevelopment agency or the successor agency, any legally binding and enforceable agreement that is not otherwise void as violating the debt limit or public policy, contracts necessary for the administration or operation of the successor agency, and, under certain circumstances, amounts borrowed from the successor agency’s low and moderate income housing fund. A reserve may be included on the Recognized Obligation Payment Schedule and held by the successor agency when required by a bond indenture or when the next property tax allocation will be insufficient to pay all obligations due under the provisions of the bonds for the next payment due in the following half of the calendar year.

***Sources of Payments for Enforceable Obligations.*** Under the Dissolution Act, the categories of sources of payments for enforceable obligations listed on a Recognized Obligation Payment Schedule are the following: (i) the former low and moderate income housing fund; (ii) bond proceeds; (iii) reserve balances; (iv) administrative cost allowance (successor agencies are entitled to receive not less than \$250,000, unless that amount is reduced by the oversight board); (v) the Redevelopment Property Tax Trust Fund (but only to the extent that no other funding source is available or when payment from property tax revenues is required by an enforceable obligation or otherwise required under the Dissolution Act); or (vi) other revenue sources (including rents, concessions, asset sale proceeds, interest earnings and any other revenues derived from the former redevelopment agency, as approved by the Oversight Board).

The Dissolution Act provides that only those payments listed in the Recognized Obligation Payment Schedule may be made by the Successor Agency from the funds specified in the Recognized Obligation Payment Schedule.

***Order of Priority of Distributions from Redevelopment Property Tax Trust Fund.*** Typically, under the Redevelopment Property Tax Trust Fund distribution provisions of the Dissolution Act, a county auditor-controller is to distribute funds for each six-month period in the following order specified in section 34183 of the Dissolution Act:

- (i) first, subject to certain adjustments for subordinations to the extent permitted under the Dissolution Act, if any (as described above under “SECURITY FOR THE BONDS—Statutory Pass-Through Amounts”) and no later than each January 2 and June 1, amounts required for pass-through payments such entity would have received under provisions of

the Redevelopment Law, as those provisions read on January 1, 2011, including statutory pass-through obligations;

- (ii) second, on each January 2 and June 1, to the successor agency for payments listed in its Recognized Obligation Payment Schedule, with debt service payments scheduled to be made for tax allocation bonds having the highest priority over payments scheduled for other debts and obligations listed on the Recognized Obligation Payment Schedule;
- (iii) third, on each January 2 and June 1, to the successor agency for the administrative cost allowance, as defined in the Dissolution Act; and
- (iv) fourth, on each January 2 and June 1, to taxing entities any moneys remaining in the Redevelopment Property Tax Trust Fund after the payments and transfers authorized by clauses (i) through (iii), in an amount proportionate to such taxing entity's share of property tax revenues in the tax rate area in that fiscal year (without giving effect to any pass-through obligations that were established under the Redevelopment Law).

***Relevant Covenant by the Successor Agency.*** Pursuant to the Indenture, the Successor Agency covenants to comply with all of the requirements of the Redevelopment Law. In particular, the Successor Agency covenants in the Indenture, pursuant to Section 34177 of the Redevelopment Law, not later than each date a Recognized Obligation Payment Schedule is due, to submit to the Oversight Board and the DOF, a Recognized Obligation Payment Schedule. In addition, the Successor Agency covenants to take all actions required under the Redevelopment Law to include in the Recognized Obligation Payment Schedule for each Semiannual Period (i) debt service on the Bonds and (ii) all amounts due and owing to the any Insurer under the Indenture or under an insurance or surety bond agreement, including the Insurance Policy and the Reserve Policy under the Indenture, so as to enable the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund for deposit in the Redevelopment Obligation Retirement Fund on each January 2 and June 1, as applicable, amounts required to enable the Successor Agency to pay timely principal of, and interest on, the Bonds on a timely basis and to pay any amounts owed to any Insurer.

In order to ensure that amounts are available for the Trustee to pay debt service on all Outstanding Bonds and all amounts due and owing to the Insurer under the Indenture on a timely basis, the Successor Agency shall apply amounts received on the June 1, 2017 and the January 2, 2018 Recognized Obligation Payment Schedule distribution dates to pay debt service on the Bonds on November 1, 2017 and May 1, 2018. Thereafter, the Successor Agency shall submit to the DOF and the County Auditor-Controller, no later than February 1 of each year, an Oversight Board-approved Recognized Obligation Payment Schedule to the DOF and to the County Auditor-Controller that shall include (i) all of the debt service due on all Outstanding Bonds on the next succeeding November 1 (which amount is anticipated to equal interest due on such November 1 plus 50% of principal due on such November 1), which shall be distributed to the Successor Agency on each June 1 (but only to the extent that there are not other amounts previously reserved therefor), (ii) all of the interest due on the Bonds on the following May 1, which amounts shall be distributed to the Successor Agency on each January 2, (iii) 50% of the principal due on the Outstanding Bonds on the November 1 following such January 2, which amounts shall be distributed to the Successor Agency on such January 2, and (iv) all amounts owed to the Insurer, including amounts necessary to replenish the Reserve Policy.

In the event the provisions set forth in the Dissolution Act as of the Closing Date of the Bonds that relate to the filing of Recognized Obligation Payment Schedules are amended or modified in any manner, the Successor Agency agrees to take all such actions as are necessary to comply with such amended or modified provisions so as to ensure the timely payment of debt service on the Bonds and, if the timing of distributions of the Redevelopment Property Tax Trust Fund is changed, the receipt of (i) not less than one

of half of debt service due during each Bond Year on all Outstanding Bonds prior to May 1 of such Bond Year, and (ii) the remainder of debt service due during such Bond Year on all Outstanding Bonds prior to the next succeeding November 1.

The Successor Agency covenants in the Indenture that it will comply with the requirements of the Dissolution Act, including without limitation to file all required statements and hold all public hearings required under the Dissolution Act to assure compliance by the Successor Agency with its covenants under the Indenture. See Appendix B.

***History of Submission of the Recognized Obligation Payment Schedules.*** The Successor Agency has procedures in place to ensure full and timely compliance with the above-described covenant. Under the direction of the City’s Finance Director, the Successor Agency has consistently submitted its Recognized Obligation Payment Schedules on a timely basis.

There are strong incentives for the Successor Agency to submit Recognized Obligation Payment Schedules on time. If the Successor Agency does not submit a Recognized Obligation Payment Schedule to the Oversight Board, the County Auditor-Controller and the DOF on or before each February 1 (unless the Successor Agency submits and obtains approval from the DOF of a Last and Final Recognized Obligation Payment Schedule), then the Successor Agency will be subject to a \$10,000 per day civil penalty for every day the schedule is not submitted to the DOF. See the caption “– Last and Final Recognized Obligation Payment Schedule” below for discussion regarding submission of Last and Final Recognized Obligation Payment Schedule. Additionally, if the Successor Agency does not submit a Recognized Obligation Payment Schedule to the Oversight Board and the DOF within 10 days of the deadline, then the Successor Agency’s maximum administrative cost allowance may be reduced by up to 25%. For additional information regarding procedures under the Dissolution Act relating to late Recognized Obligation Payment Schedules and implications for the Bonds, see “RISK FACTORS – Recognized Obligation Payment Schedules” herein.

### **Last and Final Recognized Obligation Payment Schedule**

SB 107 amended the Dissolution Act to permit a successor agency to submit a Last and Final Recognized Obligation Payment Schedule (a “Last and Final ROPS”) for approval by the oversight board and DOF if: (i) the successor agency’s only remaining debt is administrative costs and payments pursuant to enforceable obligations with defined payment schedules, (ii) all remaining obligations have been previously listed on a Recognized Obligation Payment Schedule and approved by DOF, and (iii) the successor agency is not a party to outstanding or unresolved litigation. The Last and Final ROPS must list the remaining enforceable obligations of the successor agency in the following order: (A) enforceable obligations to be funded from the Redevelopment Property Tax Trust Fund, (B) enforceable obligations to be funded from bond proceeds or other legally or contractually dedicated or restricted funding sources, and (C) loans or deferrals authorized for repayment to the city that created the redevelopment agency or the successor to the former redevelopment agency’s housing functions and assets. The Last and Final ROPS must also include the total outstanding obligation and a schedule of remaining payments for each enforceable obligation described in (A) and (B) above, and the total outstanding obligation and an interest rate of 4%, for any loans or deferrals listed pursuant to (C) above. The Last and Final ROPS must also establish the maximum amount of Redevelopment Property Tax Trust Funds to be distributed to the successor agency for each remaining fiscal year until all obligations have been fully paid. DOF approval is required for any Last and Final ROPS to become effective. The county auditor-controller shall also review the Last and Final ROPS and provide any objection to the inclusion of any items or amounts to DOF.

Successor agencies may only amend an approved Last and Final ROPS twice. Approval by the oversight board and DOF is required for any amendment to a Last and Final ROPS to become effective.

DOF shall have 100 days to approve or deny a request for approval of an amendment to a Last and Final ROPS. Each amended Last and Final ROPS approved by DOF shall become effective in the subsequent Redevelopment Property Tax Trust Fund distribution period. If an amended Last and Final ROPS is approved less than 15 days before the date of the property tax distribution, the Last and Final ROPS shall not be effective until the subsequent Redevelopment Property Tax Trust Fund distribution period.

Any revenues, interest, and earnings of the successor agency, including proceeds from the disposition of real property, that are not authorized for use pursuant to the approved Last and Final ROPS shall be remitted to the county auditor-controller for distribution to the affected taxing entities. A successor agency shall not expend more than the amount approved for each enforceable obligation listed on the approved Last and Final ROPS. The county auditor-controller shall no longer distribute property tax to the successor agency's Redevelopment Property Tax Trust Fund once the aggregate amount of property tax allocated to the successor agency equals the total outstanding obligation approved in the Last and Final ROPS. Commencing on the effective date of the approved Last and Final ROPS, the successor agency shall not prepare or transmit annual Recognized Obligation Payment Schedules.

After the Last and Final ROPS is approved by DOF, the county auditor-controller shall continue to allocate moneys in the successor agency's Redevelopment Property Tax Trust Fund pursuant to Section 34183 of the Dissolution Act; however, the county auditor-controller shall allocate such moneys in each fiscal period, after deducting the county auditor-controller's administrative costs, in the following order of priority: (A) pass through payments pursuant to Section 34183(a)(1) of the Dissolution Act, (B) scheduled debt service payments on tax allocation bonds listed and approved in the Last and Final ROPS, (C) scheduled payments on revenue bonds listed and approved in the Last and Final ROPS, but only to the extent the revenues pledged for them are insufficient to make the payments and only if the successor agency's tax increment revenues were also pledged for the repayment of bonds, (D) scheduled payments for debts and obligations listed and approved in the Last and Final ROPS to be paid from the Redevelopment Property Tax Trust Fund, (E) payments listed and approved on the Last and Final ROPS that were authorized but unfunded in prior periods, (F) repayment of loans and deferrals to the city that created the redevelopment agency or the successor to the former redevelopment agency's housing functions and assets that are listed and approved on the Last and Final ROPS, and (G) any moneys remaining in the Redevelopment Property Tax Trust Fund after the payments and transfers described in (A) to (F), above, shall be distributed to taxing entities in accordance with Section 34183(a)(4) of the Dissolution Act.

If the successor agency reports to the county auditor-controller that the total available amounts in the Redevelopment Property Tax Trust Fund will be insufficient to fund the successor agency's current or future fiscal year obligations, and if the county auditor-controller concurs that there are insufficient funds to pay the required obligations, the county auditor-controller may distribute funds pursuant to Section 34183(b) of the Dissolution Act.

### **Pass-Through Agreements**

Pursuant to Section 33401(b) of the Redevelopment Law in effect prior to 1994, a redevelopment agency could enter into an agreement to pay tax increment revenues to any taxing agency that has territory located within a redevelopment project area in an amount which in the agency's determination is appropriate to alleviate any financial burden or detriment caused by the redevelopment project. These agreements normally provide for a pass-through of tax increment revenues directly to the affected taxing agency, and therefore, are commonly referred to as "pass-through agreements."

The Former Agency has entered into pass-through agreements with (i) the County of Humboldt1, (ii) Fortuna Fire Protection District, (iii) the Humboldt Bay Harbor Recreation District and (iv) Fortuna Cemetery District (collectively, the "Subordinate Pass-Through Agreements") which provide that such

taxing entities receive a portion of the tax increment which would otherwise be allocated to the Successor Agency pursuant to Section 33670(b) of the Health and Safety Code. The Subordinate Pass-Through Agreements provide that the Successor Agency is authorized to subordinate the Successor Agency's obligations under such agreements if the Successor Agency demonstrates its ability, to the satisfactions of the taxing agencies which are parties to these agreements, to continue making payments under such agreements. **All of the requirements necessary to subordinate the payment of all amounts payable pursuant to the Subordinate Pass-Through Agreements to the payment of debt service on the Bonds have been satisfied.**

For the purposes of showing debt service coverage in Tables 8 and 9 under "COVERAGE ANALYSIS," the "Tax Revenues" are shown net of pass-through payments under all of the Subordinate Pass-Through Agreements.

See "APPENDIX A – FISCAL CONSULTANT REPORT" for additional information regarding the required pass-through payments under each Subordinate Pass-Through Agreement.

### **Section 33676 Tax Sharing Payments**

For redevelopment project areas established before January 1, 1994, California Health and Safety Code Section 33676 allows taxing entities to receive additional property taxes in a redevelopment project area above the base year revenue amount (the "Section 33676 Payments"). The Project Area was established in 1989. The Section 33676 Payments are based on annual increases in the real property portion of the base year value up to the inflation limit of two percent. Several taxing entities receive Section 33676 Payments with respect to the Project Area. See "APPENDIX A – FISCAL CONSULTANT REPORT" for additional information regarding the required Section 33676 Payments. **The Section 33676 Payments are paid from moneys deposited in the Redevelopment Property Tax Trust Fund on a senior basis to the Bonds.**

### **Flow of Fund; Reserve Account**

The Successor Agency has heretofore established the Redevelopment Obligation Retirement Fund pursuant to Section 34170.5(a) of the Redevelopment Law which the Successor Agency shall continue to hold and maintain so long as any of the Bonds are Outstanding. Promptly upon receipt of Tax Revenues, the Successor Agency shall deposit all Tax Revenues into the Redevelopment Obligation Retirement Fund.

Tax Revenues received during each Bond Year (on January 2 and June 1 or any other dates during the Bond Year) shall be promptly transferred by the Successor Agency to the Trustee in an amount equal to the principal of and interest on the Bonds due during such Bond Year (i.e. May 1 and November 1) plus any amounts due in such Bond Year, as described in the Indenture. After the full amount required to be transferred to the Trustee for each Bond Year has been received by the Trustee, Tax Revenues received by the Successor Agency in such Bond Year shall be released from the pledge and lien hereunder and shall be applied in accordance with the Redevelopment Law, including but not limited to the payment of debt service on any Subordinate Debt. Prior to the payment in full of the principal of and interest and redemption premium (if any) on the Bonds and the payment in full of all other amounts payable under the Indentures, the Successor Agency shall not have any beneficial right or interest in the moneys on deposit in the Redevelopment Obligation Retirement Fund, except as may be provided in the Indenture.

There is established under the Indenture a special trust funds known as the "Revenue Fund," which Fund will be held by the Trustee in trust for the Owners. Under the Indenture there are also created separate accounts within the Revenue Fund as set forth below, to be known respectively as the Interest Account, the Principal Account, and the Reserve Account. The Successor Agency shall transfer amounts on deposit in the Redevelopment Obligation Retirement Fund to the Trustee in the following amounts at the following

times, for deposit by the Trustee in the following respective special accounts within the Revenue Fund, in the following order of priority:

***Interest Account.*** On or before the 5th Business Day preceding each Interest Payment Date, the Successor Agency will withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee for deposit in the Interest Account an amount which, when added to the amount then on deposit in the Interest Account, equals the aggregate amount of the interest coming due and payable on the Outstanding Bonds on such Interest Payment Date. No such transfer and deposit need be made to the Interest Account if the amount contained therein is at least equal to the interest to become due on the next succeeding Interest Payment Date upon all of the Outstanding Bonds. The Trustee shall apply amounts in the Interest Account solely for the purpose of paying the interest on the Bonds when due and payable.

***Principal Account.*** On or before the 5th Business Day preceding each Principal Payment Date, the Successor Agency shall withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee for deposit in the Principal Account an amount which, when added to the amount then on deposit in the Principal Account, equals the amount of principal coming due and payable on such date on the Outstanding Bonds on the next Principal Payment Date. No such transfer and deposit need be made to the Principal Account if the amount contained therein is at least equal to the principal to become due on the next Principal Payment Date, on all of the Outstanding Bonds. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as it shall become due and payable.

***Reserve Account.*** Pursuant to the Indenture, a reserve account (the “Reserve Account”) is established with respect to the Bonds, and will be held by the Trustee in trust for the benefit of the Successor Agency and the registered owners of the Bonds. The amount on deposit in the Reserve Account is required to be maintained at an amount equal to the Reserve Requirement, which is defined in the Indenture to mean for the Bonds, as of each calculation date, an amount equal to the least of (i) 125% of the average Annual Debt Service with respect to the Bonds, (ii) ten percent (10%) of the issue price of the Bonds, or (iii) Maximum Annual Debt Service with respect to the Bonds.

The Reserve Requirement for the Bonds will be satisfied by the delivery of the Reserve Policy by the Insurer on the date of delivery of the Bonds. The Successor Agency will have no obligation to replace the Reserve Policy or to fund the Reserve Account with cash if amounts are not available under the Reserve Policy or if any rating with respect to the Insurer is downgraded or revoked. The Reserve Policy is a Qualified Reserve Account Credit Instrument under the Indenture.

All money in the Reserve Account from draws on the Reserve Policy shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account and the Principal Account, in the event of any deficiency at any time in any of such accounts.

***Redemption Account.*** On or before the Business Day preceding any date on which Bonds are to be redeemed, the Trustee shall withdraw from the Revenue Fund any amount transferred by the Successor Agency pursuant to the optional redemption provisions of the Indenture for deposit in the Redemption Account, such amount being the amount required to pay the principal of and premium, if any, on the Bonds to be redeemed on such date. All moneys in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium, if any, on the Bonds to be optionally redeemed on the date set for such redemption. Interest due on Bonds to be redeemed on the date set for redemption shall, if applicable, be paid from funds available therefor in the Interest Account.

## **Elimination of Housing Set-Aside**

Pursuant to Sections 33334.2 and 33334.3 of the Redevelopment Law, redevelopment agencies were required to set aside not less than twenty percent of all tax increment revenues allocated to redevelopment agencies from redevelopment project areas adopted after December 31, 1976, in a low- and moderate-income housing fund to be expended for authorized housing purposes. Amounts on deposit in the low- and moderate-income housing fund could be applied to pay debt service on bonds, loans, or advances of redevelopment agencies to finance low- and moderate-income housing projects.

The Dissolution Act eliminated the requirement that twenty percent of tax increment revenue be set aside and used exclusively for purposes of providing low and moderate income housing. The Bonds are payable from amounts of tax increment revenue that prior to the Dissolution Act were required to be set aside for low and moderate income housing.

## **Humboldt County Auditor-Controller**

The County Auditor-Controller is responsible for accounting, auditing, accounts payable, payroll and property tax services for all governments, individuals and businesses she serves, including the County. The Dissolution Act assigns county auditors numerous responsibilities, including the responsibility to deposit tax increment revenues attributable to each successor agency into a Redevelopment Property Tax Trust Fund held in the county treasury in the name of each successor agency.

The Dissolution Act assigns county auditors numerous responsibilities, including the responsibility to deposit tax increment revenues attributable to each successor agency into a Redevelopment Property Tax Trust Fund held in the county treasury in the name of each successor agency. Pursuant to the Dissolution Act, county auditors disburse funds from each Redevelopment Property Tax Trust Fund twice annually, on January 2 and June 1. Such amounts include payments to affected taxing entities, payments that are required to be paid from tax increment as approved on a Recognized Obligation Payment Schedule, and various administrative fees and allowances. Remaining Redevelopment Property Tax Trust Fund balances are distributed to affected taxing entities under a prescribed method that accounts for pass-through payments. County auditors are also responsible for distributing other moneys received from successor agencies (from sale of assets etc.) to the affected taxing entities.

## **Certain Covenants of the Successor Agency**

As long as the Bonds are outstanding, the Successor Agency will (through its proper members, officers, agents or employees) faithfully perform and abide by all of the covenants, undertakings and provisions contained in the Indenture or in any Bond issued under the Indenture, including the covenants and agreements described below for the benefit of the Owners which are necessary, convenient, and desirable to secure the Bonds.

***Punctual Payment.*** The Successor Agency will punctually pay or cause to be paid the principal, premium (if any) and interest to become due in respect of all the Bonds in strict conformity with the terms of the Bonds and the Indenture. The Successor Agency will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures. Nothing in the Indenture will prevent the Successor Agency from making advances of other legally available funds to make any payment referred to in the Indenture.

***Compliance with the Redevelopment Law; Recognized Obligation Payment Schedules.***

Pursuant to Section 34177 of the Health and Safety Code, by each February 1 (or such other dates as are specified in the Health and Safety Code or other applicable law), the Successor Agency shall prepare and submit an Oversight Board-approved Recognized Obligation Payment Schedule to the State Department of Finance and to the County Auditor-Controller, a Recognized Obligation Payment Schedule pursuant to which enforceable obligations of the Successor Agency are listed, including debt service with respect to the Bonds and any amounts required to replenish the Reserve Account or to pay amounts due to the Insurer in connection with the Insurance Policy or the Reserve Policy. Such Recognized Obligation Payment Schedule shall include all scheduled interest and principal payments on the Bonds that are due and payable on May 1 and November 1 of the Bond Year ending on November 1 of the next ensuing calendar year, together with any amount required to replenish the Reserve Account or to pay amounts due to the Insurer in connection with the Insurance Policy or the Reserve Policy.

If the provisions set forth in the Dissolution Act as of the delivery date of the Bonds that relate to the filing of Recognized Obligation Payment Schedules are further amended or modified in any manner, the Successor Agency agrees to take all such actions as are necessary to comply with such amended or modified provisions so as to ensure the timely payment of debt service on the Bonds that are not inconsistent herewith.

The Successor Agency further agrees (a) to the extent permitted by law, to amend any Recognized Obligation Payment Schedule filing for any period during which amounts owed to the Insurer either with respect to the Insurance Policy or the Reserve Policy are not included on such Recognized Obligation Payment Schedule filing, and (b) not to submit a last and final Recognized Obligation Payment Schedule under the Dissolution Act without the prior written consent of the Insurer.

***Payment of Claims.*** The Successor Agency will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the properties owned by the Successor Agency or upon the Tax Revenues or any part thereof, or upon any funds held by the Trustee pursuant hereto, or which might impair the security of the Bonds. Nothing requires the Successor Agency to make any such payment so long as the Successor Agency in good faith contests the validity of said claims.

***Books and Accounts; Financial Statements; Additional Information.*** The Successor Agency will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Successor Agency and the City of Fortuna, in which complete and correct entries are made of all transactions relating to the Tax Revenues and the Redevelopment Obligation Retirement Fund. The Successor Agency will cause to be prepared annually, within 270 days after the close of each Fiscal Year so long as any of the Bonds are Outstanding, complete audited financial statements with respect to such Fiscal Year, prepared in accordance with applicable provisions of the California Government Code, showing all deposits into and disbursements from the Redevelopment Obligation Retirement Fund, as of the end of such Fiscal Year. To the extent permitted by law, such financial statements may be combined with or otherwise be a part of the financial statements which are prepared for the City.

***Protection of Security and Rights of Owners.*** The Successor Agency covenants and agrees to preserve and protect the security of the Bonds and the rights of the Owners, and to contest (by court action or otherwise, if deemed necessary or appropriate by the Successor Agency) (a) the assertion by any officer of any government unit or any other person whatsoever against the Successor Agency that the Tax Revenues pledged under the Indenture cannot be used to pay debt service on the Bonds, or (b) any other action affecting the validity of the Bonds or diluting the security therefor, including, with respect to the Tax Revenues, the lien priority position of the Bonds.

***Payments of Taxes and Other Charges.*** The Successor Agency covenants that it will from time to time pay and discharge, or cause to be paid and discharged, all payments in lieu of taxes, service charges, assessments or other governmental charges which may lawfully be imposed upon the Successor Agency or any of the properties then owned by it in the Project Area, or upon the revenues and income therefrom, and will pay all lawful claims for labor, materials and supplies which if unpaid might become a lien or charge upon any of the properties, revenues or income or which might impair the security of the Bonds or the use of Tax Revenues or other legally available funds to pay the principal of and interest and redemption premium (if any) on the Bonds, all to the end that the priority and security of the Bonds shall be preserved; provided, however, that nothing requires the Successor Agency to make any such payment so long as the Successor Agency in good faith shall contest the validity of the payment.

***Compliance with the Redevelopment Law; Maintenance of Tax Revenues.*** The Successor Agency covenants that it will comply with all applicable requirements of the Health and Safety Code. In the event that the applicable property tax revenues provisions of the Redevelopment Law or Dissolution Act are determined by a court in a final non-appealable judicial decision to be invalid and, in place of the invalid provisions, provisions of the Redevelopment Law or the equivalent become applicable to the Bonds, the Successor Agency shall comply with all requirements of the Health and Safety Code to insure the allocation and payment to it of the Tax Revenues, including without limitation the timely filing of any necessary statements of indebtedness with appropriate officials of the County and, in the case of amounts payable by the State of California, appropriate officials of the State of California.

***Continuing Disclosure.*** The Successor Agency covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the Successor Agency to comply with the Continuing Disclosure Certificate shall not be considered an event of default; provided, however, the Trustee, at the written request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Bonds Outstanding, shall, to the extent the Trustee is indemnified to its satisfaction from and against any liability or expense related thereto, or any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Successor Agency to comply with its obligations under this section and the Continuing Disclosure Certificate.

***Tax Covenants.*** The Successor Agency covenants and agrees not to use, permit the use of, or omit to use Gross Proceeds of the Bonds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with such Gross Proceeds) in a manner that if made or omitted, respectively, could cause interest on the Bonds to fail to be excluded pursuant to section 103 of the Code from the gross income of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the Successor Agency receives a written opinion of Bond Counsel to the effect that failure to comply with such covenant will not adversely affect the exclusion from gross income of interest on any Bond, the Successor Agency shall comply with each of the specific covenants in the Indenture. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE- Tax Covenants” herein.

## THE SUCCESSOR AGENCY

### Former Agency

The City Council of the City activated the Former Agency in 1989 with the adoption of an Ordinance pursuant to the Redevelopment Law. Under that ordinance the City Council declared itself to be the governing body of the Former Agency. The City Manager served as the Former Agency's Executive Director, and many other staff members of the City also functioned as staff members of the Former Agency. However, the Former Agency was a separate public body from the City.

### Establishment of Successor Agency

On June 29, 2011, AB x1 26 was enacted as Chapter 5, Statutes of 2011, together with a companion bill, AB x1 27. AB x1 26 provided for the dissolution of all redevelopment agencies, but also permitted redevelopment agencies to avoid such dissolution by the payment of certain amounts. A lawsuit was brought in the California Supreme Court, California Redevelopment Association, et al., v. Matosantos, et al., 53 Cal. 4th 231 (Cal. 2011), challenging the constitutionality of AB x1 26 and AB x1 27. In its December 29, 2011 decision, the California Supreme Court largely upheld AB x1 26, invalidated AB x1 27, and held that AB x1 26 may be severed from AB x1 27 and enforced independently. As a result of AB x1 26 and the decision of the California Supreme Court in the California Redevelopment Association case, as of February 1, 2012, all redevelopment agencies in the State were dissolved, including the Former Agency, and successor agencies were designated as successor entities to the former redevelopment agencies to expeditiously wind down the affairs of the former redevelopment agencies. The Department of Finance conducted a review of the Successor Agency's documentation and issued its Finding of Completion on May 24, 2013.

The City Council elected to serve as Successor Agency. Subdivision (g) of Section 34173 of the Dissolution Act, added by AB 1484, expressly affirms that the Successor Agency is a separate public entity from the City, that the two entities shall not merge, and that the liabilities of the Former Agency will not be transferred to the City nor will the assets of the Former Agency become assets of the City.

The City Council elected to become the Successor Agency for the Former Agency. The Successor Agency is governed by a five-member governing board whose members are the same as the City Council. The City Manager serves as the Executive Director of the Successor Agency, the City Attorney serves as Successor Agency General Counsel and the City Finance Director serves the same function and Treasurer for the Successor Agency.

### Members, Officers and Staff

The members of the Successor Agency Board of Directors (the "Board") and the expiration dates of their terms are as follows:

<u>Name and Office</u>	<u>Expiration of Term</u>
Sue Long, Chairman	November 2018
Tami Trent, Vice-Chairman	November 2020
Doug Strehl, Board Member	November 2018
Tiara Brown, Board Member	November 2018
Dean Glaser, Board Member	November 2020

## **Agency Powers and Duties**

All powers of the Successor Agency are vested in the Board. Pursuant to the Dissolution Act, the Successor Agency is a separate public body from the City and succeeds to the organizational status of the Former Agency but without any legal authority to participate in redevelopment activities, except to complete any work related to an approved enforceable obligation. The Successor Agency is tasked with expeditiously winding down the affairs of the Former Agency, pursuant to the procedures and provisions of the Dissolution Act.

Under the Dissolution Act, many Successor Agency actions are subject to approval by the Oversight Board, as well as review by the DOF. The State has strict laws regarding public meetings (known as the Ralph M. Brown Act) which generally make all Successor Agency and oversight board meetings open to the public in a similar manner as City Council meetings.

Previously, Section 33675 of the Redevelopment Law required the Former Agency to file not later than the first day of October of each year with the County Auditor-Controller a statement of indebtedness certified by the chief fiscal officer of the Former Agency for each redevelopment plan which provides for the allocation of taxes (i.e., the Redevelopment Plans). The statement of indebtedness was required to contain the date on which the bonds were delivered, the principal amount, term, purposes and interest rate of the bonds and the outstanding balance and amount due on the bonds. Similar information was required to be given for each loan, advance or indebtedness that the Former Agency had incurred or entered into which is payable from tax increment.

Section 33675 also provided that payments of tax increment revenues from the County Auditor-Controller to the Former Agency could not exceed the amounts shown on the Former Agency's statement of indebtedness. The Dissolution Act eliminated this requirement and provides that, commencing on the date the first Recognized Obligation Payment Schedule is valid thereunder, the Recognized Obligation Payment Schedule supersedes the statement of indebtedness previously required under the Redevelopment Law, and commencing from such date, the statement of indebtedness will no longer be prepared nor have any effect under the Redevelopment Law. See "SECURITY FOR THE BONDS – Recognized Obligation Payment Schedules," herein.

## **Due Diligence Reviews**

Pursuant to the Dissolution Act, the Successor Agency was required to retain independent accountants to conduct two reviews, known as due diligence reviews (each, a "DDR") – one for the Housing Fund and the other for all of the other funds and accounts (the "Other Funds") – to determine the unobligated balance (the "Unobligated Balance"), if any, of the Housing Fund and the Other Funds, as of June 30, 2012. Legally restricted funds (including bond proceeds), value of assets that are not cash or cash equivalents (such as land and equipment) and amounts that are needed to satisfy obligations listed an approved ROPS were excluded from the Unobligated Balance.

Pursuant to the DDRs, as reviewed and modified by the DOF, the Successor Agency remitted the determined Unobligated Balance to the County Auditor-Controller for distribution to the taxing agencies. Because the Successor Agency has made such remittance as required by the DOF, as well as certain other amounts previously required to be remitted pursuant to the Dissolution Act, the DOF issued a "Finding of Completion" to the Successor Agency on November 1, 2013. Upon receipt of such Finding of Completion, the Successor Agency is authorized to proceed with actions permitted under certain provisions of the Dissolution Act, such as the submission of a Long Range Property Management Plan (see below).

## **Real Property Disposition; Long Range Property Management Plan**

Generally under Health and Safety Code Sections 34177(e) and 34181(a) of the Dissolution Act, the Successor Agency is required, at the direction of the Oversight Board, to dispose of the assets and properties of the Former Agency expeditiously and in a manner aimed at maximizing value (except that the Oversight Board may give other directions regarding the transfer of certain government use properties to a public jurisdiction as permitted by the Dissolution Act and regarding the transfer of properties that is required by enforceable obligations). Proceeds from asset sales that are no longer needed for approved development projects or to otherwise wind down the affairs of the Former Agency, each as determined by the Oversight Board, are to be transferred to the County Auditor-Controller for distribution to taxing agencies.

However, the requirements for such expeditious asset disposition were suspended and are superseded if the DOF approved a Long Range Property Management Plan for the Successor Agency before January 1, 2016. The Long Range Property Management Plan contains an inventory of the real property interests of the Former Agency and addresses the proposed use or disposition of each property interest under one of four categories: (i) retention for governmental use, (ii) retention for future development, (iii) disposition by sale, and (iv) fulfillment of an enforceable obligation. On September 30, 2015, the DOF issued a letter approving the Successor Agency's Long Range Property Management Plan.

## **Audited Financial Statements**

Before the enactment of the Dissolution Act, the Former Agency retained independent auditors to prepare a report of the Former Agency's audited financial statements for each fiscal year ended June 30, separate and apart from the report of City's audited financial statements. The Dissolution Act provides that a post-audit of the financial transactions and records of the Successor Agency must be made at least annually by a certified public accountant. Starting with the reporting related to fiscal year 2012-13, no separate component unit financial statements were prepared for the Successor Agency. Instead, the financial transactions for the Successor Agency were reported as part of the City's audited financial statements.

The accounting firm of Terry E. Krieg, CPA, Santa Rosa, California ("Auditor") prepared the City's audited financial statements for fiscal year ended 2015-16 (the "FY 2015-16 City Audited Financials"). The FY 2015-16 City Audit Financials were incorporated in, and made a part of, the City's Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2016, a copy of which is attached as Appendix C to this Official Statement. The Successor Agency has not requested nor obtained permission from the Auditors to include the FY 2015-16 City Audit Financials as part of Appendix C to this Official Statement. The Auditors have not performed any post-audit review of the financial condition or operations of the City or the Successor Agency for the purposes of this Official Statement.

The inclusion of the Successor Agency's financial transactions in the FY 2015-16 City Audited Financials is solely for convenience. As previously discussed in this Official Statement, the Dissolution Act expressly clarifies that the Successor Agency is a separate legal entity from the City. The assets and the liabilities of the Former Agency have been transferred to the Successor Agency. The assets and liabilities of the Successor Agency are not assets and liabilities of the City.

## THE PROJECT AREA

### The Redevelopment Plan

On July 5, 1989, the City Council adopted the Redevelopment Plan for the approximately 483-acre Fortuna Redevelopment Project (the “Project Area”) pursuant to Ordinance No. 89-537. The goal of the Redevelopment Plan was to enhance the vitality of the downtown area.

### The Project Area

The Project Area consists of two non-contiguous areas. The larger area occupies the commercial corridors along Rohnerville Road from US Highway 101 to Newburg Road and along Fortuna Boulevard from Rohnerville Road to Kenmar Road including parcels on both sides of U.S. Highway 101. The other area is located in the southeastern portion of the City and is northwest of the intersection of Rohnerville Road and Drake Hill Road. This area is roughly bordered by Drake Hill Road on the south, Thelma Street on the west, Rohnerville Road on the east and Kenmar Road on the north. The Project Area contains approximately 483 acres.

Table 3 represents the breakdown of land use in the Project Area by the number of parcels and by assessed value for fiscal year 2016-17. Unsecured values are not reflected as having a number of parcels since these tax bills are connected with secured parcels that are already accounted for in other categories.

**TABLE 3  
FORTUNA REDEVELOPMENT PROJECT AREA**

<b>LAND USE SUMMARY (Fiscal Year 2017-18)</b>			
<b><u>Category</u></b>	<b><u>No. Parcels</u></b>	<b><u>Assessed Value</u></b>	<b><u>% of Total</u></b>
Residential	1,025	\$174,415,363	63.3%
Commercial	183	76,808,591	27.9%
Industrial	6	2,145,903	0.8%
Vacant	108	5,999,643	2.2%
Miscellaneous	26	1,852,985	0.7%
Exempt	32	0	0.0%
Unsecured	<u>108</u>	<u>14,111,233</u>	<u>5.1%</u>
<b>Totals:</b>	<b>1,380</b>	<b>\$275,333,718</b>	<b>100.00%</b>

*Source:* Fiscal Consultant, with information from the Humboldt County 2017-18 Secured Property Tax Roll.

## Top Ten Taxable Property Owners in the Project Area

Within the Project Area, the total incremental value for the ten largest taxpayers totaled \$28,462,184. This amount is 13.4% of the \$212.4 million incremental value for the Project Area. The top taxpayer in the Project Area is Dennis P and Tami B Fitze who control two secured parcels with a combined valuation of \$4,091,586. The value of the Fitze parcels is 1.93% of the Project Area's total incremental value. The properties owned by Dennis and Tami Fitze are developed as a mini-storage facility and a multi-family residential parcel. The second largest taxpayer in the Project Area is Shree Ganesh Hospitality LLC that controls a total of \$3,602,141 in secured assessed value for a Comfort Inn and Suites Hotel. This amount is 1.7% of the Project Area's incremental value. The following Table 4 illustrates the percentage of incremental value for the top ten taxpayers in the Project Area and their relative importance to the incremental value of the Project Area.

**TABLE 4  
FORTUNA REDEVELOPMENT PROJECT AREA**

<b>TOP TEN TAXABLE PROPERTY OWNERS (Fiscal Year 2017-18)</b>				
<u>Property Owner</u>	<u>Combined Value</u>	<u>% of Total Assessed Value</u>	<u>% of Total Incremental Value</u>	<u>Primary Land Use</u>
Dennis P & Tami B. Fitze	\$4,091,586	1.49%	1.93%	Mini-storage & Multi-Family Parcel
Shree Ganesh Hospitality LLC	3,602,141	1.31%	1.70%	Comfort Inn & Suites Hotel
Bear River Band of Rohnerville Rancheria	3,514,451	1.28%	1.65%	Multi-Family Residential
Patrick Odell	3,112,373	1.13%	1.47%	Commercial Office Building
Marshall Jr. & Joyce C. Hart Co-Trustees	2,649,984	0.96%	1.25%	Dollar General Store
Maverick Property Holdings	2,540,471	0.92%	1.20%	Redwood Riverwalk Hotel
White Circle Commerce LLC	2,501,039	0.91%	1.18%	Non-Contiguous Comm. & Residential
SFP-B LP	2,288,839	0.83%	1.08%	Comm. Bldg./Les Schwab Tire Center
Humboldt Petroleum Inc.	2,147,103	0.78%	1.01%	Service Stations & Vacant Land
Veer Property Holdings LLC	<u>2,014,197</u>	<u>0.73%</u>	<u>0.95%</u>	Super 8 Motel
<b>Top Taxpayer Total Value</b>	<b>\$28,462,184</b>			
<b>Project Area Assessed Value</b>	<b>\$275,333,718</b>	<b>10.34%</b>		
<b>Project Area Incremental Value</b>	<b>\$212,416,382</b>		<b>13.40%</b>	

Source: Fiscal Consultant, with information from the Humboldt County 2017-18 Secured Property Tax Roll.

## TAX REVENUES AND DEBT SERVICE COVERAGE

*The following section presents a summary of the historical and projected assessed valuation and property tax revenues with respect to the Project Area, based on information provided by HdL Coren & Cone, as Fiscal Consultant. The Successor Agency believes the assumptions upon which the projections are based are reasonable. However, some assumptions may not materialize and unanticipated events and circumstances may occur. See “RISK FACTORS” herein. The projections do not include an allowance for property tax appeals and related refunds or delinquencies by taxpayers. The actual amount of Tax Revenues available for debt service during the forecast period may vary from the projections and the variations may be material.*

### **Humboldt County Tax Increment Calculation; Teeter Plan**

The County calculates tax increment to the Project Area by applying the one percent tax rate to incremental taxable values. The County also allocates unitary revenue to the Project Area. See “PROPERTY TAXATION IN CALIFORNIA – Unitary Property” herein. The County Auditor-Controller aggregates the taxable values assigned to property in the Project Area by the County Assessor as of the January 1 lien date. This aggregated value becomes total current year Project Area taxable value and the basis for determining the tax increment dollars. Although adjustments to taxable values for property within the Project Area may occur throughout the fiscal year to reflect escaped assessments, roll corrections, etc., such adjustments are not assumed on the projection of Tax Revenues below.

Secured taxes are due in two equal installments, on November 1 and February 1. Installments of taxes levied upon secured property become delinquent on December 10 and April 10, respectively. Taxes on unsecured property are due March 1 and become delinquent August 31.

The County has implemented the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), which allows each entity levying property taxes in the County to draw on the amount of secured property taxes levied rather than the amount actually collected. As the result, for each fiscal year, the allocation of tax increment to the Former Agency before dissolution reflected, and the total deposit into the Redevelopment Property Tax Trust Fund after the Former Agency’s dissolution, reflected the total amount levied on the secured tax roll rather than actual collections. There is no assurance that the County will not terminate the Teeter Plan or change its practices thereunder at any time in the future. See “RISK FACTORS – Levy and Collection of Taxes” herein. Regardless of the Teeter Plan, the County does adjust secured tax increment payments for roll corrections, such as refunds of property taxes due to successfully appealed assessments. See “Tax Assessment Appeals” below. Tax increment generated from the application of the one percent tax rate to the unsecured incremental value of the Project area is based on the actual collections of unsecured revenues on a county-wide basis.

### **Historical Assessed Valuation and Tax Revenues**

The historic reported taxable values for the Project Area were reviewed by the Fiscal Consultant to ascertain the rate of taxable property valuation growth over the ten most recent fiscal years beginning with 2008-09, the results of which are reflected in Table 5 below.

Between 2008-09 and 2017-18 the taxable value within the Project Area increased by \$43,133,886 (18.58%). This represents an average annual assessed value growth of 1.9% despite minor reductions in value that occurred in fiscal years 2010-11 and 2014-15. Growth in the Project Area has historically been steady with moderate growth in value from year to year and it suffered no serious reductions to value during the recent recession. Assessed value within the Project Area for 2017-18 is \$7.5 million greater than the values in 2016-17 and this represents an increase of 3.67% in incremental value over last year.

## Historical Assessed Valuation and Tax Revenues

The following Table 5 provides a summary of the historical taxable valuation and resulting tax revenues in the Project Area for the years shown. This summary of historical assessed valuations and tax receipts is not intended to aid in the prediction of future Tax Revenues.

**TABLE 5  
FORTUNA REDEVELOPMENT PROJECT AREA**

<b>HISTORICAL ASSESSED VALUATION AND TAX REVENUES</b>													
	<b>Base Year 1988-89</b>	<b>2008-09</b>	<b>Revised Base Year (2009-10)</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>Revised Base Year (2014-15)</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>
<b>Secured (2)</b>													
Land	0	69,879,479	1,356	74,619,794	75,742,940	77,496,914	79,430,001	80,294,498	17,118,423	83,746,977	87,349,492	90,362,155	93,660,375
Improvements	59,686,294	156,056,076	59,700,294	158,334,664	156,285,221	156,889,964	157,800,575	159,173,537	42,567,871	162,573,890	165,537,488	173,828,616	180,832,735
Personal Property	1,886,017	5,255,049	1,886,017	6,630,557	3,694,548	3,023,326	5,564,293	7,409,577	1,886,017	2,658,498	2,608,457	2,793,333	3,812,733
Exemptions	(3,084,002)	(11,938,626)	(3,084,002)	(12,333,095)	(12,208,045)	(8,992,243)	(12,415,456)	(11,290,174)	(3,084,002)	(15,417,776)	(14,199,739)	(13,438,345)	(17,083,358)
<b>Total Secured</b>	<b>58,488,309</b>	<b>219,251,978</b>	<b>58,503,665</b>	<b>227,251,920</b>	<b>223,514,664</b>	<b>228,417,961</b>	<b>230,379,413</b>	<b>235,587,438</b>	<b>58,488,309</b>	<b>233,561,589</b>	<b>241,295,698</b>	<b>253,545,759</b>	<b>261,222,485</b>
<b>Unsecured</b>													
Land	0	778,388	0	685,184	582,629	510,108	484,638	136,537	0	136,537	518,924	1,225,069	1,233,065
Improvements	0	2,424,260	0	2,395,729	2,429,490	2,175,550	2,575,957	2,311,247	0	3,718,609	4,199,854	4,066,437	3,912,568
Personal Property	4,429,027	9,827,908	4,429,027	9,496,716	9,300,383	8,906,541	8,216,453	7,717,561	4,429,027	7,925,102	8,485,537	9,025,930	9,005,791
Exemptions	0	(82,702)	0	(88,412)	(82,900)	(100,120)	(87,870)	(39,368)	0	(43,753)	(47,909)	(42,343)	(40,191)
<b>Total Unsecured</b>	<b>4,429,027</b>	<b>12,947,854</b>	<b>4,429,027</b>	<b>12,489,217</b>	<b>12,229,602</b>	<b>11,492,079</b>	<b>11,189,178</b>	<b>10,125,977</b>	<b>4,429,027</b>	<b>11,736,495</b>	<b>13,156,406</b>	<b>14,275,093</b>	<b>14,111,233</b>
<b>GRAND TOTAL</b>	<b>62,917,336</b>	<b>232,199,832</b>	<b>62,932,692</b>	<b>239,741,137</b>	<b>235,744,266</b>	<b>239,910,040</b>	<b>241,568,591</b>	<b>245,713,415</b>	<b>62,917,336</b>	<b>245,298,084</b>	<b>254,452,104</b>	<b>267,820,852</b>	<b>275,333,718</b>
Incremental Value		169,282,496		176,808,445	172,811,574	176,977,348	178,635,899	182,780,723		182,380,748	191,534,768	204,903,516	212,416,382
Percentage Change:				4.45%	-2.26%	0.10%	0.94%	2.32%		-0.22%	5.02%	6.98%	3.67%

Source: Fiscal Consultant, with information from the Humboldt County 2017-18 Secured Property Tax Roll.

(1) Secured values include state assessed non-unitary utility property.

## Tax Assessment Appeals

*Proposition 8 Appeals.* Most of the appeals that might be filed in the Project Area would be based on Section 51 of the Revenue and Taxation Code, which requires that for each lien date the value of real property shall be the lesser of its base year value annually adjusted by the inflation factor under Article XIII A of the State Constitution or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value. Under California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. These market-driven appeals are known as Proposition 8 appeals.

Any reduction in the assessment ultimately granted as a Proposition 8 appeal applies to the year for which application is made and during which the written application was filed. These reductions are often temporary and are adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A. The State Board of Equalization has approved this reassessment formula and such formula has been used by county assessors statewide. The reassessment formula was approved by the California of Appeal, Fourth District, in the case of *County of Orange et al. v Bezaire*, petition for review to the California Supreme Court denied. Reductions made under this code section may be initiated by the county assessor. No such proposition 8 reduction was announced for roll year 2017-18.

*Project Area Proposition 8 Pending Appeals.* In connection with its delivery of the Fiscal Consultant Report (a copy of which is attached to this Official Statement as Appendix A), the Fiscal Consultant researched the status of outstanding assessment appeals filed in the Project Area. Based on information obtained from the Humboldt County for the period from January 1, 2011 through September 1, 2017, the Fiscal Consultant reports that there were \_ pending appeals within the Project Area. These included \_ pending appeals of values in 2015-16 and \_ pending appeals of values in 2016-17. The number \_\_\_\_ taxpayer of the top ten taxpayers, \_\_\_\_\_, filed an appeal of the value of their property in both 2015-16 and 2016-17. The total value under appeal is approximately \_.% of the Project Area total incremental value. No further information on these appeals is available, however, the potential for these appeals having any significant impact on the Project Area Tax Revenue is minor (see Fiscal Consultant Report).

The projections of Tax Revenues prepared by the Fiscal Consultant and set forth in the section of this Official Statement, and in the Fiscal Consultant Report, do not take into account reductions in assessed value related to pending appeals, potential future Proposition 8 Adjustments or successful appeals by property owners.

See the discussion under the heading “RISK FACTORS – Reduction in Taxable Value” and “– Effect of Assessment Appeals,” as well as “APPENDIX A – FISCAL CONSULTANT’S REPORT” for additional information regarding assessment appeals and reductions in taxable assessment valuation.

*Base Year Appeals.* A second type of assessment appeal is called a Base Year appeal, where the property owners challenge the original (basis) value of their property. Appeals for reduction in the “base year” value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

## Projected Tax Revenues – Assuming No Growth

The following Table 6 provides a summary of the projected taxable valuation and resulting projected Tax Revenues in the Project Area for the fiscal years shown, assuming 0% annual growth.

**TABLE 6  
FORTUNA REDEVELOPMENT PROJECT AREA**

<b>PROJECTED TAX REVENUES – ASSUMING NO GROWTH (In Thousands)</b>											
		<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>
<b>Taxable Values (1)</b>											
Real Property (2)		262,555	266,567	266,567	266,567	266,567	266,567	266,567	266,567	266,567	266,567
Personal Property (3)		<u>12,778</u>	<u>12,778</u>	<u>12,778</u>	<u>12,778</u>	<u>12,778</u>	<u>12,778</u>	<u>12,778</u>	<u>12,778</u>	<u>12,778</u>	<u>12,778</u>
<b>Total Projected Value</b>		<b>275,334</b>	<b>279,345</b>	<b>279,345</b>	<b>279,345</b>	<b>279,345</b>	<b>279,345</b>	<b>279,345</b>	<b>279,345</b>	<b>279,345</b>	<b>279,345</b>
<b>Taxable Value over Base</b>	<b>62,917</b>	<b>212,416</b>	<b>216,428</b>	<b>216,428</b>	<b>216,428</b>	<b>216,428</b>	<b>216,428</b>	<b>216,428</b>	<b>216,428</b>	<b>216,428</b>	<b>216,428</b>
<b>Gross Tax Increment Revenue (4)</b>		<b>2,124</b>	<b>2,164</b>	<b>2,164</b>	<b>2,164</b>	<b>2,164</b>	<b>2,164</b>	<b>2,164</b>	<b>2,164</b>	<b>2,164</b>	<b>2,164</b>
Unitary Tax Revenue		<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>
<b>Gross Tax Revenues</b>		<b>2,133</b>	<b>2,173</b>	<b>2,173</b>	<b>2,173</b>	<b>2,173</b>	<b>2,173</b>	<b>2,173</b>	<b>2,173</b>	<b>2,173</b>	<b>2,173</b>
<b>LESS:</b>											
SB 2557 Administrative Fee (5)		(32)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)
<b>Base Year Adjustments (6)</b>											
Humboldt County General Fund		(144)	(144)	(144)	(144)	(144)	(144)	(144)	(144)	(144)	(144)
Humboldt County Library		(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)
Fortuna Fire Protection District		(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)
Fortuna Cemetary District		(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Humboldt Bay Harbor, Rec. & Cons. Dist.		(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Humboldt County Flood Control		(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
City of Fortuna		(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)
Humboldt County Office of Education		(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Fortuna Union School District		(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)
Rohnerville School District		(43)	(43)	(43)	(43)	(43)	(43)	(43)	(43)	(43)	(43)
Fortuna Union High School District		(96)	(96)	(96)	(96)	(96)	(96)	(96)	(96)	(96)	(96)
Redwood Community College District		(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)
<b>Tax Revenues</b>		<b>1,649</b>	<b>1,689</b>	<b>1,689</b>	<b>1,689</b>	<b>1,689</b>	<b>1,689</b>	<b>1,689</b>	<b>1,689</b>	<b>1,689</b>	<b>1,689</b>
<b>Subordinate Tax Sharing Payments</b>											
Humboldt County General Fund (7)		(332)	(340)	(340)	(340)	(340)	(340)	(340)	(340)	(340)	(340)
Humboldt County Library (7)		(31)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)
Fortuna Fire Protection District (8)		(88)	(90)	(90)	(90)	(90)	(90)	(90)	(90)	(90)	(90)
Fortuna Cemetary District (9)		(6)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Humboldt Bay Harbor, Rec. & Cons. Dist. (10)		(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
<b>Net Tax Revenues</b>		<b>1,183</b>	<b>1,212</b>	<b>1,212</b>	<b>1,212</b>	<b>1,212</b>	<b>1,212</b>	<b>1,212</b>	<b>1,212</b>	<b>1,212</b>	<b>1,212</b>

Source: Fiscal Consultant.

Footnotes to follow on next page:

- (1) Taxable values as reported by Humboldt County.
- (2) Real property consists of land and improvements. Increased for inflation at 0.00% annually. Value for 2018-19 are adjusted for sales during 2017 by adding \$4,011,771 in value.
- (3) Personal property is held constant at 2017-18 level.
- (4) Projected Gross Tax Increment is based upon incremental taxable values factored against an assumed Project tax rate and adjusted for any indebtedness approved by voters after January 1, 1989. There are no debt service overrides in the Project Area. The assumed future tax rates are assumed to remain at the level of \$1.00 per \$100 of taxable value. SB2557 County Administration fee is estimated at 1.57% of Gross Revenue.
- (5) Humboldt County Administrative fee is estimated at 1.88% of Gross Revenue.
- (6) Pursuant to resolutions passed in accordance with Section 33676 of the Health and Safety Code and pursuant to County policy, the Humboldt County General Fund, County Library, Fortuna Fire Protection District, Fortuna Cemetery District, Humboldt Bay Harbor, Recreation and Conservation District, Humboldt County Flood Control, City of Fortuna, County Office of Education, Fortuna Union School District, Rohnerville School District, Fortuna Union High School District and the Redwoods Community College District receive their prorated shares of revenue derived from inflationary growth on base year real property value.
- (7) County General Fund (31.83%) and the County Library (2.99%) receive 77.5% of their shares of Gross Tax Revenue net of Housing Set-Aside and net of their base year adjustment amounts. Tax Sharing payments to the County General Fund and Library are subordinate to debt service payments as long as they are reasonably assured that the tax sharing payments can be made by the Successor Agency.
- (8) Fortuna Fire Protection District received 50% of its share (4.13%) of Gross Tax Revenue net of Housing Set-Aside through 2008-09. From 2009-10 forward, the District receives 100% of its share net of Housing Set-Aside. Tax sharing payments are subordinate to the payment of debt service on Bonds.
- (9) Fortuna Cemetery District received 45% of its share (0.41%) of Gross Tax Revenue net of Housing Set-Aside through 2008-09 and has thereafter received 75% of its share. Tax sharing payments are subordinate to the payment of debt service on Bonds.
- (10) Humboldt Bay Harbor, Recreation & Conservation District received 35% of its share (0.92%) of Gross Tax Revenue net of Housing Set-Aside through 2008-09. From 2009-10 forward the District receives 45% of its share of Gross Revenue net of Housing Set-Aside. Tax sharing payments are subordinate to the payment of debt service on the Bonds.

## Projected Tax Revenues – Assuming 2% Annual Growth

The following Table 7 provides a summary of the projected taxable valuation and resulting projected Tax Revenues in the Project Area for the fiscal years shown, assuming 2% annual growth.

**TABLE 7  
FORTUNA REDEVELOPMENT PROJECT AREA**

<b>PROJECTED TAX REVENUES – ASSUMING NO GROWTH (IN THOUSANDS)</b>										
	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>
<b>Taxable Values (1)</b>										
Real Property (2)	262,555	266,567	266,567	266,567	266,567	266,567	266,567	266,567	266,567	266,567
Personal Property (3)	<u>12,778</u>	<u>12,778</u>	<u>12,778</u>	<u>12,778</u>	<u>12,778</u>	<u>12,778</u>	<u>12,778</u>	<u>12,778</u>	<u>12,778</u>	<u>12,778</u>
<b>Total Projected Value</b>	<b>275,334</b>	<b>279,345</b>	<b>279,345</b>	<b>279,345</b>	<b>279,345</b>	<b>279,345</b>	<b>279,345</b>	<b>279,345</b>	<b>279,345</b>	<b>279,345</b>
<b>Taxable Value over Base</b>	<b>62,917</b>	<b>212,416</b>	<b>216,428</b>	<b>216,428</b>	<b>216,428</b>	<b>216,428</b>	<b>216,428</b>	<b>216,428</b>	<b>216,428</b>	<b>216,428</b>
<b>Gross Tax Increment Revenue (4)</b>	<b>2,124</b>	<b>2,164</b>	<b>2,164</b>	<b>2,164</b>	<b>2,164</b>	<b>2,164</b>	<b>2,164</b>	<b>2,164</b>	<b>2,164</b>	<b>2,164</b>
Unitary Tax Revenue	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>
<b>Gross Tax Revenues</b>	<b>2,133</b>	<b>2,173</b>	<b>2,173</b>	<b>2,173</b>	<b>2,173</b>	<b>2,173</b>	<b>2,173</b>	<b>2,173</b>	<b>2,173</b>	<b>2,173</b>
<b>LESS:</b>										
SB 2557 Administrative Fee (5)	(32)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)
<b>Base Year Adjustments (6)</b>										
Humboldt County General Fund	(144)	(144)	(144)	(144)	(144)	(144)	(144)	(144)	(144)	(144)
Humboldt County Library	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)
Fortuna Fire Protection District	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)
Fortuna Cemetary District	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Humboldt Bay Harbor, Rec. & Cons. Dist.	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Humboldt County Flood Control	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
City of Fortuna	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)
Humboldt County Office of Education	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Fortuna Union School District	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)
Rohnerville School District	(43)	(43)	(43)	(43)	(43)	(43)	(43)	(43)	(43)	(43)
Fortuna Union High School District	(96)	(96)	(96)	(96)	(96)	(96)	(96)	(96)	(96)	(96)
Redwood Community College District	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)
<b>Tax Revenues</b>	<b>1,649</b>	<b>1,689</b>	<b>1,689</b>	<b>1,689</b>	<b>1,689</b>	<b>1,689</b>	<b>1,689</b>	<b>1,689</b>	<b>1,689</b>	<b>1,689</b>
<b>Subordinate Tax Sharing Payments</b>										
Humboldt County General Fund (7)	(332)	(340)	(340)	(340)	(340)	(340)	(340)	(340)	(340)	(340)
Humboldt County Library (7)	(31)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)
Fortuna Fire Protection District (8)	(88)	(90)	(90)	(90)	(90)	(90)	(90)	(90)	(90)	(90)
Fortuna Cemetary District (9)	(6)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Humboldt Bay Harbor, Rec. & Cons. Dist. (10)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
<b>Net Tax Revenues</b>	<b>1,183</b>	<b>1,212</b>	<b>1,212</b>	<b>1,212</b>	<b>1,212</b>	<b>1,212</b>	<b>1,212</b>	<b>1,212</b>	<b>1,212</b>	<b>1,212</b>

Source: Fiscal Consultant.

Footnotes to follow on next page:

- (1) Taxable values as reported by Humboldt County.
- (2) Real property consists of land and improvements. Increased for inflation at 2.00% annually.
- (3) Personal property is held constant at 2017-18 level.
- (4) Projected Gross Tax Increment is based upon incremental taxable values factored against an assumed Project tax rate and adjusted for any indebtedness approved by voters after January 1, 1989. There are no debt service overrides in the Project Area. The assumed future tax rates are assumed to remain at the level of \$1.00 per \$100 of taxable value. SB2557 County Administration fee is estimated at 1.57% of Gross Revenue.
- (5) Humboldt County Administrative fee is estimated at 1.88% of Gross Revenue.
- (6) Pursuant to resolutions passed in accordance with Section 33676 of the Health and Safety Code and pursuant to County policy, the Humboldt County General Fund, County Library, Fortuna Fire Protection District, Fortuna Cemetery District, Humboldt Bay Harbor, Recreation and Conservation District, Humboldt County Flood Control, City of Fortuna, County Office of Education, Fortuna Union School District, Rohnerville School District, Fortuna Union High School District and the Redwoods Community College District receive their prorated shares of revenue derived from inflationary growth on base year real property value.
- (7) County General Fund (31.83%) and the County Library (2.99%) receive 77.5% of their shares of Gross Tax Revenue net of Housing Set-Aside and net of their base year adjustment amounts. Tax Sharing payments to the County General Fund and Library are subordinate to debt service payments as long as they are reasonably assured that the tax sharing payments can be made by the Successor Agency.
- (8) Fortuna Fire Protection District received 50% of its share (4.13%) of Gross Tax Revenue net of Housing Set-Aside through 2008-09. From 2009-10 forward, the District receives 100% of its share net of Housing Set-Aside. Tax sharing payments are subordinate to the payment of debt service on Bonds.
- (9) Fortuna Cemetery District received 45% of its share (0.41%) of Gross Tax Revenue net of Housing Set-Aside through 2008-09 and has thereafter received 75% of its share. Tax sharing payments are subordinate to the payment of debt service on Bonds.
- (10) Humboldt Bay Harbor, Recreation & Conservation District received 35% of its share (0.92%) of Gross Tax Revenue net of Housing Set-Aside through 2008-09. From 2009-10 forward the District receives 45% of its share of Gross Revenue net of Housing Set-Aside. Tax sharing payments are subordinate to the payment of debt service on Bonds.

**Estimated Debt Service Coverage – Assuming No Annual Growth**

The following Table 8 sets forth the estimated Tax Revenues as set forth in Appendix A, together with the estimated debt service coverage for the Bonds, assuming no annual growth.

**TABLE 8  
FORTUNA REDEVELOPMENT PROJECT AREA**

<b>ESTIMATED TAX REVENUES AND DEBT SERVICE COVERAGE RATIO (Assuming No Annual Growth)</b>											
<b>Gross Tax Revenue</b>	<b>SB 2557 Charge</b>	<b>Section 33676 Base Year Adj.</b>	<b>Tax Revenues</b>	<b>Non-Escrow Debt Service</b>	<b>Escrow Debt Service</b>	<b>Lease Debt Service</b>	<b>Total Local Obligation Debt Service</b>	<b>Coverage</b>	<b>Subordinate Pass-Throughs Agreements</b>	<b>Net Tax Revenues</b>	<b>Net Tax Rev. Coverage</b>
2,132,588	(32,260)	(450,976)	1,649,352	670,586	158,825	155,481	984,892	1.67	(466,260)	1,183,092	1.20
2,172,706	(32,867)	(450,976)	1,688,863	681,586	161,865	157,881	1,001,332	1.69	(476,871)	1,211,992	1.21
2,172,706	(32,867)	(450,976)	1,688,863	691,786	169,660	155,081	1,016,527	1.66	(476,871)	1,211,992	1.19
2,172,706	(32,867)	(450,976)	1,688,863	700,524	171,965	157,106	1,029,595	1.64	(476,871)	1,211,992	1.18
2,172,706	(32,867)	(450,976)	1,688,863	713,269	179,025	158,881	1,051,175	1.61	(476,871)	1,211,992	1.15
2,172,706	(32,867)	(450,976)	1,688,863	704,706	185,595	155,381	1,045,682	1.62	(476,871)	1,211,992	1.16
2,172,706	(32,867)	(450,976)	1,688,863	715,138	191,675	156,681	1,063,494	1.59	(476,871)	1,211,992	1.14
2,172,706	(32,867)	(450,976)	1,688,863	729,412	197,265	157,750	1,084,427	1.56	(476,871)	1,211,992	1.12
2,172,706	(32,867)	(450,976)	1,688,863	742,300	202,365	158,588	1,103,253	1.53	(476,871)	1,211,992	1.10
2,172,706	(32,867)	(450,976)	1,688,863	753,800	206,975	159,194	1,119,969	1.51	(476,871)	1,211,992	1.08
2,172,706	(32,867)	(450,976)	1,688,863	763,913	216,095	154,569	1,134,577	1.49	(476,871)	1,211,992	1.07
2,172,706	(32,867)	(450,976)	1,688,863	777,638	219,480	154,944	1,152,062	1.47	(476,871)	1,211,992	1.05
2,172,706	(32,867)	(450,976)	1,688,863	794,744	227,375	155,088	1,177,207	1.43	(476,871)	1,211,992	1.03
2,172,706	(32,867)	(450,976)	1,688,863	805,000	214,535	155,000	1,174,535	1.44	(476,871)	1,211,992	1.03
2,172,706	(32,867)	(450,976)	1,688,863	811,500	211,940	159,250	1,182,690	1.43	(476,871)	1,211,992	1.02
2,172,706	(32,867)	(450,976)	1,688,863	811,250	209,100	158,000	1,178,350	1.43	(476,871)	1,211,992	1.03
2,172,706	(32,867)	(450,976)	1,688,863	814,500	206,015	156,500	1,177,015	1.43	(476,871)	1,211,992	1.03
2,172,706	(32,867)	(450,976)	1,688,863	816,000	207,685	159,750	1,183,435	1.43	(476,871)	1,211,992	1.02
2,172,706	(32,867)	(450,976)	1,688,863	815,750	203,865	157,500	1,177,115	1.43	(476,871)	1,211,992	1.03
2,172,706	(32,867)	(450,976)	1,688,863	813,750	209,800		1,023,550	1.65	(476,871)	1,211,992	1.18
<b>43,413,999</b>	<b>(656,730)</b>	<b>(9,019,522)</b>	<b>33,737,746</b>						<b>(9,526,814)</b>	<b>24,210,931</b>	

Source: Fiscal Consultant, based on information from the Underwriter.

**Estimated Debt Service Coverage – Assuming 2% Annual Growth**

The following Table 9 sets forth the estimated Tax Revenues as set forth in Appendix A, together with the estimated debt service coverage for the Bonds, assuming 2% annual growth.

**TABLE 9  
FORTUNA REDEVELOPMENT PROJECT AREA**

<b>ESTIMATED TAX REVENUES AND DEBT SERVICE COVERAGE RATIO (Assuming 2% Annual Growth)</b>											
<b>Gross Tax Revenue</b>	<b>SB 2557 Charge</b>	<b>Section 33676 Base Year Adj.</b>	<b>Tax Revenues</b>	<b>Non-Escrow Debt Service</b>	<b>Escrow Debt Service</b>	<b>Lease Debt Service</b>	<b>Total Local Obligation Debt Service</b>	<b>Coverage</b>	<b>Subordinate Pass-Throughs Agreements</b>	<b>Net Tax Revenues</b>	<b>Net Tax Rev. Coverage</b>
2,132,588	(32,260)	(450,976)	1,649,352	670,586	158,825	155,481	984,892	1.67	(466,260)	1,183,092	1.20
2,225,217	(33,661)	(472,116)	1,719,440	681,586	161,865	157,881	1,001,332	1.72	(486,181)	1,233,258	1.23
2,279,581	(34,484)	(493,679)	1,751,418	691,786	169,660	155,081	1,016,527	1.72	(495,890)	1,255,529	1.24
2,335,031	(35,322)	(515,673)	1,784,036	700,524	171,965	157,106	1,029,595	1.73	(505,792)	1,278,244	1.24
2,391,591	(36,178)	(538,107)	1,817,307	713,269	179,025	158,881	1,051,175	1.73	(515,893)	1,301,414	1.24
2,449,283	(37,051)	(560,989)	1,851,243	704,706	185,595	155,381	1,045,682	1.77	(526,195)	1,325,047	1.27
2,508,128	(37,941)	(584,330)	1,885,857	715,138	191,675	156,681	1,063,494	1.77	(536,704)	1,349,153	1.27
2,568,149	(38,849)	(608,137)	1,921,164	729,412	197,265	157,750	1,084,427	1.77	(547,423)	1,373,741	1.27
2,629,372	(39,775)	(632,420)	1,957,177	742,300	202,365	158,588	1,103,253	1.77	(558,356)	1,398,821	1.27
2,691,818	(40,720)	(657,189)	1,993,910	753,800	206,975	159,194	1,119,969	1.78	(569,508)	1,424,402	1.27
2,755,514	(41,683)	(682,453)	2,031,378	763,913	216,095	154,569	1,134,577	1.79	(580,883)	1,450,495	1.28
2,820,484	(42,666)	(708,222)	2,069,595	777,638	219,480	154,944	1,152,062	1.80	(592,485)	1,477,110	1.28
2,886,753	(43,668)	(734,507)	2,108,577	794,744	227,375	155,088	1,177,207	1.79	(604,320)	1,504,257	1.28
2,954,347	(44,691)	(761,318)	2,148,338	805,000	214,535	155,000	1,174,535	1.83	(616,391)	1,531,948	1.30
3,023,293	(45,734)	(788,665)	2,188,895	811,500	211,940	159,250	1,182,690	1.85	(628,703)	1,560,192	1.32
3,093,619	(46,798)	(816,558)	2,230,262	811,250	209,100	158,000	1,178,350	1.89	(641,262)	1,589,000	1.35
3,165,350	(47,883)	(845,010)	2,272,457	814,500	206,015	156,500	1,177,015	1.93	(654,072)	1,618,385	1.37
3,238,517	(48,990)	(874,031)	2,315,496	816,000	207,685	159,750	1,183,435	1.96	(667,138)	1,648,358	1.39
3,313,146	(50,118)	(903,632)	2,359,396	815,750	203,865	157,500	1,177,115	2.00	(680,466)	1,678,930	1.43
3,389,268	(51,270)	(933,825)	2,404,174	813,750	209,800		1,023,550	2.35	(694,060)	1,710,114	1.67
<b>54,851,049</b>	<b>(829,741)</b>	<b>(13,561,835)</b>	<b>40,459,473</b>						<b>(11,567,982)</b>	<b>28,891,491</b>	

Source: Fiscal Consultant, based on information from the Underwriter.

## **RISK FACTORS**

*Purchase of the Bonds will constitute an investment subject to certain risks, including the risk of nonpayment of principal and interest. Before purchasing any of the Bonds, prospective investors should carefully consider, among other things, the risk factors described below.*

*The following is not meant to be an exhaustive listing of all risks associated with the purchase of the Bonds. Moreover, the order of presentation of the risk factors does not necessarily reflect the order of their importance.*

### **Reduction in Taxable Value**

Tax Revenues allocated to the Redevelopment Property Tax Trust Fund are determined by the amount of incremental taxable value in the Project Area and the current rate or rates at which property in the Project Area is taxed. The reduction of taxable values of property in the Project Area caused by economic factors beyond the Successor Agency's control, such as a relocation out of the Project Area by one or more major property owners, sale of property to a non-profit corporation exempt from property taxation, the discovery of hazardous substances on a property within the Project Area (see "Hazardous Substances" below) or the complete or partial destruction of property caused by, among other possibilities, an earthquake, flood or other natural disaster (see "Natural Disasters" below or any other event which would permit a reassessment of property at lower values), could cause a reduction in the Tax Revenues that provide for the repayment of and secure the Bonds. Such reduction of Tax Revenues could have an adverse effect on the Successor Agency's ability to make timely payments of principal of and interest on the Bonds.

As described in greater detail under the heading "PROPERTY TAXATION IN CALIFORNIA – Constitutional Amendments Affecting Tax Revenues," Article XIII A provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflation rate, not to exceed a two percent increase for any given year, or may be reduced to reflect a reduction in the consumer price index, comparable local data or any reduction in the event of declining property value caused by damage, destruction or other factors (as described above). Such measure is computed on a calendar year basis. Any resulting reduction in the full cash value base over the term of the Bonds could reduce Tax Revenues securing the Bonds.

In addition to the other limitations on, and required application under the Dissolution Act of Tax Revenues on deposit in the Redevelopment Property Tax Trust Fund, described herein under the heading "RISK FACTORS," the State electorate or Legislature could adopt a constitutional or legislative property tax reduction with the effect of reducing Tax Revenues allocated to the Redevelopment Property Tax Trust Fund and available to the Successor Agency. Although the federal and State Constitutions include clauses generally prohibiting the Legislature's impairment of contracts, there are also recognized exceptions to these prohibitions. There is no assurance that the State electorate or Legislature will not at some future time approve additional limitations that could reduce the Tax Revenues and adversely affect the source of repayment and security of the Bonds.

### **Limited Powers and Resources**

The Successor Agency was created pursuant to the Dissolution Act to wind down the affairs of the Former Agency. The Successor Agency's powers are limited to those granted under the Dissolution Act. The Successor Agency does not have the power to levy property taxes nor does it have the power to participate in redevelopment activities, except as provided in the Dissolution Act. Many actions by the Successor Agency are subject to the review or approval of the oversight board and the State Department of Finance, and, in some cases, the State Controller. California Health and Safety Code Section 34173(e)

states that that the liability of the Successor Agency, acting pursuant to the powers granted under the Dissolution Act, is limited to the extent of the total sum of property tax revenues it receives pursuant to the Dissolution Act and the value of assets transferred to it as a Successor Agency for the Former Agency. See “SUCCESSOR AGENCY” herein.

Prior to the Dissolution Act, former redevelopment agencies had the ability to retain funds on hand, accumulated from prior years that were available for use to cover short-term cash flow deficits. In the event of a delay in the receipt of tax increment in any given year, the former redevelopment agency had the option to use such accumulated funds to make payments on bonds when due. Under the Dissolution Act, the Successor Agency, just like each successor agency formed under the Dissolution Act, is required to obtain prior approval from the Oversight Board (and, therefore, also the State Department of Finance because most Oversight Board actions are subject to Department of Finance review) in order to pay an enforceable obligation from a source of funds that is different than the one identified on the Recognized Obligation Payment Schedule.

As the result of procedures already completed under the Dissolution Act, such as the due diligence reviews (see “SUCCESSOR AGENCY – Due Diligence Reviews”), the Successor Agency virtually has no alternative resources available to make payment on enforceable obligations, if there is a significant delay with respect to scheduled RPTTF disbursements or if the amount from RPTTF disbursements is not sufficient for the required payment on the enforceable obligations.

Even though the City has elected to serve as the Successor Agency, the Dissolution Act expressly clarifies that the City and the Successor Agency are separate public entities. The liabilities of the Former Agency are not transferred to the City by virtue of the City’s election to serve as the Successor Agency.

The liabilities of the Successor Agency are not the liabilities of the City. In any event, the pledge for the Bonds is limited to the property tax revenues of the Project Area allocated to the Successor Agency’s RPTTF and certain funds created under the Indenture, as provided in the Indenture. See “SECURITY FOR THE BONDS” herein. No other funds are liable for the Bonds.

Except for the Tax Revenues, the Successor Agency has no alternative resources available to make payments on enforceable obligations if there is a delay with respect to scheduled Redevelopment Property Tax Trust Fund disbursements or if the amount from Redevelopment Property Tax Trust Fund disbursements is not sufficient for the required payment of the enforceable obligations.

### **Risks to Real Estate Market**

The Successor Agency’s ability to make payments on the Bonds will be dependent upon the economic strength of the Project Area. The general economy of the Project Area will be subject to all of the risks generally associated with urban real estate markets. Real estate prices and development may be adversely affected by changes in general economic conditions, fluctuations in the real estate market and interest rates, unexpected increases in development costs and by other similar factors. Further, real estate development within the Project Area could be adversely affected by limitations of infrastructure or future governmental policies, including governmental policies to restrict or control development. In addition, if there is a decline in the general economy of the Project Area, the owners of property within the Project Area may be less able or less willing to make timely payments of property taxes or may petition for reduced assessed valuation causing a delay or interruption in the receipt of Tax Revenues by the Successor Agency from the Project Area.

## **Reduction in Inflationary Rate**

As described in greater detail below, Article XIII A of the State Constitution provides that the full cash value of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2 percent increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. Such measure is computed on a calendar year basis. Because Article XIII A limits inflationary assessed value adjustments to the lesser of the actual inflationary rate or 2 percent, there have been years in which the assessed values were adjusted by actual inflationary rates, which were less than 2 percent. Since Article XIII A was approved, the annual adjustment for inflation has fallen below the 2 percent limitation several times but in Fiscal Year 2010-11 the inflationary value adjustment was negative for the first time at -0.237%. In Fiscal Year 2011-12, the inflationary value adjustment was 0.753%, which also is below the 2 percent limitation. For Fiscal Year 2013-14, the inflationary value adjustment is 2 percent, which is the maximum permissible increase under Article XIII A. For Fiscal Year 2014-15 and 2015-16, the inflationary value adjustment is 0.454% and 1.998%, respectively. For Fiscal Year 2016-17, the inflationary value adjustment was 1.525%. The Successor Agency is unable to predict if any adjustments to the full cash value of real property within the Project Area, whether an increase or a reduction, will be realized in the future. The Fiscal Consultant's Report attached as Appendix A assumes an inflationary value adjustment of 2 percent.

## **Development Risks**

The general economy of the Project Area will be subject to all of the risks generally associated with real estate development. Projected development within the Project Area may be subject to unexpected delays, disruptions and changes. Real estate development operations may be adversely affected by changes in general economic conditions, fluctuations in the real estate market and interest rates, unexpected increases in development costs and by other similar factors. Further, real estate development operations within the Project Area could be adversely affected by future governmental policies, including governmental policies to restrict or control development. If projected development in the Project Area is delayed or halted, the economy of the Project Area could be affected. If such events lead to a decline in assessed values they could cause a reduction in Tax Revenues. In addition, if there is a decline in the general economy of the Project Area, the owners of property within the Project Area may be less able or less willing to make timely payments of property taxes causing a delay or stoppage of the Tax Revenues received by the Successor Agency from the Project Area. In addition, the insolvency or bankruptcy of one or more large owners of property within the Project Area could delay or impair the receipt of Tax Revenues by the Successor Agency.

## **Concentration of Ownership**

The top ten largest property taxpayers in the Project Area account for 10.34% of the total local secured assessed value for Fiscal Year 2017-18. Concentration of ownership presents a risk in that if one or more of the largest property owners were to default on their taxes, or were to successfully appeal the tax assessments on property within the Project Area, a substantial decline in Tax Revenues could result. Secured property taxes for the ten largest assesses in the Project Area are current.

## **Levy and Collection of Taxes**

The Successor Agency has no independent power to levy or collect property taxes. As discussed under "TAX REVENUES AND DEBT SERVICE COVERAGE – Humboldt County Calculation of Tax Increment; Teeter Plan," the County has implemented a Teeter Plan which allows each entity levying property taxes in the County to draw on the amount of secured property taxes levied rather than the amount actually collected. So long as the Teeter Plan is in effect, the amount of the property tax revenues to be

deposited into the Redevelopment Property Tax Trust Fund will not be affected by taxpayers' delinquency in payment secured property taxes. However, the County is entitled at any time, and could be required under certain circumstances, to terminate its Teeter Plan with respect to all or part of the local agencies. If the Teeter Plan is terminated, then the amount of the property tax revenues to be deposited into the Redevelopment Property Tax Trust Fund will reflect actual collections, without protection from the Teeter Plan.

The payment of the property taxes and the ability of the County to foreclose on the lien of delinquent unpaid property tax may be limited or delayed by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. In addition, the prosecution of a foreclosure action could be delayed due to crowded local court calendars or delays in the legal process. Although bankruptcy proceedings would not cause the lien of the property tax to become extinguished, bankruptcy of a property owner could result in a delay in prosecuting superior court foreclosure proceedings. The federal bankruptcy laws provide for an automatic stay of foreclosure and sale of tax sale proceedings, thereby delaying such proceedings perhaps for an extended period. Further, should remedies be exercised under the federal bankruptcy laws, payment of the property tax may be subordinated to bankruptcy law priorities. Thus, certain claims may have priority over the property tax in a bankruptcy proceeding even though they would not outside of a bankruptcy proceeding. If the Teeter Plan is terminated in the future, the property tax revenues to be deposited into the Redevelopment Property Tax Trust Fund may be impacted, if the County's ability to collect property tax revenues is affected by such bankruptcy, insolvency or other proceedings generally affecting creditors' rights or judicial foreclosure proceedings.

Likewise, any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the Tax Revenues, and accordingly, could have an adverse impact on the security for and the ability of the Successor Agency to repay the Bonds.

### **Recognized Obligation Payment Schedule**

The Dissolution Act provides that, commencing on the date that the first Recognized Obligation Payment Schedule is valid thereunder, only those obligations listed in the Recognized Obligation Payment Schedule may be paid by the Successor Agency from the funds specified in the Recognized Obligation Payment Schedule. By February 1st of each year, the Dissolution Act requires successor agencies to prepare, and submit to the successor agency's oversight board and the DOF for approval, a Recognized Obligation Payment Schedule pursuant to which enforceable obligations of the successor agency are listed, together with the source of funds to be used to pay for each enforceable obligation. Tax Revenues will not be distributed from the Redevelopment Property Tax Trust Fund by the County Auditor-Controller to the Agency's Redevelopment Obligation Retirement Fund without a duly approved and effective Recognized Obligation Payment Schedule. See "SECURITY FOR THE BONDS – Recognized Obligation Payment Schedules" and "PROPERTY TAXATION IN CALIFORNIA – Property Tax Collection Procedures – Recognized Obligation Payment Schedule." If the Successor Agency was to fail to file a Recognized Obligation Payment Schedule with respect to a six-month period, the availability of Tax Revenues to the Successor Agency could be adversely affected for such period.

In the event a successor agency fails to submit to the DOF an oversight board-approved Recognized Obligation Payment Schedule complying with the provisions of the Dissolution Act within five business days of the date upon which the Recognized Obligation Payment Schedule is to be used to determine the amount of property tax allocations, the DOF may determine if any amount should be withheld by the applicable county auditor-controller for payments for enforceable obligations from distribution to taxing entities pursuant to clause (iv) in the following paragraph, pending approval of a Recognized Obligation Payment Schedule. Upon notice provided by the State Department of Finance to the county auditor-controller of an amount to be withheld from allocations to taxing entities, the county auditor-controller must

distribute to taxing entities any monies in the Redevelopment Property Tax Trust Fund in excess of the withholding amount set forth in the notice, and the county auditor-controller must distribute withheld funds to the successor agency only in accordance with a Recognized Obligation Payment Schedule when and as approved by the DOF.

Typically, under the Redevelopment Property Tax Trust Fund distribution provisions of the Dissolution Act, the County Auditor-Controller is to distribute funds for each six-month period in the following order specified in Section 34183 of the Dissolution Act: (i) first, subject to certain adjustments for subordinations to the extent permitted under the Dissolution Act and no later than each January 2 and June 1, to each local Successor Agency and school entity, to the extent applicable, amounts required for pass-through payments each such entity would have received under provisions of the Redevelopment Law, as those provisions read on January 1, 2011, including pursuant to the Pass-Through Agreements and Statutory Pass-Through Amounts; (ii) second, on each January 2 and June 1, to the Successor Agency for payments listed in its Recognized Obligation Payment Schedule, with debt service payments scheduled to be made for tax allocation bonds having the highest priority over payments scheduled for other debts and obligations listed on the Recognized Obligation Payment Schedule; (iii) third, on each January 2 and June 1, to the Successor Agency for the administrative cost allowance, as defined in the Dissolution Act; and (iv) fourth, on each January 2 and June 1, to taxing entities any monies remaining in the Redevelopment Property Tax Trust Fund after the payments and transfers authorized by clauses (i) through (iii), in an amount proportionate to such taxing entity's share of property tax revenues in the tax rate area in that fiscal year (without giving effect to any pass-through obligations that were established under the Redevelopment Law).

If the Successor Agency does not submit an Oversight-Board approved Recognized Obligation Payment Schedule within five business days of the date upon which the Recognized Obligation Payment Schedule is to be used to determine the amount of property tax allocations and the DOF does not provide a notice to the County Auditor-Controller to withhold funds from distribution to taxing entities, amounts in the Redevelopment Property Tax Trust Fund for such six-month period would be distributed to taxing entities pursuant to clause (iv) above. However, the Successor Agency has covenanted to take all actions required under the Dissolution Act to include scheduled debt service on the Bonds as well as any amount required under the Indenture to replenish the Reserve Account, in Recognized Obligation Payment Schedules to enable the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund to the Successor Agency's Redevelopment Obligation Retirement Fund as required under the Indenture. See, however, "SECURITY FOR THE BONDS – Recognized Obligation Payment Schedules" for a description of the Successor Agency's covenant regarding the submittal of the Recognized Obligation Payment Schedule.

AB 1484 also added new provisions to the Dissolution Act implementing certain penalties in the event that the Successor Agency does not timely submit a Recognized Obligation Payment Schedule by the deadline specified in the Dissolution Act. Specifically, a Recognized Obligation Payment Schedule must be submitted by the Successor Agency, after approval by the Oversight Board, to the County Administrative Officer, the County Auditor-Controller, the DOF and the State Controller no later than each February 1 with respect to each subsequent fiscal year. If the Successor Agency does not submit an Oversight Board approved Recognized Obligation Payment Schedule by such deadline, the City will be subject to a civil penalty equal to \$10,000 per day for every day the schedule is not submitted to the DOF. Additionally, the Successor Agency's administrative cost allowance is reduced by 25% for any fiscal year for which the Successor Agency does not submit an Oversight Board approved Recognized Obligation Payment Schedule within 10 days of the February 1 deadline. If the Successor Agency fails to submit a Recognized Obligation Payment Schedule by the February 1 deadline, any creditor of the successor agency or the department or any affected taxing entity shall have standing to, and may request a writ of mandate to, require the Successor Agency to immediately perform this duty.

## **Last and Final Recognized Obligation Payment Schedule**

SB 107 amended the Dissolution Act to permit certain successor agencies with limited remaining obligations to submit a Last and Final ROPS for approval by the oversight board and DOF. The Last and Final ROPS must list the remaining enforceable obligations of the successor agency, including the total outstanding obligation amount and a schedule of remaining payments for each enforceable obligation. The Last and Final ROPS shall also establish the maximum amount of Redevelopment Property Tax Trust Funds to be distributed to the successor agency for each remaining fiscal year until all obligations have been fully paid.

Any revenues, interest, and earnings of the successor agency, including proceeds from the disposition of real property, that are not authorized for use pursuant to the approved Last and Final ROPS shall be remitted to the county auditor-controller for distribution to the affected taxing entities. A successor agency shall not expend more than the amount approved for each enforceable obligation listed on the approved Last and Final ROPS and once the successor agency has received Redevelopment Property Tax Trust Fund moneys equal to the amount of the total outstanding obligations approved in the Last and Final ROPS, the county auditor-controller will not allocate further Redevelopment Property Tax Trust Fund moneys to the successor agency.

Successor agencies may only amend an approved Last and Final ROPS twice. If the Successor Agency prepares and obtains DOF approval of a Last and Final ROPS and subsequently amends the Last and Final ROPS two times, the Agency may be unable to make unexpected or unscheduled reserve deposits or payments due to the Insurer or other Insurers of Bonds or Parity Bonds. However, the Successor Agency covenants in the Indenture not to submit a Last and Final ROPS without the Insurer's consent.

See the caption "SECURITY FOR THE BONDS – Last and Final Recognized Obligation Payment Schedule" for a discussion of the requirements for a Last and Final Recognized Obligation Payment Schedule and the mechanics for allocation of Redevelopment Property Tax Trust Fund moneys pursuant to an approved Last and Final Recognized Obligation Payment Schedule.

## **Future Implementation of Dissolution Act**

Numerous lawsuits have been filed pertaining to the State Department of Finance's implementation of various provisions of the Dissolution Act. A lawsuit (the "Syncora Lawsuit") was filed by Syncora Guarantee Inc. and Syncora Capital Assurance Inc. (collectively, "Syncora") on August 12, 2012, with the Superior Court of California in the County of Sacramento, *Case No. 34-2012-80001215*. Syncora is the municipal bond insurer for a number of bond insurance policies for outstanding bonds issued by former California redevelopment agencies. Syncora alleges that the Dissolution Act, and specifically the "Redistribution Provisions" (including California Health and Safety Code Sections 34172(d), 34174, 34177(d), 34183(a)(4), and 34188) violate the "contract clauses" of the United States and California Constitutions (U.S. Const. art. 1, § 10, cl.1; Cal. Const. art. 1, § 9) because they unconstitutionally impair the contracts among the former redevelopment agencies, bondholders and Syncora. The complaint also alleges that the Redistribution Provisions violate the "Takings Clauses" of the United States and California Constitutions (U.S. Const. amend. V; Cal Const. art. 1 § 19) because they unconstitutionally take and appropriate bondholders' and Syncora's contractual right to critical security mechanisms without just compensation. The Syncora Lawsuit was brought as a petition for writ of mandate and complaint for declaratory relief, inverse condemnation, and injunctive relief. On May 29, 2013, the Court entered a ruling. The Court (1) denied Syncora any form of relief requested in the Complaint and Petition on its impairment of contracts claims, on the ground that those claims were premature, as no evidence was submitted by Syncora that any redevelopment agency bonds it insures are in default or that any redevelopment agency bonds are in default at all; and (2) held that Syncora's takings claims are not necessarily premature, that an

evidentiary hearing should be conducted to address such claims, and that the parties should file status reports with the Court addressing certain issues in connection with such evidentiary hearing. On August 16, 2013, the parties filed with the Court a proposed stipulated judgment which dismisses Syncora's impairment of contract claims and takings claims without prejudice on grounds of prematurity. The stipulated judgment, as proposed by the parties, was entered on October 3, 2013.

The Successor Agency cannot predict the outcome of any pending or future lawsuit with respect to the interpretation, the implementation or the validity of any provision of the Dissolution Act, including the provisions under which the Bonds are issued. The Successor Agency believes that the federal and State Constitutions clauses regarding contract impairments and takings provide protection to the bondholders of the Bonds in the event of any lawsuit concerning provisions affecting the validity and payment on bonds issued under the Dissolution Act. However, the outcome of any such lawsuit is beyond the Successor Agency's control.

### **State Budget**

Two of the key bills that comprise the Dissolution Act, AB X1 26 and AB 1484, were enacted by the State Legislature and signed by the Governor as trailer bills necessary to implement provisions of the State's budget acts for its fiscal years 2011-12 and 2012-13, respectively, with the intention to transfer cash assets held by redevelopment agencies to cities, counties, and special districts to fund core public services and with assets transferred to schools offsetting State general fund costs. Most of the provisions of SB 107 (containing the most recent significant amendments to the Dissolution Act) were also initially presented as part of AB 113, a trailer bill to the fiscal year 2015-16 State Budget, even though SB 107 was eventually enacted in September 2015, several months after the adoption of the State Budget. There can be no assurance that legislation affecting successor agencies or Tax Revenues will not be enacted to implement provisions in connection with the State budget needs or other reasons in the future.

The Successor Agency expects, but cannot guarantee, that the processes for the funding of enforceable obligations prescribed by any new legislative change in the Dissolution Act will not interfere with its administering of the Tax Revenues in accordance with the Indenture and will effectively result in adequate Tax Revenues for the timely payment of principal of and interest on the Bonds when due.

Information about the State budget and State spending is available at various State maintained websites. Text of the enacted State Budget for fiscal year 2016-17 and the Governor's proposed State Budget for fiscal year 2017-18 and other documents related to the State budget may be found at the websites maintained by the State Department of Finance, [www.dof.ca.gov](http://www.dof.ca.gov) and <http://www.ebudget.ca.gov/>. A nonpartisan analysis of the budget is posted by the Legislative Analyst's Office at [www.lao.ca.gov](http://www.lao.ca.gov). In addition, various State official statements, many of which contain a summary of the current and past State budgets may be found at the website of the State Treasurer, [www.treasurer.ca.gov](http://www.treasurer.ca.gov).

The full text of each State Assembly bill cited above and other bills pending before the State Senate or State Assembly may be obtained from the "Official California Legislative Information" website maintained by the Legislative Counsel of the State of California pursuant to State law, at the following web link: <http://leginfo.legislature.ca.gov/faces/billSearchClient.xhtml>.

*None of the websites or webpages referenced above is in any way incorporated into this Official Statement. They are cited for informational purposes only. The Successor Agency makes no representation whatsoever as to the accuracy or completeness of any of the information on such websites.*

## **Bankruptcy and Foreclosure**

The payment of the property taxes from which Tax Revenues are derived and the ability of the County to foreclose the lien of a delinquent unpaid tax may be limited by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving legal opinion) will be qualified as to the enforceability of the various legal instruments by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Although bankruptcy proceedings would not cause the liens to become extinguished, bankruptcy of a property owner could result in a delay in prosecuting superior court foreclosure proceedings. Such delay would increase the possibility of delinquent tax installments not being paid in full and thereby increase the likelihood of a delay or default in payment of the principal of and interest on the Bonds.

## **Bond Insurance Risk Factors**

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any Owner of the Bonds shall have a claim under the applicable Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of optional redemption or acceleration resulting from default or otherwise, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policies do not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional redemption of the Bonds by the Successor Agency that is recovered by the Successor Agency from the bond owner as a voidable preference under applicable bankruptcy law is covered by each Policy, however, such payments will be made by the Insurer at such time and in such amounts as would have been due absence such prepayment by the Successor Agency unless Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Insurer without appropriate consent. The Insurer may direct and must consent to any remedies and the Insurer's consent may be required in connection with amendments to any applicable bond documents. If the Insurer is unable to make payment of principal and interest as such payments become due under the Policies, the Bonds are payable solely from the moneys received pursuant to the applicable bond documents. If the Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Insurer and its claim paying ability. The Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Insurer and of the ratings on the Bonds insured by the Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The obligations of the Insurer are contractual obligations and in an event of default by the Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the Successor Agency nor the Underwriter has made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential

investors should carefully consider the ability of the Successor Agency to pay principal and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment. See “BOND INSURANCE” herein for further information provided by the Insurer and the Policies, which includes further instructions for obtaining current financial information concerning the Insurer.

### **Effect of Assessment Appeals**

Property taxable values may be reduced as a result of Proposition 8, which reduces the assessed value of property, or of a successful appeal of the taxable value determined by the County Assessor. An appeal may result in a reduction to the County Assessor’s original taxable value and a tax refund to the applicant property owner. A reduction in taxable values within the respective project area and the refund of taxes which may arise out of successful appeals by property owners will affect the amount of Tax Revenues under the Indenture.

The Successor Agency has in the past experienced reductions in its Tax Revenues as a result of assessment appeals. The actual impact to tax increment is dependent upon the actual revised value of assessments resulting from values determined by the County Assessment Appeals Board or through litigation and the ultimate timing of successful appeals. For a discussion of historical assessment appeals in the Project Area and summary information regarding pending and resolved assessment appeals for the Successor Agency, see “THE PROJECT AREA – Assessment Appeals” and APPENDIX A – FISCAL CONSULTANT REPORT – Assessment Appeals.”

### **Estimated Revenues**

In estimating that Tax Revenues will be sufficient to pay debt service on the Bonds, the Successor Agency has made certain assumptions with regard to present and future assessed valuation in the Project Area, future tax rates and percentage of taxes collected. The Successor Agency believes these assumptions to be reasonable, but there is no assurance these assumptions will be realized and to the extent that the assessed valuation and the tax rates are less than expected, the Tax Revenues available to pay debt service on the Bonds would be less than those projected and such reduced Tax Revenues may be insufficient to provide for the payment of principal of and interest on the Bonds.

### **Assumptions and Projections**

To estimate the Tax Revenues available to pay debt service on the Bonds, the Fiscal Consultant has made certain assumptions with regard to present and future assessed valuation in the Project Area, future tax rates and percentage of taxes collected. The Successor Agency believes these assumptions to be reasonable, but to the extent that the assessed valuation, the tax rates or the percentage of taxes collected are less than such assumptions, the Tax Revenues available to pay debt service on the Bonds may be less than those projected. No assurance can be made that the aggregate coverage projections with respect to the Bonds will be met.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used, such as “plan,” “project,” “expect,” “anticipate,” “intend,” “believe,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Successor Agency does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

## **Limitations on Remedies**

The enforceability of the rights and remedies of the Holders of the Bonds and the Trustee and the obligations incurred by the Successor Agency may be subject to the federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its government bodies in the interest of serving a significant and legitimate public purpose.

## **Hazardous Substances**

An additional environmental condition that may result in the reduction in the assessed value of property would be the discovery of a hazardous substance that would limit the beneficial use of taxable property within the Project Area. In general, the owners and operators of property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The owner or operator may be required to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the property within the Project Area be affected by a hazardous substance, could be to reduce the marketability and value of the property by the costs of remedying the condition.

## **Natural Disasters**

The value of the property in the Project Area in the future can be adversely affected by a variety of additional factors, particularly those which may affect infrastructure and other public improvements and private improvements on property and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic, topographic or climatic disaster conditions such as wildfires, earthquakes, earth movements, landslides, floods and droughts. The City, like most communities in California, is an area of unpredictable seismic activity, and therefore, is subject to potentially destructive earthquakes. In the event that one or more of such conditions occur, such occurrence could cause damages of varying seriousness to the land and improvements, and the value of property in the Project Area could be diminished in the aftermath of such events. A substantial reduction of the value of such properties could affect the ability or willingness of the property owners to pay the property taxes.

The occurrence of severe flooding, liquefaction, seismic activity or a wildfire in the Project Area could result in substantial damage to property located in the Project Area, and could lead to successful appeals for reduction in assessed values of such property. Such a reduction could result in a decrease in Tax Revenues that secure the Bonds, which in turn could impair the ability of the Successor Agency to make payments of principal of and interest on the Bonds when due.

## **Changes in the Law**

There can be no assurance that the California electorate will not at some future time adopt initiatives or that the Legislature will not enact legislation that will amend the Dissolution Act, the Redevelopment Law or other laws or the Constitution of the State resulting in a reduction of Tax Revenues, which could have an adverse effect on the Successor Agency's ability to pay debt service on the Bonds.

## **Economic Risk**

The Successor Agency's ability to make payment on the Bonds will be partially dependent upon the economic strength of the Project Area. If there is a decline in the general economy of the Project Area, the owners of property may be less able or less willing to make timely payments of property taxes causing a delay or stoppage of Tax Revenues. Furthermore, general economic declines are likely to result in additional reductions of assessed values. In the event of decreased values, Tax Revenues may decline even if property owners make timely payment of property taxes.

## **Investment Risk**

Funds held under the Indenture are required to be invested in Permitted Investments as provided under the Indenture. See APPENDIX D attached hereto for a summary of the definition of Permitted Investments. The funds and accounts of the Successor Agency, into which a portion of the proceeds of the Bonds will be deposited and into which Tax Revenues are deposited, may be invested by the Successor Agency in any investment authorized by law. All investments, including the Permitted Investments and those authorized by law from time to time for investments by municipalities, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal.

Further, the Successor Agency cannot predict the effects on the receipt of Tax Revenues if the County were to suffer significant losses in its portfolio of investments or if the County or the City were to become insolvent or declare bankruptcy. See also "RISK FACTORS – Bankruptcy and Foreclosure."

## **Additional Obligations**

The potential for the issuance of Parity Bonds could, in certain circumstances, increase the risks associated with the Successor Agency's payment of debt service on the Bonds in the event of a decrease in the Successor Agency's collection of Tax Revenues. However, Section 34177.5 of the Dissolution Act provides limited authority for successor agencies to issue bonds, and the Successor Agency's ability to issue Parity Bonds is subject to the requirements of the Dissolution Act as in effect from time to time. For additional information, see described "SECURITY FOR THE BONDS – Issuance of Parity Bonds."

## **Secondary Market**

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

## **Financial Statements**

The Successor Agency does not maintain separate audited financial statements, but is a separate component of the City for financial reporting. The FY 2015-16 City Audited Financials are included as APPENDIX C to this Official Statement. The City has not requested nor did the City obtain permission from the Auditor to include the audited financial statement as an appendix to this Official Statement. Accordingly, the auditor has not performed any post audit review of the financial conditions and operations of the City. The inclusion of City's audited financial statements is solely for convenience. The Dissolution Act expressly clarifies that the Successor Agency is a separate legal entity from the City. The assets and liabilities of the Successor Agency are not assets and liabilities of the City. As of the date of this Official

Statement, the City plans to include the financial transactions of the Successor Agency as part of the City's audited financial statements for Fiscal Year 2016-17 and subsequent years.

### **No Validation Proceeding Undertaken**

California Code of Civil Procedure Section 860 authorizes public agencies to institute a process, otherwise known as a "validation proceeding," for purposes of determining the validity of a resolution or any action taken pursuant thereto. Section 860 authorizes a public agency to institute validation proceedings in cases where another statute authorizes its use. Relevant to the Bonds, California Government Code Section 53511 authorizes a local agency to "bring an action to determine the validity of its bonds, warrants, contracts, obligations or evidences of indebtedness." Pursuant to Code of Civil Procedure Section 870, a final favorable judgment issued in a validation proceeding shall, notwithstanding any other provision of law, be forever binding and conclusive, as to all matters herein adjudicated or which could have been adjudicated, against all persons: "The judgment shall permanently enjoin the institution by any person of any action or proceeding raising any issue as to which the judgment is binding and conclusive."

The Successor Agency has not undertaken or endeavored to undertake any validation proceeding in connection with the issuance of the Bonds. The Successor Agency and Bond Counsel have relied on the provisions of AB 1484 authorizing the issuance of the Bonds and specifying the related deadline for any challenge to the Bonds to be brought. Specifically, Section 34177.5(e) of the Dissolution Act provides that notwithstanding any other law, an action to challenge the issuance of bonds (such as the Bonds), the incurrence of indebtedness, the amendment of an enforceable obligation, or the execution of a financing agreement authorized under Section 34177.5, must be brought within thirty (30) days after the date on which the oversight board approves the resolution of the successor agency approving the such financing. Such challenge period with respect to the Bonds and the oversight board's approval of the Successor Agency's resolution approving the issuance of the Bonds has expired.

It is possible that a future lawsuit challenging the Dissolution Act or specific provisions thereof could be successful and that the mechanisms currently provided for under the Dissolution Act to provide for distribution of Tax Revenues to the Successor Agency for payment on the Bonds could be impeded and result in a delinquency or default in the timely payment of principal of, and interest on, the Bonds.

### **IRS Audit of Tax-Exempt Bond Issues**

The Internal Revenue Service has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the Internal Revenue Service. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar municipal obligations).

### **Loss of Tax Exemption**

As discussed under the caption "TAX MATTERS," in order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the Successor Agency has covenanted in the Indenture not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion under Section 103 of the Internal Revenue Code of 1986 (the "Tax Code") of interest on the Bonds from the owners thereof for federal income tax purposes. Interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of acts or omissions of the Successor Agency in violation of the Tax Code. The Bonds are not subject to early redemption merely because an event of taxability has occurred;

rather the Bonds will remain outstanding to maturity or until redeemed under the optional redemption provisions of the Indenture.

## **PROPERTY TAXATION IN CALIFORNIA**

### **Constitutional Amendments Affecting Tax Revenues**

Tax Revenues include a portion of the *ad valorem* taxes levied on real property within the Project Area. Article XIII A of the California Constitution limits the amounts of *ad valorem* tax on real property to 1% of “full cash value” as determined by the county assessor. Article XIII A defines “full cash value” to mean “the County Assessor’s valuation of real property as shown on the 1975-76 tax bill under “full cash value,” or thereafter the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment period.” Furthermore, all real property valuation may be increased to reflect the inflationary rate, as shown by the consumer price index, not to exceed 2% per year, or may be reduced in the event of declining property values caused by damage, destruction or other factors.

Article XIII A exempts from the 1% tax limitation any taxes to repay indebtedness approved by the voters prior to July 1, 1978, and any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the voters voting on the proposition approving such bonds, and requires a vote of two-thirds of the qualified electorate to impose special taxes, while totally precluding the imposition of any additional *ad valorem*, sales or transaction tax on real property. In addition, Article XIII A requires the approval of two-thirds of all members of the State legislature to change any State tax law resulting in increased tax revenues.

Article XIII B of the California Constitution limits the annual appropriations from the proceeds of taxes of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the governmental entity. Article XIII B includes a requirement that if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax or fee schedules over the subsequent two years.

Section 33678 of the Redevelopment Law provides that the allocation of taxes to a redevelopment agency for the purpose of paying principal of, or interest on, loans, advances or indebtedness incurred for redevelopment activity shall not be deemed the receipt by such agency of proceeds of taxes within the meaning of Article XIII B, nor shall such portion of taxes be deemed receipt of proceeds of taxes by, or any appropriation subject to the limitation of, any other public body within the meaning or the purpose of the Constitution and laws of the State, including Section 33678 of the Redevelopment Law. Two California appellate court decisions have upheld the constitutionality of Section 33678, and in the one case in which a petition for review was filed in the California Supreme Court, such petition was denied.

### **Implementing Legislation**

Legislation enacted by the California Legislature to implement Article XIII A (Statutes of 1978, Chapter 292, as amended) provides that, notwithstanding any other law, local agencies may not levy any property tax, except to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and that each county will levy the maximum tax permitted by Article XIII A of \$4.00 per \$100 assessed valuation (based on the traditional practice of using 25% of full cash value as the assessed value for tax purposes). The legislation further provided that, for Fiscal Year 1978-79 only, the tax levied by each county was to be

appropriated among all taxing agencies within the county in proportion to their average share of taxes levied in certain previous years.

Effective as of the 1981-82 Fiscal Year, assessors in California no longer record property values in the tax rolls at the assessed value of 25% of market values. All taxable property value is shown at full market value. In conformity with this change in procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of market value and all general tax rates reflect the \$1 per \$100 of taxable value.

Future assessed valuation growth allowed under Article XIII A (i.e., new construction, change of ownership, and 2% annual value growth) will be allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of “base” revenue from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year. The Successor Agency is unable to predict the nature or magnitude of future revenue sources which may be provided by the State to replace lost property tax revenues. Article XIII A effectively prohibits the levying of any other *ad valorem* property tax above those described above, even with the approval of the affected voters.

### **Constitutional Challenges to Property Tax System**

There have been many challenges to Article XIII A of the California Constitution. The United States Supreme Court heard the appeal in *Nordlinger v. Hahn*, a challenge relating to residential property. Based upon the facts presented in *Nordlinger*, the United States Supreme Court held that the method of property tax assessment under Article XIII A did not violate the federal Constitution. The Successor Agency cannot predict whether there will be any future challenges to California’s present system of property tax assessment and cannot evaluate the ultimate effect on the Successor Agency’s receipt of Tax Revenues should a future decision hold unconstitutional the method of assessing property.

### **Property Tax Collection Procedures**

In California, property that is subject to *ad valorem* taxes is classified as “secured” or “unsecured.” The secured classification includes property on which any property tax levied by a county becomes a lien on that property sufficient, in the opinion of the county assessor, to secure payment of the taxes. Every tax levied by a county that becomes a lien on secured property has priority over all present and future private liens arising pursuant to State law on the secured property, regardless of the time of the creation of the other liens. A tax levied on unsecured property does not become a lien against the taxed unsecured property, but may become a lien on other property owned by the taxpayer.

Secured and unsecured property are entered on separate parts of the assessment roll maintained by the county assessor. The payment of delinquent taxes with respect to property on the secured roll may be enforced only through the sale of the property securing the taxes to the State for the amount of taxes that are delinquent. Such property may thereafter be redeemed by payment of the delinquent taxes and penalties. Unsecured personal property taxes may be collected, in the absence of timely payment by the taxpayer, through (1) a civil action against the taxpayer; (2) filing a certificate of delinquency for record in the county recorder’s office, in order to obtain a lien on property of the taxpayer; (3) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the taxpayer; and (4) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer.

Except for property assessed by the State, the valuation of taxable property is determined as of January 1 each year, and equal installments of taxes levied upon secured property become delinquent on

the following December 10 and April 10. Taxes on unsecured property are due February 1 and become delinquent August 31, and such taxes are levied at the prior year's secured tax rate. The valuation of State-assessed property is determined on January 1 of each year.

The County has implemented the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), which allows each entity levying property taxes in the County to draw on the amount of property taxes levied rather than the amount actually collected. Therefore, the Successor Agency's tax increment revenues reflect actual levies rather than the total amount of taxes collected.

### **Supplemental Assessments**

A bill enacted in 1983, SB 813 (Statutes of 1983, Chapter 498) provides for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Previously, statutes enabled the assessment of such changes only as of the next tax lien date following the change, and thus delayed the realization of increased property taxes from the new assessments for up to 14 months. As enacted, Chapter 498 provides increased revenue to redevelopment agencies to the extent that supplemental assessments as a result of new construction or changes of ownership occur within the boundaries of redevelopment projects subsequent to the lien date. To the extent such supplemental assessments occur within the Project Area, Tax Revenues may increase.

### **Tax Collection Fees**

SB 2557 enacted in 1990 (Statutes of 1990, Chapter 466), authorized county auditors to determine property tax administration costs proportionately attributable to local jurisdictions and to submit invoices to the jurisdictions for such costs. Subsequent legislation, SB 1559 (Statutes of 1992, Chapter 697), specifically includes redevelopment agencies among entities subject to a property tax administration charge. In addition, Sections 34182(e) and 34183(a) of the Dissolution Act allow administrative costs of the County Auditor-Controller for the cost of administering the provisions of the Dissolution Act, as well as the foregoing SB 1559 amounts, to be deducted from property tax revenues before monies are deposited into the Redevelopment Property Tax Trust Fund. The projections of tax revenues take such administrative costs into account.

### **Rate of Collections**

The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan") with respect to secured property taxes. Consequently, secured property tax revenues in the Project Area does not reflect actual collections because the County allocates property tax revenues to the Successor Agency as if 100% of the calculated property taxes were collected without adjustment for delinquencies or redemption payments. However, the County adjusts secured property tax revenues in the Project Area for roll corrections, such as refunds of property taxes due to successfully appealed assessments.

The County could elect to terminate the Teeter Plan and, in such event, the amount of the levy of secured property tax revenue that could be allocated to the Successor Agency would depend upon the actual collections of the secured taxes within the Project Area. Substantial delinquencies in the payment of property taxes could impair the timely receipt by the Successor Agency of Tax Revenues. The County has not adopted the Teeter Plan with respect to unsecured property taxes and therefore, unsecured property tax revenues in the Project Area reflect actual collections on a county-wide basis and roll corrections.

## **Unitary Property Tax**

AB 454 (Statutes of 1987, Chapter 921) provides a revised method of reporting and allocating property tax revenues generated from most State-assessed unitary properties commencing with Fiscal Year 1988-89. Under AB 454, the State reports to each county auditor-controller only the county-wide unitary taxable value of each utility, without an indication of the distribution of the value among tax rate areas. AB 454 provides two formulas for auditor-controllers to use in order to determine the allocation of unitary property taxes generated by the county-wide unitary value, which are: (i) for revenue generated from the 1% tax rate, each jurisdiction is to receive up to 102% of its prior year unitary property tax increment revenue; however, if county-wide revenues generated from unitary properties are greater than 102% of prior year revenues, each jurisdiction receives a percentage share of the excess unitary revenues equal to the percentage of each jurisdiction's share of secured property taxes; (ii) for revenue generated from the application of the debt service tax rate to county-wide unitary taxable value, each jurisdiction is to receive a percentage share of revenue based on the jurisdiction's annual debt service requirements and the percentage of property taxes received by each jurisdiction from unitary property taxes.

The provisions of AB 454 apply to all State-assessed property, except railroads and non-unitary properties the valuation of which will continue to be allocated to individual tax rate areas. The provisions of AB 454 do not constitute an elimination or a revision of the method of assessing utilities by the State Board of Equalization. AB 454 allows, generally, valuation growth or decline of State-assessed unitary property to be shared by all jurisdictions within a county.

## **Business Inventory and Replacement Revenue**

Prior to 1979, the State reimbursed cities, counties, special districts and redevelopment agencies that portion of taxes which would have been generated by the exempted portion of business inventory value (50%). In 1979, the California Legislature enacted AB 66 (Statutes of 1979, Chapter 1150), eliminating the assessment and taxation of business inventory property and providing for replacement revenue for local agencies, except redevelopment agencies. In 1980, the California Legislature enacted AB 1994 (Statutes of 1980, Chapter 610), providing partial replacement revenue for the loss of business inventory revenues by redevelopment agencies.

In 1990, the California Legislature amended Section 16112.7 of the California Government Code (Chapter 449, Statutes of 1990) which precludes redevelopment agencies from pledging special subvention revenues toward the payment of debt service for bonded indebtedness incurred after July 31, 1990 (the effective date of the legislation). The 1992-93 State Budget reduced the State's funding for the special subvention. As enacted under AB 222 (Chapter 188, Statutes of 1991), the Budget Act eliminated 1991-92 subvention payments for most redevelopment projects, including the Project Area. Additionally, the 1992-93 State Budget implemented further cuts in funding for the State's special subvention to redevelopment agencies. As a result, these revenues are not included in the projections of estimated tax revenues.

## **Future Initiatives**

Article XIII A and Article XIII B were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the Successor Agency or the Successor Agency's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the Successor Agency.

## **CERTAIN LEGAL MATTERS**

The Weist Law Firm, Scotts Valley, California, Bond Counsel, will render an opinion with respect to the validity of the Bonds. A copy of the form of such approving opinion is attached hereto as Appendix H. Certain legal matters will be passed upon for the Successor Agency by The Weist Law Firm, Scotts Valley, California, Disclosure Counsel, and by David Tranberg, Esq., Eureka, California acting as Successor Agency counsel, and for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, Newport Beach, California. Payment of the fees and expenses of Bond Counsel and Disclosure Counsel is contingent upon the delivery of the Bonds.

## **ABSENCE OF LITIGATION**

At the time the Bonds are delivered, the Successor Agency counsel will provide an opinion to the effect that, to the best knowledge of such counsel, there is no litigation pending or overtly threatened against the Successor Agency in any court or other tribunal of competent jurisdiction, State or federal, which seeks to enjoin or challenges the authority of the Successor Agency to participate in the transactions contemplated by this Official Statement, the Bonds or the Indenture.

## **FINANCIAL STATEMENTS**

The Successor Agency's financial statements for the Fiscal Year ended June 30, 2016, included in Appendix E hereto, have been audited by Terry E. Krieg, CPA, Santa Rosa, California ("Auditor"). The Auditor has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in the Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to the date of its report.

## **TAX MATTERS**

In the opinion of The Weist Law Firm, Scotts Valley, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Successor Agency comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Tax Code"), that must be satisfied subsequent to the issuance of the Bonds. The Successor Agency has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium are disregarded.

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

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

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

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

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above. The complete text of the final opinion that Bond Counsel expects to deliver upon the issuance of the Bonds is set forth in APPENDIX H – FORM OF BOND COUNSEL OPINION.

#### **MUNICIPAL ADVISOR**

The Successor Agency has retained Public Financial Management Inc. (the "Municipal Advisor") in connection with the issuance of the Bonds. The Municipal Advisor is not obligated to undertake, and

has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

## UNDERWRITING

The Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the “Underwriter”). The Underwriter has agreed to purchase the Bonds at a price of \$\_\_\_\_\_ (representing the \$[Par Amount] aggregate principal amount of the Bonds [plus][less] net original issue [premium][discount] of \$\_\_\_\_\_, less Underwriter’s discount of \$\_\_\_\_\_), at the rates and yields shown on the inside cover hereof.

The Bond Purchase Contract pursuant to which the Underwriter has agreed to purchase the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Contract, including the approval of certain legal matters by counsel and certain other conditions.

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

## RATINGS

The Bonds are expected to be assigned an insured rating of “\_\_” by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) upon the issuance of the Policy by Insurer at the time of delivery of the Bonds. The Bonds have also been assigned an underlying rating of “\_\_” by S&P. Credit ratings reflect the views of the rating agency and any explanation of the significance of the ratings should be obtained directly from the rating agency. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that the ratings will not subsequently be revised or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. The Successor Agency and the Underwriter have undertaken no responsibility either to bring to the attention of the Owners of the Bonds any proposed change in or withdrawal of the rating or to oppose any such proposed revision or withdrawal. Any such downward revision or withdrawal could have an adverse effect on the market price or marketability of the Bonds.

## CONTINUING DISCLOSURE

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”), the Successor Agency has undertaken for the benefit of holders of the Bonds to provide certain financial information and operating data relating to the Successor Agency by not later than nine months after the end of the Agency’s Fiscal Year (currently March 31 based on the Agency’s Fiscal Year end of June 30), commencing with the report for the 2016-17 Fiscal Year (the “Annual Information”), and to provide notices of the occurrence of certain enumerated events. The Annual Information will be filed by or on behalf of the Successor Agency with the Municipal Securities Rulemaking Board (the “MSRB”) in an electronic format prescribed by MSRB (currently Electronic Municipal Market Access system). Notices of enumerated events will be filed by or on behalf of the Successor Agency with the MSRB. The nature of the information to be provided in the Annual Information and the notices of certain enumerated events is set forth under the caption “APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

The City and its related governmental entities – specifically those entities (such as the Former Agency and the Successor Agency) for whom City staff is responsible for undertaking compliance with continuing disclosure undertaking – have previously entered into disclosure undertakings under Rule 15c2-12 in connection with the issuance of long-term obligations.

Within the last five years, the City and the Former Agency, have failed to comply with their prior undertakings in certain respects, including, but not limited to, \_\_\_\_\_. However, the City and Former Agency have since brought themselves current with respect to all of its filings that were required to have been made within the past five years. The Successor Agency has also taken steps in order to ensure future timely compliance with all of its outstanding continuing disclosure obligations.

The City has adopted necessary policies and procedures and has retained \_\_\_\_\_ to provide continuing disclosure services to ensure compliance with the continuing disclosure undertakings of the City and its related entities, including the Successor Agency, in the future.

### **MISCELLANEOUS**

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations from, and summaries and explanations of, the Indenture and other documents and statutes contained herein do not purport to be complete, and reference is made to such documents, Indenture and statutes for full and complete statements of their provisions.

Unless otherwise noted, all information contained in this Official Statement pertaining to the Successor Agency, the City and the Project Area has been furnished by the Successor Agency. Any statement in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Successor Agency and the purchasers or registered owners of any of the Bonds.

### **EXECUTION AND DELIVERY**

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

SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE  
CITY OF FORTUNA

By \_\_\_\_\_/s/\_\_\_\_\_

**APPENDIX A**  
**FISCAL CONSULTANT'S REPORT**

## APPENDIX B

### GENERAL INFORMATION REGARDING THE CITY

*The following information, unless otherwise cited, was directly transcribed from material provided by the City of Fortuna, the County of Humboldt, and the area Chamber of Commerce. The following information is intended to merely provide the reader with a better understanding of certain socioeconomic and demographic characteristics of the City and surrounding area. The information set forth in this Appendix “B” has not been researched for accuracy or veracity. The Bonds are not an obligation of the City, the County, the State or any of its political subdivisions, and none of the City, the County, the State of California nor any of its political subdivisions is liable therefor. See “SECURITY FOR THE BONDS” in the forepart of this Official Statement.*

#### **General**

**The City.** The City of Fortuna (the “City”) encompasses approximately five square miles and is located in Humboldt County (the “County”), approximately 18 miles south of Eureka and 250 miles north of San Francisco on U.S. Highway 101. The City was incorporated on February 20, 1906 as a general law city, and became a charter city in 1996. Fortuna is surrounded by national, state and county redwood parks, and is the gateway to the redwood forests of Northern California.

**The County.** The County is the largest and most populous of the north coast counties, encompassing 2.3 million acres, 80 percent of which is forest lands, protected redwoods and recreation areas. The County has approximately 110 miles of coastline—more than any other county in the State. The County was created from the western portion of Trinity County in 1853. The County’s name is derived from Humboldt Bay. Originally discovered in 1806 by a hunting party, the bay was not rediscovered until 1849 and then named in honor of the naturalist and explorer Baron Alexander Von Humboldt. The County is home to the biggest and oldest redwood trees in the world. Natural resources also make the County a primary tourist destination. Popular sites include: Six Rivers National Forest, King Range National Conservation Area, Humboldt Redwoods State Park, Redwoods National Park, and Richardson Grove State Park.

#### **Topography and Climate**

The County is situated along the Pacific Coast in Northern California’s rugged coast and mountain ranges, offering a great variety of elevations, terrain and microclimates. The climate in the coastal zone of the County generally experiences very wet, cool winters and dry, mild foggy summers. The inland areas of the County also experience wet, cool winters, with snowfall being common at elevations over 3,000 feet throughout the winter months. Summer displays the sharpest difference between the coastal and inland climates. Inland regions of the County experience highs of 80–99°F depending on the elevation and distance from the ocean. The average annual rainfall is 36 inches. Approximately 90% of average annual rainfall occurs in the six-month period extending from November to April.

#### **Population**

The following table lists population figures for the County and major cities in the County (including the City) as of January 1, for the last five completed calendar years.

**HUMBOLDT COUNTY**  
**Population Estimates - Calendar Years 2012 through 2016**

	2012	2013	2014	2015	2016
Arcata	17,918	18,002	17,983	18,085	18,169
Blue Lake	1,270	1,279	1,278	1,278	1,287
Eureka	27,060	26,894	26,874	26,811	26,765
Ferndale	1,396	1,426	1,429	1,435	1,434
<b>Fortuna</b>	<b>11,870</b>	<b>11,787</b>	<b>11,840</b>	<b>11,882</b>	<b>11,848</b>
Rio Dell	3,384	3,409	3,412	3,414	3,416
Trinidad	368	370	368	368	367
Balance of County	72,023	71,831	71,759	71,779	71,830
County Total	135,289	134,998	134,943	135,052	135,116

*Source: State Department of Finance estimates*

**Major Employers**

The following tables list the major employers within the County as of January 2017, listed alphabetically.

**HUMBOLDT COUNTY**  
**Major Employers**  
**(Listed Alphabetically)**

Employer Name	Location	Industry
Bettendorf Trucking	Arcata	Trucking
Blue Lake Casino & Hotel	Blue Lake	Casinos
County-Humboldt-Health & Human	Eureka	Government Offices-County
Eureka City Clerk	Eureka	Government Offices-City, Village & Twp
Eureka High School	Eureka	Schools
Green Diamond Resource Co	Trinidad	Foresters-Consulting
Green Diamond Resource Co	Korbel	Foresters-Consulting
Humboldt Cnty Office-Education	Eureka	Schools
Humboldt County Dept-Health	Eureka	Clinics
Humboldt County Mental Health	Eureka	Hospitals
Humboldt County Sheriff Dept	Eureka	Government Offices-County
Humboldt County Social Svc	Eureka	Government Offices-County
Mad River Community Hospital	Arcata	Hospitals
Pacific Choice Seafood Inc	Eureka	Prepared Fish & Seafood Products (mfrs)
Redwood Memorial Hospital	Fortuna	Hospitals
Schmidbauer Lumber Inc	Eureka	Logging (mfrs)
St Joseph Home Health	Eureka	Health Services
St Joseph Hospital	Eureka	Hospitals
Sun Valley Group	Arcata	Greenhouses
Sunset Restaurant-Cher Ae Csn	Trinidad	Casinos
Trinidad Rancheria	Trinidad	Associations
Umpqua Bank	Eureka	Banks
United Indian Health Svc	Arcata	Clinics
US Post Office	Eureka	Post Offices
Winco Foods	Eureka	Grocers-Retail

*Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2017 2nd Edition.*

## Commercial Activity

Summaries of historic taxable sales within the City and the County during 2011 through 2015 are shown in the following tables. Figures are not available for 2016.

Total taxable sales during the calendar year 2015 in the City were reported to be \$143,263,000, a 5.3% increase over the total taxable sales of \$136,011,000 that were reported during the calendar year 2014. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City is presented in the following table. Annual figures are not yet available for 2016 or beyond.

### CITY OF FORTUNA Taxable Transactions<sup>(1)</sup> (dollars in thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2011	259	\$102,994	377	\$130,380
2012	263	102,297	375	130,714
2013	274	102,793	378	134,201
2014	291	106,008	397	136,011
2015	(2)	112,518	(2)	143,263

(1) Detail may not compute to total due to rounding.

(2) Information not yet available.

Source: "Taxable Sales in California," California State Board of Equalization.

Total taxable sales during the calendar year 2015 in the County were reported to be \$1,985,208,747, a 4.5% increase over the total taxable sales of \$1,899,619,000 that were reported during the calendar year 2014. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the County is presented in the following table. Annual figures are not yet available for 2016 or beyond.

### COUNTY OF HUMBOLDT Taxable Transactions<sup>(1)</sup> (dollars in thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2011	3,172	\$1,224,525	4,491	\$1,698,178
2012	3,208	1,298,773	4,499	1,768,170
2013	3,343	1,370,743	4,600	1,869,677
2014	3,440	1,412,669	4,706	1,899,619
2015	3,213	1,474,165	5,105	1,985,209

(1) Detail may not compute to total due to rounding.

Source: "Taxable Sales in California," California State Board of Equalization.

The valuation of taxable transactions within the County is presented in the following table. Total taxable sales during the calendar year 2015 in the County were reported to be \$1,985,209,000, a 4.5% increase from the total taxable sales reported during the calendar year 2014 of \$1,899,619,000. Annual figures are not yet available for 2016 or beyond.

**COUNTY OF HUMBOLDT**  
**Taxable Retail Sales<sup>(1)</sup>**  
**Valuation of Taxable Transactions**  
**(dollars in thousands)**

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Retail and Food Services</b>					
Motor Vehicle and Parts Dealers	\$170,895	\$193,277	\$203,517	\$218,176	\$239,795
Home Furnish and Appliance Stores	21,435	21,003	22,121	23,563	25,848
Electronics and Appliance Stores	23,182	23,003	24,570	26,995	29,424
Bldg. Mat'l & Garden Equip/Supplies	177,004	186,282	197,895	203,737	242,461
Food and Beverage Stores	120,568	124,300	128,236	132,758	142,322
Health and Personal Care Stores	40,765	41,161	43,125	44,643	46,214
Gasoline Stations	176,188	188,740	191,965	188,154	165,575
Clothing and Accessories Stores	46,445	49,922	54,422	55,823	59,301
Sporting Goods, Book, and Music Stores	43,579	45,349	48,917	47,635	50,036
General Merchandise Stores	188,516	200,740	204,042	204,609	181,305
Miscellaneous Store Retailers	60,098	63,765	64,034	71,659	80,191
Non-Store Retailers	14,641	13,294	23,470	24,887	26,389
Food Services and Drinking Places	141,211	147,867	164,429	170,030	185,305
<b>Total Retail and Food Services</b>	<b>\$1,224,525</b>	<b>\$1,298,773</b>	<b>\$1,370,743</b>	<b>\$1,412,669</b>	<b>\$1,474,166</b>
All Other Outlets	473,653	469,397	498,934	486,950	511,043
<b>Total All Outlets</b>	<b>\$1,698,178</b>	<b>\$1,768,170</b>	<b>\$1,869,677</b>	<b>\$1,899,619</b>	<b>\$1,985,209</b>
<b>Permits – All Outlets</b>	<b>4,491</b>	<b>4,499</b>	<b>4,600</b>	<b>4,706</b>	<b>5,105</b>

<sup>(1)</sup> Detail may not compute to total due to rounding.

Source: "Taxable Sales in California," California State Board of Equalization.

## Employment and Industry

The below table summarizes the civilian labor force, civilian employment and civilian unemployment figures over the period from 2011 through 2016 in the City, the County and the State.

### CITY AND COUNTY AND STATE Civilian Labor Force, Employment and Unemployment Rate<sup>(1)</sup> (Calendar Years 2011 through 2016)

Year	City			County		State
	Labor Force	Employed	Unemployment Rate	Labor Force	Unemployment Rate	Unemployment Rate
2011	4,600	4,200	8.7%	60,500	11.4%	11.8%
2012	4,600	4,200	8.7%	60,100	10.5%	10.4%
2013	4,500	4,100	7.8%	58,400	8.8%	8.9%
2014	4,500	4,200	6.8%	62,700	6.8%	7.5%
2015	4,520	4,260	5.6%	62,630	5.6%	6.2%
2016	4,520	4,300	4.9%	62,670	4.9%	5.4%

(1) Data is based on annual averages, unless otherwise specified, and is not seasonally adjusted.  
Source: Labor Division of the California State Employment Development Department.

The distribution of employment in the Humboldt County is presented in the following table for the calendar years 2012 through 2016. These figures are countywide statistics and may not necessarily accurately reflect employment trends in the City.

### COUNTY OF HUMBOLDT Industry Employment & Labor Force<sup>(1)</sup> (Calendar Years 2012 through 2016)

Type of Employment	2012	2013	2014	2015	2016
Agriculture	870	810	820	870	880
Mining, Logging, and Construction	2,060	1,960	1,940	2,070	2,060
Manufacturing	2,000	2,070	2,070	2,030	2,080
Wholesale Trade	1,030	1,000	980	920	980
Retail Trade	6,840	6,920	7,010	7,230	7,440
Transportation, Warehousing, Utilities	1,290	1,280	1,270	1,230	1,170
Information	520	500	500	500	460
Financial Activities	1,600	1,600	1,590	1,630	1,620
Professional and Business Services	2,650	2,630	2,580	2,700	2,780
Educational and Health Services	7,440	7,770	8,000	8,110	8,330
Leisure and Hospitality	5,130	5,130	5,280	5,570	5,860
Other Services	1,840	1,920	1,890	1,880	1,800
Government	13,530	13,470	13,730	13,950	14,220
Total, All Industries <sup>(2)</sup>	46,790	47,070	47,650	48,630	49,710

(1) Data is based on annual averages, unless otherwise specified.

(2) Totals may not add due to rounding.

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

## **Transportation**

The Humboldt Transit Authority (HTA) operates two fixed route transit bus systems:

- The Redwood Transit System provides intercity service to and within communities between Trinidad and Garberville, including Manila, King Salmon, Field's Landing, Loleta, Fernbridge and Fortuna. HTA also offers service between McKinleyville or Arcata and Willow Creek and an express bus between Arcata and College of the Redwoods when classes are in session.
- The Eureka Transit Service operates in the City of Eureka, and provides local service on four scheduled routes in Eureka and its adjacent unincorporated communities. Connections can be made to the Redwood Transit System at several places in Eureka.

Eureka. Some other local public transit systems are: Arcata and Mad River Transit System, Blue Lake Rancheria Transit Authority and Del Norte County's Redwood Coast Transit.

Amtrak Thruway bus has stops in many cities in the region, including Eureka, Arcata, and Fortuna.

The Arcata-Eureka Airport is located in the City of McKinleyville (northern part of the County). Commercial flights are available. Other (general aviation) airports are located at Dinsmore, Garberville, Kneeland, Murray Field (Eureka), Samoa Field and Rohnerville (Fortuna).

The Port of Humboldt Bay (sometimes also referred to as the Port of Eureka) is a deep-water port with harbor facilities including large industrial docks at Fairhaven, Samoa, and Fields Landing designed to serve cargo and other vessels, while several marinas also located in Greater Eureka have the capacity to serve hundreds of small to mid-size boats and pleasure craft.

## **Education**

The City is served by the Fortuna Elementary School District and the Fortuna Union High School District. The Elementary District currently operates four schools, consisting of three elementary schools and one middle school. The High School District operates two high schools and one academy. The City is also served by the College of the Redwoods which has its main campus located approximately 9 miles from the City, but also offers classes at campuses in down-town Eureka, Del Norte, and Klamath-Trinity. California State University, Humboldt is located approximately 27 miles north of the City.

**APPENDIX C**

**AUDITED FINANCIAL STATEMENTS OF THE CITY OF FORTUNA  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

## **APPENDIX D**

### **SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

The following is a brief summary of certain provisions of the Indenture of Trust (the “Indenture”) authorizing the Bonds that are not otherwise described in the text of this Official Statement. Such summary is not intended to be definitive, and reference is made to the actual Indenture (copies of which may be obtained from the Trustee) for the complete terms thereof.

## APPENDIX E

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”), dated as of \_\_\_\_\_ 1, 2017, is executed and delivered by the Successor Agency to the Redevelopment Agency of the City of Fortuna (the “Agency”) and \_\_\_\_\_, as dissemination agent (the “Disclosure Dissemination Agent”), for the benefit of the Beneficial Owner (hereinafter defined) of the \$[Par Amount] Series 2017 Tax Allocation Refunding Bonds (Fortuna Redevelopment Project) (the “Bonds”) in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “Rule”).

The Agency and the Disclosure Dissemination Agent covenant and agree as follows:

SECTION 1. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Agency” means the Successor Agency to the Redevelopment Agency of the City of Fortuna, California.

“*Annual Financial Information*” means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Certificate.

“*Annual Report*” means an Annual Report described in and consistent with Section 3 of this Disclosure Certificate.

“*Annual Filing Date*” means the date, set forth in Section 2(a) and Section 2(f), by which the Annual Report is to be filed with the MSRB.

“*Audited Financial Statements*” means the financial statements (if any) of the Agency for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(b) of this Disclosure Certificate.

“*Beneficial Owner*” means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“*Bonds*” means the \$[Par Amount] Successor Agency to the Redevelopment Agency of the City of Fortuna, Series 2017 Tax Allocation Refunding Bonds (Fortuna Redevelopment Project) issued pursuant to the Indenture.

“*Certification*” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Notice Event notice,

or Failure to File Event notice delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice, required to be submitted to the MSRB under this Disclosure Certificate. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Agency and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“*Disclosure Representative*” means the Finance Director or his or her designee, or such other person as the Agency shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“*Disclosure Dissemination Agent*” means \_\_\_\_\_, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Agency.

“*Failure to File Event*” means the Agency’s failure to file an Annual Report on or before the Annual Filing Date.

“*Finance Director*” means the Finance Director of the City of Fortuna, California.

“*Force Majeure Event*” means: (i) acts of God, war, or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access system maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent’s reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Certificate.

“*Indenture*” means the Indenture of Trust, dated as of \_\_\_\_\_ 1, 2017 (the “*Indenture*”), by and between the Agency and U.S. Bank National Association, as trustee thereunder.

“*Information*” means, collectively, the Annual Reports, the Audited Financial Statements (if any), the Notice Event notices, and the Failure to File Event notices.

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

“*MSRB*” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Marketplace Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“*Notice Event*” means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Certificate.

“*Obligated Person*” means any person, including the Agency, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities). With respect to the Bonds, only the Agency constitutes the Obligated Person.

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

“*Participating Underwriter*” means Stifel, Nicolaus & Company, Incorporated, the original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

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

“*State*” means the State of California.

“*Trustee*” means U.S. Bank National Association, as trustee under the Indenture, or any successor Trustee designated in writing by the Agency.

## SECTION 2. Provision of Annual Reports and Other Disclosures.

(a) The Agency shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent not later than nine months after the end of the Agency’s Fiscal Year (currently March 31 based on the Agency’s Fiscal Year end of June 30), commencing with the Annual Report for the Fiscal Year ended June 30, 2017. Such date and each anniversary thereof is the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide such Annual Report to the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Certificate.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Agency of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Agency will not be able to file the Annual Report within the time required under this Disclosure Certificate, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent that

a Failure to File Event has occurred and to immediately send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 6:00 p.m. Eastern time on the Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the Agency irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to the MSRB in substantially the form attached as Exhibit A without reference to the anticipated filing date for the Annual Report.

(d) If Audited Financial Statements are prepared but not available prior to the Annual Filing Date, the Agency shall, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

(i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;

(ii) upon receipt, promptly file each Annual Report received under Sections 2(a) and 2(b) with the MSRB;

(iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with the MSRB;

(iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) with the MSRB, identifying the Notice Event as instructed by the Agency pursuant to Section 4(a) or 4(b)(ii) (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Certificate:

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, IRS notices or events affecting the tax status of the security;"
7. "Modifications to rights of securities holders, if material;"

8. “Bond calls, if material;”
9. “Defeasances;”
10. “Release, substitution, or sale of property securing repayment of the securities, if material;”
11. “Rating changes;”
12. “Tender offers;”
13. “Bankruptcy, insolvency, receivership or similar event of the obligated person;”
14. “Merger, consolidation, or acquisition of the obligated person, if material;” and
15. “Appointment of a successor or additional trustee, or the change of name of a trustee, if material;”

(v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Certificate, as applicable), promptly file a completed copy of Exhibit A to this Disclosure Certificate with the MSRB, identifying the filing as “Failure to provide annual financial information as required” when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Certificate;

(f) The Agency may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) Any Information received by the Disclosure Dissemination Agent before 6:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Certificate and that is accompanied by a Certification and all other information required by the terms of this Disclosure Certificate will be filed by the Disclosure Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

### SECTION 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information consisting of updated information comparable to the information in the following tables as they appear in Official Statement:

1. Table 3 entitled “Fortuna Redevelopment Project Area; Land Use Summary.”

2. Table 4 entitled “Fortuna Redevelopment Project Area; Top Ten Taxable Property Owners.”

3. Table 5 entitled “Fortuna Redevelopment Project Area; Historical Assessed Valuation and Tax Revenues.”

(b) Each Annual Report shall also contain the following updated information:

1. Information regarding assessment appeals by largest taxpayers listed in updates to Table 4 and the estimated loss on appeal.

2. Debt service coverage on the Bonds for the most recently completed fiscal year in substantially the form of Table 8 of the Official Statement. No projected coverage needs to be presented.

3. A listing of the amount of each distribution from the Humboldt County Auditor-Controller of property tax revenues from the Redevelopment Property Tax Trust Fund received by the Agency for its enforceable obligations for the most recent Fiscal Year, as reasonably available 15 business days prior to the due date of each Annual Report.

4. Information on termination of Teeter Plan.

(c) Audited Financial Statements prepared in accordance with generally accepted accounting principles (“GAAP”) as described in the Official Statement will also be included in the Annual Report. If audited financial statements are not available, then, unaudited financial statements, prepared in accordance with GAAP as described in the Official Statement will be included in the Annual Report. Audited Financial Statements (if any) will be provided pursuant to Section 2(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 Agency or related public entities, which have been previously filed with the Securities and Exchange Commission or available to the public on the MSRB Internet website. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Agency will clearly identify each such document so incorporated by reference.

Any Annual Financial Information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

#### SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events with respect to the Bonds constitutes a Notice Event:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;

3.       Unscheduled draws on debt service reserves reflecting financial difficulties;
4.       Unscheduled draws on credit enhancements reflecting financial difficulties;
5.       Substitution of credit or liquidity providers, or their failure to perform;
6.       Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
7.       Modifications to rights of Bond holders, if material;
8.       Bond calls, if material, and tender offers;
9.       Defeasances;
10.      Release, substitution, or sale of property securing repayment of the Bonds, if material;
11.      Rating changes;
12.      Bankruptcy, insolvency, receivership or similar event of the Obligated Person (*Note to subsection (a)(12) of this Section 4*: For the purposes of the event described in this subsection (a)(12) of Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, 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 Obligated Person);
13.      The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14.      Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The Agency shall, in a timely manner not in excess of ten business days after its occurrence, notify the Disclosure Dissemination Agent in writing of the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall

identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Certificate), include the text of the disclosure that the Agency desires to make, contain the written authorization of the Agency for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Agency desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the Agency or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within two business days of receipt of such notice (but in any event in a timely manner not later than the tenth business day after the occurrence of the Notice Event, if the Agency determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Certificate), include the text of the disclosure that the Agency desires to make, contain the written authorization of the Agency for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Agency desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed by the Agency as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with the MSRB in accordance with Section 2(e)(iv) hereof.

SECTION 5. CUSIP Numbers. Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements, Notice Event notices, and Failure to File Event notices, the Agency shall indicate the full name of the Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided information relates.

SECTION 6. Additional Disclosure Obligations. The Agency acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Agency, and that the failure of the Disclosure Dissemination Agent to so advise the Agency shall not constitute a breach by the Disclosure Dissemination Agent of any of its duties and responsibilities under this Disclosure Certificate. The Agency acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Certificate.

SECTION 7. Voluntary Filings. Nothing in this Disclosure Certificate shall be deemed to prevent the Agency from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Certificate or including any other information in any Annual Report, Audited Financial Statements, Notice Event

notice, or Failure to File Event notice, in addition to that required by this Disclosure Certificate. If the Agency chooses to include any information in any Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice in addition to that which is specifically required by this Disclosure Certificate, the Agency shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice.

SECTION 8. Termination of Reporting Obligation. The obligations of the Agency and the Disclosure Dissemination Agent under this Disclosure Certificate shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the Agency is no longer an Obligated Person with respect to such Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required with respect to such Bonds.

SECTION 9. Disclosure Dissemination Agent. The Agency has appointed \_\_\_\_\_ as the initial Disclosure Dissemination Agent under this Disclosure Certificate. The Agency may, upon thirty days written notice to the Disclosure Dissemination Agent, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of the Disclosure Dissemination Agent, whether by notice of the Agency or the Disclosure Dissemination Agent, the Agency agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Certificate for the benefit of the Beneficial Owners of the Bonds. Notwithstanding any replacement or appointment of a successor, the Agency shall remain liable, until payment in full, for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Agency.

SECTION 10. Remedies in Event of Default. In the event of a failure of the Agency or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Certificate, the Beneficial Owners' rights to enforce the provisions of this Disclosure Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Certificate. Any failure by a party to perform in accordance with this Disclosure Certificate shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) Article VII of the Indenture is hereby made applicable to this Disclosure Certificate as if this Disclosure Certificate were (solely for this purpose) contained in the Indenture. The Disclosure Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement and the Agency agrees to indemnify and save the Disclosure Dissemination Agent, the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of the disclosure of information pursuant to this Disclosure Certificate or 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 Disclosure Dissemination Agent's negligence or willful misconduct. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Agency has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Certificate. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Agency and shall not be deemed to be acting in any fiduciary capacity for the Agency, the Beneficial Owners of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Agency's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Agency has complied with this Disclosure Certificate. The Disclosure Dissemination Agent may conclusively rely upon certifications of the Agency at all times.

The obligations of the Agency under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability to the extent acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the Agency.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Disclosure Certificate shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Agency and the Disclosure Dissemination Agent may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Agency and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Beneficial Owners of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Agency nor the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Certificate necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days prior written notice

of the intent to do so together with a copy of the proposed amendment to the Agency. No such amendment shall become effective until counsel to the Agency of nationally recognized standing in the field of law relating to municipal bonds determines in writing that such amendments are necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission, or if the Agency shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Agency, the Trustee of the Bonds, the Disclosure Dissemination Agent, the participating underwriters (as defined in the Rule), and the Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Certificate shall be governed by the laws of the State of California (other than with respect to conflicts of laws).

SECTION 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

*[Signature page to follow on next page]*

The Disclosure Dissemination Agent and the Agency have caused this Disclosure Certificate to be executed, on the date first written above, by their respective officers duly authorized.

**SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE  
CITY OF FORTUNA,  
As Obligated Person**

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

\_\_\_\_\_,  
As Disclosure Dissemination Agent

By: \_\_\_\_\_  
Authorized Signatory

**EXHIBIT A**

**NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Successor Agency to the Redevelopment Agency of the City of Fortuna

Obligated Person: Successor Agency to the Redevelopment Agency of the City of Fortuna

Name of Issue: \$[Par Amount]  
Series 2017 Tax Allocation Refunding Bonds  
(Fortuna Redevelopment Project)

Date of Issuance: \_\_\_\_\_, 2017

NOTICE IS HEREBY GIVEN that the Agency has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate between the Agency and the Disclosure Dissemination Agent named therein. The Agency has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

\_\_\_\_\_,  
as Disclosure Dissemination Agent  
on behalf of the Agency

## APPENDIX F

### BOOK-ENTRY ONLY SYSTEM

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

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the

Direct Participants to whose accounts such Bonds 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.

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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Successor Agency 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium (if any), and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Successor Agency 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, the Trustee, or the Successor Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal, premium (if any), and interest payments with respect to the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Successor Agency 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.

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

The Successor Agency may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, representing the Bonds will be printed and delivered to DTC in accordance with the provisions of the Indenture.

**APPENDIX G**

**STATE DEPARTMENT OF FINANCE APPROVAL LETTER**

## APPENDIX H

### FORM OF BOND COUNSEL OPINION

\_\_\_\_\_, 2017

Successor Agency to the Redevelopment Agency of the City of Fortuna  
621 11th Street  
Fortuna, CA 95540

*OPINION:*        \$[Par Amount]  
                  Successor Agency to the Redevelopment Agency of the City of Fortuna  
                  Series 2017 Tax Allocation Refunding Bonds  
                  (Fortuna Redevelopment Project)

Members of the Successor Agency:

We have acted as bond counsel in connection with the issuance by the Successor Agency to the Redevelopment Agency of the City of Fortuna (the "Successor Agency"), of \$[Par Amount] Successor Agency to the Redevelopment Agency of the City of Fortuna, Series 2017 Tax Allocation Refunding Bonds (Fortuna Redevelopment Project) (the "Bonds"), pursuant to the Community Redevelopment Law, constituting Part 1 (commencing with Section 33000) of Division 24 of the Health and Safety Code of the State of California (the "Law"), Part 1.85 (commencing with Section 34170) of Division 24 of the California Health and Safety Code (the "Dissolution Act"), and Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the "Refunding Law"). The Bonds are being issued pursuant to an Indenture of Trust, dated as of \_\_\_\_\_ 1, 2017 (the "Indenture"), by and between the Successor Agency and U.S. Bank National Association, as trustee (the "Trustee"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

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

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

1. The Successor Agency is validly existing as a public entity, with the power to enter into the Indenture, perform the agreements on its part contained therein, and issue the Bonds.
2. The Indenture has been duly approved by the Successor Agency, and constitutes a valid and binding obligation of the Successor Agency, enforceable against the Successor Agency in accordance with its terms.
3. Pursuant to the Law, the Dissolution Act and the Refunding Law, the Indenture creates a valid lien on the funds pledged by the Indenture for the security of the Bonds, subject to no prior lien granted under the Law, the Dissolution Act and the Refunding Law, except to the extent described in the Indenture.

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

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; although for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the Successor Agency comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Successor Agency has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on the Bonds.

6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds, and the enforceability of the Bonds and the Indenture, may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, and may also be subject to the exercise of judicial discretion in appropriate cases. This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

**APPENDIX I**  
**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

§ \_\_\_\_\_  
**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY  
 OF THE CITY OF FORTUNA  
 SERIES 2017 TAX ALLOCATION REFUNDING BONDS  
 (FORTUNA REDEVELOPMENT PROJECT)**

**BOND PURCHASE AGREEMENT**

\_\_\_\_\_, 2017

Successor Agency to the Redevelopment Agency  
 of the City of Fortuna  
 621 11<sup>th</sup> Street  
 Fortuna, California 95540  
 Attention: Executive Director

Ladies and Gentlemen:

Stifel, Nicolaus & Company, Incorporated (the “Underwriter”) offers to enter into this Bond Purchase Agreement (this “Purchase Agreement”) with the Successor Agency to the Redevelopment Agency of the City of Fortuna (the “Agency”) which will be binding upon the Agency and the Underwriter upon the acceptance hereof by the Agency. This offer is made subject to its acceptance by the Agency by execution of this Purchase Agreement and its delivery to the Underwriter on or before 11:59 p.m., California time, on the date hereof. All terms used herein and not otherwise defined herein shall have the respective meanings given to such terms in the Indenture (as such term is defined herein).

1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties and agreements hereinafter set forth, the Underwriter hereby agrees to purchase from the Agency for offering to the public, and the Agency hereby agrees to sell to the Underwriter for such purpose, all (but not less than all) of the \$ \_\_\_\_\_ aggregate principal amount of the Agency’s Series 2017 Tax Allocation Refunding Bonds (the “Bonds”), at a purchase price equal to \$ \_\_\_\_\_ (being the aggregate principal amount thereof, less an Underwriter’s discount of \$ \_\_\_\_\_ and [plus/less] [net] original issue [premium/discount] of \$ \_\_\_\_\_). As an accommodation to the Agency, the Underwriter shall pay from the purchase price of the Bonds, by wire transfer, the amount of \$ \_\_\_\_\_ to the Insurer (as such term is defined herein) to pay the premium for the Policy and the Reserve Policy (as such terms are defined herein). Such payment and the other actions contemplated hereby to take place at the time of such payment are herein sometimes called the “Closing.”

2. The Bonds and Related Documents. The Bonds shall be substantially in the form described in, and shall be issued and secured under the provisions of an Indenture of Trust, dated as of \_\_\_\_\_ 1, 2017 (the “Indenture”), between the Agency and U.S. Bank National Association, as trustee (the “Trustee”), pursuant to Section 34177.5 of the California Health and Safety Code (the “Law”) and Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the “Act”) and a resolution of the Agency adopted on May 1, 2017 (the “Agency Resolution”).

The Bonds were approved by the Oversight Board for the Agency by resolution adopted on May 3, 2017 (the “Oversight Board Resolution”). The Bonds shall be as described in the Indenture and the Official Statement dated the date hereof relating to the Bonds (which, together with all exhibits and appendices included therein or attached thereto and such amendments or supplements thereto which shall be approved by the Underwriter, is hereinafter called the “Official Statement”).

A municipal bond insurance policy (the “Policy”) and a debt service reserve insurance policy (the “Reserve Policy”) for the Bonds shall be purchased from \_\_\_\_\_ (the “Insurer”).

The net proceeds of the Bonds will be used to prepay and defease the loan (the “Prior Loan”) issued under the Loan Agreement (the “Loan Agreement”), dated as of October 1, 2007, by and among the Authority, the Redevelopment Agency of the City of Fortuna (the “Former Agency”) and U.S. Bank National Association, as successor in interest to Deutsche Bank National Trust Company, and the Prior Loan is no longer outstanding under the terms of the Loan Agreement; and which will cause the concurrent refunding of a portion of the Fontana Public Financing Authority (the “Authority”) Revenue Bonds, Series 2007 (the “Prior Bonds”) relating to the Prior Loan (the “Prior Refunded Bonds”).

The Bonds will be secured by a pledge of, and lien on, Tax Revenues (defined in the Indenture) prior and senior to all other obligations of the Agency, except as disclosed in the Official Statement.

The Agency will undertake pursuant to the provisions of a Continuing Disclosure Certificate, dated as of \_\_\_\_\_ 1, 2017 (the “Disclosure Certificate”) and executed by the Agency and \_\_\_\_\_, as dissemination agent, to provide certain annual information and notices of the occurrence of certain enumerated events. A description of the undertaking is set forth in the Preliminary Official Statement (as defined below) and will also be set forth in the Official Statement.

The Indenture, the Disclosure Certificate, the Escrow Agreement, each dated as of \_\_\_\_\_ 1, 2017, by and among the Agency, the Authority and U.S. Bank National Association, as escrow agent, relating to the Prior Bonds (the “Escrow Agreement”), and this Purchase Agreement are sometimes collectively referred to herein as the “Agency Legal Documents.”

### 3. Public Offering and Establishment of Issue Price.

(a) The Underwriter agrees to make an initial public offering of all of the Bonds at the public offering prices (or yields) set forth on Exhibit A attached hereto and incorporated herein by reference. Subsequent to the initial public offering, the Underwriter reserves the right to change the public offering prices (or yields) as the Underwriter deems necessary in connection with the marketing of the Bonds, provided that the Underwriter shall not change the interest rates set forth on Exhibit A. The Bonds may be offered and sold to certain dealers at prices lower than such initial public offering prices. The Agency acknowledges and agrees that: (i) the purchase and sale of the Bonds pursuant to this Purchase Agreement is an arm’s length commercial transaction between the Agency and the Underwriter; (ii) in connection therewith and with the discussions, undertakings and procedures leading up to the consummation of such transaction, the Underwriter is and has been acting solely as principal and not as agent, fiduciary or Municipal Advisor (as such term is defined in Section 15B of The Securities Exchange Act of 1934, as amended) of the Agency; (iii) the Underwriter has not assumed an advisory or fiduciary responsibility in favor of the Agency with respect to the offering contemplated hereby or the discussions, undertakings and procedures leading

thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the Agency on other matters); (iv) the Underwriter has financial interests that may differ from and be adverse to those of the Agency; and (v) the Agency has consulted with its own legal and financial advisors to the extent that it has deemed appropriate.

(b) The Underwriter agrees to assist the Agency in establishing the issue price of the Bonds and shall execute and deliver to the Agency at Closing (as defined below) an “issue price” or similar certificate, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Exhibit B, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Underwriter, the Agency and Bond Counsel (as defined below), to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the Bonds. All actions to be taken by the Agency under this section to establish the issue price of the Bonds may be taken on behalf of the Agency by the Agency’s municipal advisor, Public Financial Management, Inc. (the “Municipal Advisor”) and any notice or report to be provided to the Agency may be provided to the Agency’s Municipal Advisor.

(c) [Except as otherwise set forth in Exhibit A attached hereto,] the Agency will treat the first price at which 10% of each maturity of the Bonds (the “10% test”), identified under the column “10% Test Used” in Exhibit A, is sold to the public as the issue price of that maturity (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% test). At or promptly after the execution of this Purchase Agreement, the Underwriter shall report to the Agency the price or prices at which it has sold to the public each maturity of Bonds. If at that time the 10% test has not been satisfied as to any maturity of the Bonds, the Underwriter agrees to promptly report to the Agency the prices at which it sells the unsold Bonds of that maturity to the public. That reporting obligation shall continue, whether or not the Closing Date (as defined below) has occurred, until the 10% test has been satisfied as to the Bonds of that maturity or until all Bonds of that maturity have been sold to the public.

(d) [The Underwriter confirms that it has offered the Bonds to the public on or before the date of this Purchase Agreement at the offering price or prices (the “initial offering price”), or at the corresponding yield or yields, set forth in Exhibit A attached hereto, except as otherwise set forth therein. Exhibit A also sets forth, identified under the column “Hold the Offering Price Rule Used,” as of the date of this Purchase Agreement, the maturities, if any, of the Bonds for which the 10% test has not been satisfied and for which the Agency and the Underwriter agree that the restrictions set forth in the next sentence shall apply, which will allow the Agency to treat the initial offering price to the public of each such maturity as of the sale date as the issue price of that maturity (the “hold-the-offering-price rule”). So long as the hold-the-offering-price rule remains applicable to any maturity of the Bonds, the Underwriter will neither offer nor sell unsold Bonds of that maturity to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (i) the close of the fifth (5th) business day after the sale date; or
- (ii) the date on which the Underwriter has sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The Underwriter shall promptly advise the Agency when it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.]

(e) The Underwriter acknowledges that sales of any Bonds to any person that is a related party to the Underwriter shall not constitute sales to the public for purposes of this section. Further, for purposes of this section:

(i) “public” means any person other than an underwriter or a related party;

(ii) “underwriter” means (A) any person that agrees pursuant to a written contract with the Agency (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public);

(iii) a purchaser of any of the Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other); and

(iv) “sale date” means the date of execution of this Purchase Agreement by all parties.

4. Use and Preparation of Documents. The Agency has caused to be prepared and delivered to the Underwriter prior to the execution of this Purchase Agreement copies of the Preliminary Official Statement dated \_\_\_\_\_, 2017, relating to the Bonds (the “Preliminary Official Statement”), which was approved by a resolution of the Agency adopted on \_\_\_\_\_, 2017 (the “Agency OS Resolution”). The Agency ratifies, confirms and approves the use by the Underwriter prior to the date hereof of the Preliminary Official Statement. The Agency has previously deemed the Preliminary Official Statement to be final as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 (“Rule 15c2-12”), except for information permitted to be omitted therefrom by Rule 15c2-12, and has executed a certificate to that effect in the form attached as Exhibit C.

The Agency hereby agrees to deliver or cause to be delivered to the Underwriter, within seven (7) business days of the date hereof, but not less than one (1) business day prior to Closing, an electronic version of the Official Statement and a sufficient number of physical copies of the final Official Statement relating to the Bonds, dated the date hereof, which includes all information permitted to be omitted by Rule 15c2-12 and any amendments or supplements to such Official Statement as have been approved by the Agency and the Underwriter to enable the Underwriter to distribute a single copy of each Official Statement to any potential customer of the

Underwriter requesting an Official Statement during the time period beginning when the Official Statement becomes available and ending 25 days after the End of the Underwriting Period (as such term is defined herein). The Agency hereby approves of the use and distribution (including the electronic distribution) by the Underwriter of the Preliminary Official Statement and the Official Statement in connection with the offer and sale of the Bonds. The Agency shall have executed and delivered to the Underwriter a certification to such effect in the form attached hereto as Exhibit C. The Underwriter agrees that it will not confirm the sale of any Bonds unless the confirmation of sale is accompanied or preceded by the delivery of a copy of the Official Statement.

5. Representations, Warranties and Agreements of the Agency. The Agency hereby represents and warrants to and agrees with the Underwriter as follows:

(a) The Agency is a public entity existing under the laws of the State of California, including the Law.

(b) The Agency has full legal right, power and authority to enter into the Agency Legal Documents and carry out and consummate the transactions on its part contemplated by the Agency Legal Documents.

(c) By all necessary official action of the Agency prior to or concurrently with the acceptance hereof, the Agency has duly authorized and approved the preparation and use of the Preliminary Official Statement and the Official Statement, the execution and delivery of the Official Statement and the Agency Legal Documents and the performance by the Agency of all transactions on its part contemplated by the Agency Legal Documents; and as of the Closing the Agency Legal Documents will constitute legal, valid and binding obligations of the Agency, enforceable against the Agency in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally.

(d) The Agency is not in any material respect in breach of or default under any applicable constitutional provision, law or administrative regulation to which it is subject or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement (including, without limitation, the Indenture) or other instrument to which the Agency is a party or to which the Agency or any of its property or assets is otherwise subject, and no event has occurred and is continuing which with the passage of time or the giving of notice, or both, would constitute such a default or event of default under any such instrument; and the execution and delivery of the Agency Legal Documents, and compliance with the provisions on the Agency's part contained therein, will not conflict with or constitute a material breach of or a material default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Agency is a party or to which the Agency or any of its property or assets is otherwise subject, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the Agency or under the terms of any such constitutional provision, law, regulation or instrument, except as provided by the Indenture and the Escrow Agreement.

(e) Except as described in or contemplated by the Official Statement, all authorizations, approvals, licenses, permits, consents and orders of any governmental authority, board, agency or commission having jurisdiction of the matter which are required for the due

authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the Agency of its obligations under the Agency Legal Documents have been duly obtained.

(f) Between the date of this Purchase Agreement and the date of the Closing, the Agency will not, without the prior written consent of the Underwriter, offer or issue any bonds, notes or other obligations for borrowed money, or incur any material liabilities, direct or contingent, payable from Tax Revenues, nor will there be any adverse change of a material nature in the financial position, results of operations or condition, financial or otherwise, of the Agency.

(g) To the best knowledge of the officer of the Agency executing this Purchase Agreement, after due inquiry, as of the date hereof, there is no action, suit, proceeding, inquiry or investigation, at law or in equity before or by any court, government agency, public board or body, pending with respect to which the Agency has been served with process or threatened against the Agency, affecting the existence of the Agency or the titles of its officers to their respective offices, or affecting or seeking to prohibit, restrain or enjoin the execution and delivery of the Indenture or the collection of the Tax Revenues or contesting or affecting, as to the Agency, the validity or enforceability of the Agency Legal Documents or contesting the exclusion from gross income of interest on the Bonds for federal income tax purposes, or contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or contesting the powers of the Agency, or in any way contesting or challenging the consummation of the transactions contemplated hereby, or which might result in a material adverse change in the financial condition of the Agency or which might materially adversely affect the Tax Revenues of the Agency; nor, to the best knowledge of the Agency, is there any known basis for any such action, suit, proceeding, inquiry or investigation, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity of the authorization, execution, delivery or performance by the Agency of the Agency Legal Documents.

(h) As of the time of acceptance hereof and as of the date of the Closing, the Agency does not and will not have outstanding any indebtedness which indebtedness is secured by a lien on the Tax Revenues of the Agency superior to or on a parity with the lien provided for in the Indenture on the Tax Revenues.

(i) As of the time of acceptance hereof and as of the date of the Closing, the Agency has complied with the filing requirements of the Law, including, without limitation, the filing of all Recognized Obligation Payment Schedules, as required by the Law.

(j) As of the date thereof, the Preliminary Official Statement did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein in light of the circumstances under which they were made, not misleading (except that this representation does not include information relating to The Depository Trust Company or the book-entry-only system, the Insurer or the Reserve Policy).

(k) As of the date hereof and at all times subsequent hereto up to and including the date which is 25 days following the End of the Underwriting Period for the Bonds, the Official Statement will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made not misleading (except that this representation does not include

information relating to The Depository Trust Company, the book-entry-only system, the Insurer or the Reserve Policy).

(l) If between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Bonds, an event occurs which would cause the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading, the Agency will notify the Underwriter, and, if in the opinion of the Underwriter or the Agency, or their respective counsel, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the Agency will cooperate in the preparation of such amendment or supplement to the Official Statement in a form and manner approved by the Underwriter, and shall pay all expenses thereby incurred. For the purposes of this subsection, between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Bonds, the Agency will furnish such information with respect to itself as the Underwriter may from time to time reasonably request. As used herein, the term "End of the Underwriting Period" means the later of such time as: (i) the Agency delivers the Bonds to the Underwriter; or (ii) the Underwriter does not retain, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public. Notwithstanding the foregoing, unless the Underwriter gives written notice to the contrary, the "End of the Underwriting Period" shall be the date of Closing.

(m) If the information contained in the Official Statement is amended or supplemented pursuant to paragraph (l) hereof, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such paragraph) at all times subsequent thereto up to and including the date which is 25 days after the End of the Underwriting Period for the Bonds, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein) will not contain any untrue statement of a material fact required to be stated therein or necessary to make such information therein in the light of the circumstances under which it was presented, not misleading (except that this representation does not include information relating to The Depository Trust Company or the book-entry-only system), the Insurer or the Reserve Policy.

(n) After the Closing, the Agency will not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, the Underwriter shall reasonably object in writing or which shall be disapproved by counsel for the Underwriter.

(o) Any certificate signed by any officer of the Agency and delivered to the Underwriter shall be deemed a representation by the Agency to the Underwriter as to the statements made therein.

(p) The Agency will apply the proceeds from the sale of the Bonds for the purposes specified in the Official Statement.

(q) The Agency has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that the Agency is not a bond issuer whose arbitrage certifications may not be relied upon.

(r) The Agency will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter, at the expense of the Underwriter, as it may reasonably request in order to qualify the Bonds for offer and sale under the “blue sky” or other securities laws and regulations of such states and other jurisdictions of the United States of America as the Underwriter may designate; provided, however, that the Agency will not be required to execute a special or general consent to service of process or qualify as a foreign corporation in connection with any such qualification in any jurisdiction.

(s) The Agency will refrain from taking any action with regard to which the Agency may exercise control that results in the inclusion in gross income for federal income tax purposes of the interest on the Bonds or State of California income tax purposes of the interest on the Bonds.

(t) Except as disclosed in the Official Statement, neither the Agency nor the Former Agency has failed to comply in all material respects with any prior continuing disclosure undertaking in regard to Rule 15c2-12 within the previous five years.

(u) The Oversight Board has duly adopted the Oversight Board Resolution approving the issuance of the Bonds and no further Oversight Board approval or consent is required for the issuing of the Bonds or the consummation of the transactions on the part of the Agency described in the Official Statement.

(v) The Department of Finance of the State (the “Department of Finance”) has issued a letter, dated June 23, 2017, approving the Oversight Board Resolution. No further Department of Finance approval or consent is required for the issuance of the Bonds or the consummation of the transactions on the part of the Agency described in the Official Statement. Except as disclosed in the Official Statement, the Agency is not aware of the Department of Finance directing or having any basis to direct the County Auditor-Controller to deduct unpaid unencumbered funds from future allocations of property tax to the Agency pursuant to Section 34183 of the Dissolution Act.

6. Closing. At 8:00 A.M., California time, on \_\_\_\_\_, 2017, or on such other date or at such other time as may be mutually agreed upon by the Agency and the Underwriter, the Agency will, subject to the terms and conditions hereof, sell and deliver the Bonds to the Underwriter, duly executed and authenticated, together with the other documents hereinafter mentioned, and, subject to the terms and conditions hereof, the Underwriter will accept such delivery and pay the purchase price of the Bonds as set forth in Section 1 hereof in federal funds. Sale, delivery and payment as aforesaid shall be made at the offices of The Weist Law Firm, Scotts Valley, California (“Bond Counsel”), or such other place as shall have been mutually agreed upon by the Agency and the Underwriter, except that the Bonds (with one certificate for each maturity of each series and otherwise in a form suitable for the book-entry system) shall be delivered to the Underwriter in New York, New York, through the book-entry system of The Depository Trust Company (“DTC”). Unless the DTC Fast Automated Securities Transfer (“FAST”) is utilized, the Bonds will be made available for inspection by DTC at least one business day prior to the Closing.

7. Closing Conditions. The Underwriter has entered into this Purchase Agreement in reliance upon the representations and warranties of the Agency contained herein, and in reliance upon the representations and warranties to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the Agency of its obligations hereunder, both

as of the date hereof and as of the date of the Closing. Accordingly, the Underwriter's obligations under this Purchase Agreement to purchase, to accept delivery of and to pay for the Bonds shall be conditioned upon the performance by the Agency of its obligations to be performed hereunder and under such documents and instruments at or prior to the Closing, and shall also be subject to the following additional conditions:

(a) The Underwriter shall receive copies of the Official Statement (including all information previously permitted to have been omitted from the Preliminary Official Statement by Rule 15c2-12 and any amendments or supplements thereto as have been approved by the Underwriter as required by Section 4 hereof).

(b) The representations and warranties of the Agency contained herein shall be true and correct on the date hereof and on and as of the date of the Closing, as if made on the date of the Closing, and the statements of the officers and other officials of the Agency made in any certificate or other document furnished pursuant to the provisions hereof are accurate.

(c) At the time of the Closing, the Agency Legal Documents shall have been duly authorized, executed and delivered by the respective parties thereto, and the Official Statement shall have been duly authorized, executed and delivered by the Agency, all in substantially the forms heretofore submitted to the Underwriter, with only such changes as shall have been agreed to by the Underwriter, and shall be in full force and effect; and there shall be in full force and effect such resolution or resolutions of the governing body of the Agency as, in the opinion of Bond Counsel, shall be necessary or appropriate in connection with the transactions on the part of the Agency contemplated hereby.

(d) At the time of the Closing, all necessary official action of the Agency relating to the Official Statement and the Agency Legal Documents shall have been taken and shall be in full force and effect and shall not have been amended, modified or supplemented in any material respect.

(e) At or prior to the Closing, the Underwriter shall have received copies of each of the following documents:

(1) Bond Counsel Opinion. The approving opinion of Bond Counsel to the Agency, dated the date of the Closing and substantially in the form included as Appendix H to the Official Statement.

(2) Supplemental Opinion of Bond Counsel. A supplemental opinion or opinions of Bond Counsel addressed to the Underwriter, in form and substance acceptable to the Underwriter, and dated the date of the Closing, stating that the Underwriter may rely on the opinions of Bond Counsel described in paragraph (1) above as if such opinions were addressed to the Underwriter and to the following effect:

(i) this Purchase Agreement has been duly executed and delivered by the Agency and (assuming due authorization, execution and delivery by and validity against the Underwriter) constitutes the valid and binding agreement of the Agency, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting enforcement of creditors' rights and by the application of equitable principles;

(ii) the statements contained in the Official Statement under the captions “INTRODUCTION,” “PLAN OF REFUNDING,” “THE BONDS,” “SECURITY FOR THE BONDS,” “TAX MATTERS,” and in Appendices D and H, are accurate insofar as such statements expressly summarize certain provisions of the Indenture, the Escrow Agreement or the opinion of Bond Counsel;

(iii) the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended;

(iv) the Agency has taken all actions required to prepay and defease the Prior Loan in full; and

(v) the Agency has taken all actions required to defease the portion of the Prior Bonds and such Refunded Prior Bonds are no longer outstanding under the terms of the Trust Agreement, dated as of October 1, 2007, by and among the Authority, the Former Agency and U.S. Bank National Association, as successor trustee to Deutsche Bank National Trust Company, pursuant to which the Prior Bonds were issued.

(3) Municipal Advisor Certificate. A certificate, dated the date of Closing, signed by a duly authorized official of the Agency’s Municipal Advisor addressed to the Underwriter and the Agency to the effect, that, in connection with its participation in the preparation of the Official Statement and without undertaking any independent investigation and without having undertaken to determine independently the fairness, accuracy or completeness of the statements contained in the Official Statement, nothing has come to the attention of the Municipal Advisor that would lead it to believe that the statements and information contained in the Official Statement as of the date thereof and the date of the Closing, contains an untrue statement of a material fact or omits to state a material fact required to be stated therein as necessary to make the statements therein, in light of the circumstances in which they were made, not misleading.

(4) Fiscal Consultant’s Certificate. A certificate of HdL Coren & Cone, the Agency’s Fiscal Consultant (the “Fiscal Consultant”), dated the date of the Closing, addressed to the Agency and the Underwriter, in form and substance acceptable to the Underwriter: (i) certifying as to the accuracy of the Fiscal Consultant’s Report set forth in Appendix G to the Official Statement and the information in the Official Statement attributable to the Fiscal Consultant; (ii) consenting to the inclusion of such firm’s Fiscal Consultant’s Report in the Preliminary Official Statement and the Official Statement; and (iii) stating that, to the best of the Fiscal Consultant’s knowledge, but without having conducted any investigation with respect thereto, nothing has come to the Fiscal Consultant’s attention between the date of such report and the date of the Closing which would materially alter any of the conclusions set forth in such report.

(5) Agency and Authority Counsel Opinion. An opinion of the City Attorney, acting as counsel to the Agency and the Authority, dated the date of the Closing and addressed to the Underwriter, in form and substance acceptable to the Underwriter, to the following effect:

(i) the Agency is a public body, corporate and politic, duly organized and existing under the laws of the State, with full right, power and authority to execute, deliver and perform its obligations under the Agency Legal Documents;

(ii) the Authority is a public entity validly existing under the laws of the State of California;

(iii) the Agency Resolution and the Agency OS Resolution were duly adopted at meetings of the Agency called and held pursuant to law, with all public notice required by law and at which quorums were present and acting throughout; and the Agency Resolution and the Agency OS Resolution are in full force and effect and have not been modified amended or rescinded since their respective adoption date;

(iv) the Authority Resolution approving and authorizing the refunding of its Bonds and authorizing the delivery of certain documents (the “Authority Resolution”) was duly adopted at a meeting of the Authority which was called and held on February 21, 2017, pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and the Authority Resolution is in full force and effect and has not been modified, amended or rescinded

(v) the Agency Legal Documents and the Official Statement have been duly authorized, executed and delivered by the Agency and Authority, as applicable, and, assuming due authorization, execution and delivery by the other parties thereto, as applicable, the Agency Legal Documents constitute the valid, legal and binding obligations of the Agency and Authority, as applicable, enforceable in accordance with their respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting enforcement of creditors’ rights and by the application of equitable principles if equitable remedies are sought;

(vi) to the best of such counsel’s knowledge, the execution and delivery of the Agency Legal Documents and the Official Statement and compliance with the provisions of the Agency Legal Documents, under the circumstances contemplated thereby: (1) do not and will not in any material respect conflict with or constitute on the part of the Agency or the Authority, as applicable, a breach of or default under any agreement or other instrument to which the Agency or the Authority, as applicable, is a party or by which it is bound; and (2) do not and will not in any material respect constitute on the part of the Agency or the Authority, as applicable, a violation, breach of or default under any existing law, regulation, court order or consent decree to which the Agency or the Authority are subject;

(vii) to the best of such counsel’s knowledge, except as otherwise disclosed in the Official Statement, there is no litigation or proceeding, pending and served upon the Agency, or threatened, challenging the creation, organization or existence of the Agency, or the validity of the Bonds or the Agency Legal Documents or seeking to restrain or enjoin any of the transactions referred to therein or contemplated thereby, or under which a determination adverse to the Agency would have a material adverse effect upon the financial condition or the revenues of the Agency, or which, in any manner, questions the right of the Agency to issue, sell and deliver the Bonds, to enter into the Indenture or to use the Tax Revenues for repayment of the Bonds or affects in any manner the right or ability of the Agency to collect or pledge the Tax Revenues; and

(viii) based upon such counsel’s participation as counsel to the Agency in the preparation of the Official Statement, and without having undertaken to determine independently the fairness, accuracy or completeness of the statements contained in the Official Statement, Agency Counsel has no reason to believe that, as of its date and as of date of Closing, the information in the Official Statement relating to the Agency, the Tax Revenues and the Project Area

(as such term is defined in the Indenture) (excluding any financial or statistical data with respect thereto, as to which no opinion is expressed) contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(6) Trustee Counsel Opinion. The opinion of counsel to the Trustee, dated the date of the Closing, addressed to the Underwriter and the Agency, to the effect that:

(i) the Trustee is a national banking association, duly organized and validly existing under the laws of the United States of America, having full power to enter into, accept and administer the trusts created under the Indenture and the Escrow Agreement;

(ii) the Indenture and the Escrow Agreement have been duly authorized, executed and delivered by the Trustee and the Indenture and the Escrow Agreement constitute the legal, valid and binding obligation of the Trustee, enforceable in accordance with their respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles if equitable remedies are sought; and

(iii) except as may be required under Blue Sky or other securities laws of any state, no consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee that has not been obtained is or will be required for the execution and delivery by the Trustee of the Indenture or the Escrow Agreement, or the consummation of the transactions on the part of the Trustee contemplated by the Indenture and the Escrow Agreement.

(7) Agency Certificate. A certificate of the Agency, dated the date of the Closing, signed on behalf of the Agency by a duly authorized officer of the Agency, to the effect that:

(i) the representations and warranties of the Agency contained herein are true and correct in all material respects on and as of the date of the Closing as if made on the date of the Closing;

(ii) no event affecting the Agency has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and

(iii) the Agency is not, in any material respect, in breach of or default under any applicable law or administrative regulation of the State or the United States or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Agency is a party or is otherwise subject, which would have a material adverse impact on the Agency's ability to perform its obligations under the Agency Legal Documents, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or event of default under any such instrument.

(8) Trustee's Certificate. A certificate of the Trustee, dated the date of the Closing, signed on behalf of the Trustee by a duly authorized officer of the Trustee, to the effect that:

(i) the Trustee is a national banking association duly organized and validly existing under the laws of the United States of America;

(ii) the Trustee has full power, authority and legal right to comply with the terms of the Indenture and the Escrow Agreement and to perform its obligations stated therein; and

(iii) the Indenture and the Escrow Agreement have been duly authorized, executed and delivered by the Trustee and (assuming due authorization, execution and delivery by the Agency) constitute legal, valid and binding obligations of the Trustee in accordance with their respective terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally.

(9) Documents. Executed copies of the Agency Legal Documents and the Official Statement and a copy of the Preliminary Official Statement.

(10) Rating Letter. Letters from Standard & Poor's Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P") to the effect that the Bonds have been assigned an insured rating of "\_\_\_" and an underlying rating of "\_\_\_," which ratings shall be in effect as of the date of the Closing.

(11) Disclosure Letter. A letter of The Weist Law Firm ("Disclosure Counsel"), dated the date of the Closing, addressed to the Underwriter and the Agency, to the effect that, based upon its participation in the preparation of the Official Statement and without having undertaken to determine independently the fairness, accuracy or completeness of the statements contained in the Official Statement, such counsel has no reason to believe that, as of the date of the Closing, the Official Statement (excluding therefrom the reports, financial and statistical data and forecasts therein and the information included in the appendices thereto and information relating to DTC, the Insurer, the Policy and the Reserve Policy, as to which no advice need be expressed) contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(12) Agency Resolutions. A copy of the Agency Resolution and the Agency OS Resolution, together with a certificate of the Secretary of the Agency to the effect that the Agency Resolution and the Agency OS Resolution remain in full force and effect, and have not been amended, rescinded or otherwise modified since their respective dates of adoption.

(13) Oversight Board Resolution. A copy of the Oversight Board Resolution.

(14) Oversight Board Certificate. A certificate of the Secretary of the Oversight Board to the effect that the Oversight Board Resolution remains in full force and effect and has not been amended, rescinded or otherwise modified since its date of adoption.

(15) [Verification Report/Cash Flow Certificate]. A report, dated the date of the Closing, of \_\_\_\_\_ (the “Verification Agent”), to the effect that it has verified the accuracy of the mathematical computations of (i) the adequacy of the deposits in the escrow fund for the Refunded Prior Bonds for the full and timely payment of all principal (including premium, if any) and interest due on the Refunded Prior Bonds as contemplated by the Escrow Agreement and (ii) the adequacy of the remaining lease payments under that certain Facilities Lease between the City of Fortuna and the Authority, dated as of October 1, 2007, to pay when due all remaining principal and interest payments on the Prior Bonds that will remain outstanding following the Closing.]

(16) Policy; Reserve Policy. The executed Policy and the executed Reserve Policy issued by the Insurer.

(17) Insurer Certificate. A certificate of the Insurer as to the accuracy of the information in Official Statement relating to the Insurer, the Policy and the Reserve Policy.

(18) Insurer Counsel Opinion. An opinion of counsel to the Insurer, dated as of the date of Closing, addressed to the Underwriter and the Agency in form and substance acceptable to the Underwriter, substantially to the effect that: (i) the Insurer has been duly incorporated and is validly existing and in good standing under the laws of the state of its incorporation; and (ii) the Policy and the Reserve Policy constitute the legal, valid and binding obligations of the Insurer enforceable in accordance with their respective terms, subject to enforcement, bankruptcy, insolvency, reorganization, rehabilitation and other similar laws of general applicability relating to or affecting creditors’ and/or claimants’ rights against insurance companies and to general equity principles.

(19) DTC Letter of Representations. The executed Blanket Letter of Representations of the Agency.

(20) CDIAC Forms. A report of proposed debt issuance, acknowledgement thereof and final report to the California Debt and Investment Advisory Commission with respect to the Bonds.

(21) Tax Certificate. A no arbitrage certificate with respect to the Bonds in a form acceptable to Bond Counsel.

(22) 15c2-12 Certificate. In connection with printing and distribution of the Preliminary Official Statement, an executed certificate of the Agency in the form attached hereto as Exhibit C.

(23) Additional Documents. Such additional certificates, instruments and other documents as Bond Counsel, the Agency or the Underwriter may reasonably deem necessary.

All the opinions, letters, certificates, instruments and other documents mentioned above or elsewhere in this Purchase Agreement shall be deemed to be in compliance with the provisions hereof if, but only if, they are in form and substance satisfactory to the Underwriter.

If the Agency shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds contained in this Purchase Agreement, if the Agency shall determine in good faith (and provide written notice to the Underwriter) that legislation

has been introduced or proposals made by the Governor of the State which if enacted and effective would impose additional limitations or burdens on the Agency by reason of the issuance of the Bonds or which purport to prohibit the issuance of the Bonds, or if the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds shall be terminated for any reason permitted by this Purchase Agreement, this Purchase Agreement shall terminate and the Underwriter shall be under no further obligation hereunder; except that Section 9 hereof shall remain in effect in any event.

8. Termination. The Underwriter shall have the right to terminate this Purchase Agreement, without liability therefor, by notification to the Agency if at any time between the date hereof and prior to the Closing:

(a) any event shall occur which causes any statement contained in the Official Statement to be materially misleading or results in a failure of the Official Statement to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; or

(b) the marketability of the Bonds or the market price thereof, in the opinion of the Underwriter, has been materially adversely affected by an amendment to the Constitution of the United States or by any legislation in or by the Congress of the United States or by the State, or the amendment of legislation pending as of the date of this Purchase Agreement in the Congress of the United States, or the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any Federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority materially adversely affecting the federal or State tax status of the Agency, or the interest on bonds or notes or obligations of the general character of the Bonds; or

(c) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State, or a decision by any court of competent jurisdiction within the State or any court of the United States shall be rendered which, in the reasonable opinion of the Underwriter, materially adversely affects the market price of the Bonds; or

(d) legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the issuance, offering or sale of the Bonds, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of, or that obligations of the general

character of the Bonds, or the Bonds, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Indenture needs to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or

(e) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange which restrictions materially adversely affect the Underwriter's ability to trade the Bonds; or

(f) a general banking moratorium shall have been established by federal or State authorities; or

(g) the United States has become engaged in hostilities which have resulted in a declaration of war or a national emergency or there has occurred any other outbreak of hostilities or a national or international calamity or crisis, or there has occurred any escalation of existing hostilities, calamity or crisis, financial or otherwise, the effect of which on the financial markets of the United States being such as, in the reasonable opinion of the Underwriter, would affect materially and adversely the ability of the Underwriter to market the Bonds; or

(h) any rating of the Bonds shall have been downgraded, suspended or withdrawn by a national rating service, which, in the Underwriter's reasonable opinion, materially adversely affects the marketability or market price of the Bonds; or

(i) the commencement of any action, suit or proceeding described in Section 5(g) hereof which, in the judgment of the Underwriter, materially adversely affects the market price of the Bonds; or

(j) there shall be in force a general suspension of trading on the New York Stock Exchange.

9. Expenses. The Agency will pay or cause to be paid the approved expenses incident to the performance of its obligations hereunder and certain expenses relating to the sale of the Bonds, including, but not limited to: (a) the cost of the preparation and printing or other reproduction of the Agency Legal Documents (other than this Purchase Agreement); (b) the fees and disbursements of Bond Counsel, Disclosure Counsel, the Municipal Advisor, the Fiscal Consultant, counsel to the Agency and any other experts or other consultants retained by the Agency; (c) the costs and fees of the credit rating agencies; (d) the cost of preparing and delivering the definitive Bonds; (e) the cost of providing immediately available funds on the date of the Closing; (f) the cost of the printing or other reproduction of the Preliminary Official Statement and Official Statement and any amendment or supplement thereto, including a reasonable number of certified or conformed copies thereof; (g) the Underwriter's out-of-pocket expenses incurred with the financing; (h) the fees paid to third parties for a continuing disclosure undertaking compliance review, if any; and (i) expenses (included in the costs to be paid from the Underwriter's Discount) incurred on behalf of the City's or the Agency's employees which are incidental to implementing this Purchase Agreement and the rating presentation.

The Underwriter will pay the expenses of the preparation of this Purchase Agreement and all other expenses incurred by the Underwriter in connection with the public offering and

distribution of the Bonds and the fees and disbursements of Underwriter's Counsel. The Underwriter is required to pay the fees of the California Debt and Investment Advisory Commission in connection with the offering of the Bonds. The Agency acknowledges that it has had an opportunity, in consultation with such advisors as it may deem appropriate, if any, to evaluate and consider such fees. Notwithstanding the fact that such fees are solely the legal obligation of the Underwriter, the Agency agrees to reimburse the Underwriter for such fees.

10. Notices. Any notice or other communication to be given to the Agency under this Purchase Agreement may be given by delivering the same in writing at the Agency's address set forth above; Attention: Executive Director, and to the Underwriter under this Purchase Agreement may be given by delivering the same in writing to Stifel, Nicolaus & Company, Incorporated, One Montgomery Street, 35<sup>th</sup> Floor, San Francisco, California 94104, Attention: Holly Vocal.

11. Parties in Interest. This Purchase Agreement is made solely for the benefit of the Agency and the Underwriter and no other person shall acquire or have any right hereunder or by virtue hereof. All of the representations, warranties and agreements of the Agency contained in this Purchase Agreement shall remain operative and in full force and effect, regardless of: (i) any investigations made by or on behalf of the Underwriter; (ii) delivery of and payment for the Bonds pursuant to this Purchase Agreement; and (iii) any termination of this Purchase Agreement.

12. Effectiveness and Counterpart Signatures. This Purchase Agreement shall become effective upon the execution of the acceptance by an authorized officer of the Agency and shall be valid and enforceable at the time of such acceptance and approval. This Purchase Agreement may be executed by the parties hereto by facsimile transmission and in separate counterparts, each of which when so executed and delivered (including delivery by facsimile transmission) shall be an original, but all such counterparts shall together constitute but one and the same instrument.

13. Headings. The headings of the sections of this Purchase Agreement are inserted for convenience only and shall not be deemed to be a part hereof.

14. Governing Law. This Purchase Agreement shall be construed in accordance with the laws of the State.

Very truly yours,

STIFEL, NICOLAUS & COMPANY,  
INCORPORATED

By: \_\_\_\_\_  
Its: Authorized Officer

Accepted as of \_\_\_\_\_ p.m.:

SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF  
THE CITY OF FORTUNA

By: \_\_\_\_\_  
Executive Director

EXHIBIT A

MATURITY SCHEDULE

\$ \_\_\_\_\_  
SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY  
OF THE CITY OF FORTUNA  
SERIES 2017 TAX ALLOCATION REFUNDING BONDS  
(FORTUNA REDEVELOPMENT PROJECT)

<i>Maturity Date (_____ 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Initial Offering Price</i>	<i>10% Test Used</i>	<i>Hold the Offering Price Rule Used</i>
--	-----------------------------	----------------------	-----------------------------------	----------------------	--

<sup>c</sup> Priced to the first optional redemption date of \_\_\_\_\_ 1, 20\_\_ at par.

Optional Redemption. The Bonds maturing on or before \_\_\_\_\_ 1, 20\_\_ are not subject to optional redemption prior to maturity. The Bonds maturing on and after \_\_\_\_\_ 1, 20\_\_, are subject to redemption, at the option of the Agency, on any date on or after \_\_\_\_\_ 1, 20\_\_, as a whole or in part, by such maturities as shall be determined by the Agency, and by lot within a maturity, from any available source of funds, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

## EXHIBIT B

§ \_\_\_\_\_  
**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY  
OF THE CITY OF FORTUNA  
SERIES 2017 TAX ALLOCATION REFUNDING BONDS  
(FORTUNA REDEVELOPMENT PROJECT)**

### FORM OF ISSUE PRICE CERTIFICATE

The undersigned, on behalf of Stifel, Nicolaus & Company, Incorporated (“Stifel”) hereby certifies as set forth below with respect to the sale and issuance of the above-captioned bonds (the “Bonds”).

1. ***Sale of the General Rule Maturities.*** As of the date of this certificate, for each Maturity of the General Rule Maturities, the first price at which at least 10% of such Maturity was sold to the Public is the respective price listed in Schedule A.

2. ***[Initial Offering Price of the Hold-the-Offering-Price Maturities.***

(a) Stifel offered the Hold-the-Offering-Price Maturities to the Public for purchase at the respective initial offering prices listed in Schedule A (the “Initial Offering Prices”) on or before the Sale Date. A copy of the pricing wire or equivalent communication for the Bonds is attached to this certificate as Schedule B.

(b) As set forth in the Bond Purchase Agreement, dated \_\_\_\_\_, 2017, by and between Stifel and the Successor Agency to the Redevelopment Agency of the City of Fortuna, Stifel has agreed in writing that, (i) for each Maturity of the Hold-the-Offering-Price Maturities, it would neither offer nor sell any of the Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the “hold-the-offering-price rule”), and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any retail distribution agreement shall contain the agreement of each broker-dealer who is a party to the retail distribution agreement, to comply with the hold-the-offering-price rule. Pursuant to such agreement, no Underwriter (as defined below) has offered or sold any Maturity of the Hold-the-Offering-Price Maturities at a price that is higher than the respective Initial Offering Price for that Maturity of the Bonds during the Holding Period.]

3. ***Defined Terms.***

(a) *General Rule Maturities* means those Maturities of the Bonds listed in Schedule A hereto as the “General Rule Maturities.”

(b) *[Hold-the-Offering-Price Maturities* means those Maturities of the Bonds listed in Schedule A hereto as the “Hold-the-Offering-Price Maturities.”

(c) *Holding Period* means, with respect to a Hold-the-Offering-Price Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date (\_\_\_\_\_, 2017), or (ii) the date on which Stifel has sold at least 10% of such

Hold-the-Offering-Price Maturity to the Public at prices that are no higher than the Initial Offering Price for such Hold-the-Offering-Price Maturity.]

(d) *Issuer* means the Successor Agency to the Redevelopment Agency of the City of Fortuna.

(e) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate maturities.

(f) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(g) [*Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is \_\_\_\_\_, 2017.

(h) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).]

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents Stifel’s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Stradling Yocca Carlson & Rauth in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

STIFEL, NICOLAUS & COMPANY,  
INCORPORATED

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

Name: \_\_\_\_\_

Dated: \_\_\_\_\_, 2017

**SCHEDULE A**

**SALE PRICES OF THE GENERAL RULE MATURITIES [AND INITIAL OFFERING  
PRICES OF THE HOLD-THE-OFFERING-PRICE MATURITIES]**

*(Attached)*

**SCHEDULE B**

**PRICING WIRE OR EQUIVALENT COMMUNICATION**

*(Attached)*

**EXHIBIT C**

**§ \_\_\_\_\_\***  
**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY  
OF THE CITY OF FORTUNA  
SERIES 2017 TAX ALLOCATION REFUNDING BONDS  
(FORTUNA REDEVELOPMENT PROJECT)**

**RULE 15c2-12 CERTIFICATE**

The undersigned hereby certifies and represents to Stifel, Nicolaus & Company, Incorporated (the "Underwriter") that the undersigned is a duly appointed and acting officer of the Successor Agency to the Redevelopment Agency of the City of Fortuna (the "Agency") authorized to execute this Certificate, and further hereby certifies and confirms on behalf of the Agency to the Underwriter as follows:

(1) This Certificate is delivered to enable the Underwriter to comply with Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule") in connection with the offering and sale of the Agency's 2017 Tax Allocation Refunding Bonds (the "Bonds").

(2) In connection with the offering and sale of the Bonds, there has been prepared a Preliminary Official Statement, dated \_\_\_\_\_, 2017, setting forth information concerning the Bonds and the Agency, as issuer of the Bonds (the "Preliminary Official Statement").

(3) As used herein, "Permitted Omissions" shall mean the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the Bonds depending on such matters and the identity of the underwriter(s), all with respect to the Bonds.

(4) The Preliminary Official Statement is, except for the Permitted Omissions, deemed final within the meaning of the Rule and has been, and the information therein is accurate and complete in all material respects except for the Permitted Omissions.

IN WITNESS WHEREOF, I have hereunto set my hand as of the \_\_\_\_ day of \_\_\_\_\_, 2017.

SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE  
CITY OF FORTUNA

By \_\_\_\_\_  
Authorized Officer

\* Preliminary, subject to change.