

PRELIMINARY OFFICIAL STATEMENT DATED JUNE 22, 2026

NEW ISSUE – BOOK-ENTRY ONLY

**RATINGS: Fitch – “AA-”
Moody’s – “Aa3”
See “RATINGS.”**

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2026A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the 2026A Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code, however, interest on the 2026A Bonds is included in the “adjusted financial statement income” of certain corporations that are subject to the alternative minimum tax under Section 55 of the Code. In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the 2026A Bonds is exempt from personal income taxes imposed by the State of California. See “TAX MATTERS.”

\$429,880,000*

**PUBLIC FACILITIES FINANCING AUTHORITY OF
THE CITY OF SAN DIEGO
SENIOR WATER REVENUE BONDS, SERIES 2026A
(Payable Solely from Installment Payments
Secured by Net System Revenues of the Water Utility Fund)**

Dated: Date of Delivery

Due: August 1, as shown on the inside cover page

The \$429,880,000* Public Facilities Financing Authority of The City of San Diego Senior Water Revenue Bonds, Series 2026A (Payable Solely from Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “2026A Bonds”) are being issued by the Public Facilities Financing Authority of The City of San Diego (the “Authority”) pursuant to the Government Code of the State of California (the “Government Code”) and the Indenture, dated as of January 1, 2009, as amended and supplemented, including as supplemented by the Tenth Supplemental Indenture, dated as of July 1, 2026 (collectively, the “Indenture”), each by and between the Authority and U.S. Bank Trust Company, National Association, as successor in interest to U.S. Bank National Association and as successor trustee (the “Trustee”). The proceeds of the 2026A Bonds will be used to (a) finance certain capital improvements to the Water System (the “Water System”) of The City of San Diego (the “City”), (b) pay a portion of the Outstanding principal of the Subordinated Water Revenue Commercial Paper Notes, Series A (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) of the Authority, which were issued to initially finance a portion of the capital improvements to the Water System, (c) subject to market conditions, refund a portion of the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Bonds, Series 2016A, the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Bonds, Refunding Series 2016B, and the Public Facilities Financing Authority of the City of San Diego Senior Water Revenue Refunding Bonds, Series 2020B, and (d) pay the costs of issuance incurred in connection with the issuance of the 2026A Bonds. See “PLAN OF FINANCE.”

Capitalized terms used on this cover page and not otherwise defined have the meanings ascribed to them elsewhere in this Official Statement. See in particular “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture” and “– Amended and Restated Master Installment Purchase Agreement.”

The 2026A Bonds are limited obligations of the Authority secured by Revenues consisting primarily of 2026 Installment Payments to be made by the City to the San Diego Facilities and Equipment Leasing Corporation (the “Corporation”) under the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (the “Original Master Installment Purchase Agreement”), as amended and supplemented, including as supplemented by the 2026 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of July 1, 2026 (the “2026 Supplement” and, together with the Original Master Installment Purchase Agreement as previously amended and supplemented, the “Master Installment Purchase Agreement”), each by and between the City and the Corporation, and other assets pledged therefor under the Indenture. The 2026 Installment Payments will be assigned by the Corporation to the Authority pursuant to the Assignment Agreement. The pledge and right of payment from Net System Revenues securing the 2026 Installment Payments will be Senior Obligations under the Master Installment Purchase Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2026A BONDS.”

The 2026A Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues pledged therefor and amounts on deposit in the Bonds Payment Fund established under the Indenture. The obligation of the City to make 2026 Installment Payments under the 2026 Supplement does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the full faith and credit of the Authority, the City, the County of San Diego (the “County”), the State of California (the “State”), or any political subdivision of the State nor the taxing power of the City, the County, the State, or any political subdivision of the State is pledged to the payment of the principal of or interest on the 2026A Bonds. The Authority has no taxing power. Neither the 2026A Bonds nor the obligation of the City to make 2026 Installment Payments constitutes an indebtedness of the Authority, the City, the County, the State, or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation or restriction.

The 2026A Bonds will bear interest at the respective rates set forth on the inside cover page hereof. Interest on the 2026A Bonds will accrue from the date of delivery of the 2026A Bonds and is payable on February 1 and August 1 of each year, commencing on February 1, 2027. See “DESCRIPTION OF THE 2026A BONDS – General.”

The 2026A Bonds are subject to redemption as described herein. See “DESCRIPTION OF THE 2026A BONDS – Redemption of 2026A Bonds.”

The 2026A Bonds will be issued only in fully-registered form in denominations of \$5,000 and any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company (“DTC”). DTC will act as securities depository for the 2026A Bonds. Ownership interests in the 2026A Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the 2026A Bonds, the principal, the redemption premium, if any, and interest on the 2026A Bonds will be made as described in “APPENDIX D – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM.”

This cover page contains information for general reference only. Potential purchasers are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

The 2026A Bonds are offered when, as, and if delivered to and received by the Underwriters, subject to the approval of legality by Heather Ferbert, City Attorney of the City, and by Hawkins Delafield & Wood LLP, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Authority by Hawkins Delafield & Wood LLP, for the Authority and the City by Heather Ferbert, City Attorney, and by Orrick, Herrington & Sutcliffe LLP as counsel to the Underwriters. In connection with the issuance of the 2026A Bonds, Hawkins Delafield & Wood LLP is serving as Disclosure Counsel to the Authority. Public Resources Advisory Group, is serving as Municipal Advisor to the Authority with respect to the 2026A Bonds. It is anticipated that the 2026A Bonds will be available for delivery through the facilities of DTC in New York, New York on or about July __, 2026.

RBC Capital Markets, LLC

Cabrera Capital Markets, LLC

Goldman Sachs & Co. LLC

Raymond James

Dated: July __, 2026.

*Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

MATURITY SCHEDULE
\$429,880,000*
PUBLIC FACILITIES FINANCING AUTHORITY OF
THE CITY OF SAN DIEGO
SENIOR WATER REVENUE BONDS, SERIES 2026A

Base CUSIP† No. 79730C

<u>Maturity Date (August 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP† (Suffix)</u>
2027	\$34,655,000				
2028	36,425,000				
2029	21,680,000				
2030	22,800,000				
2031	23,965,000				
2032	28,480,000				
2033	19,650,000				
2034	20,645,000				
2035	21,700,000				
2036	22,810,000				
2037	23,745,000				
2038	24,955,000				
2039	23,135,000				
2040	5,110,000				
2041	5,380,000				
2042	5,655,000				
2043	5,945,000				
2044	6,250,000				
2045	6,570,000				
2046	4,915,000				

\$28,640,000 – _____ % Series 2026A Term Bonds due August 1, 2051, Priced to Yield: _____ % CUSIP† No. _____

\$36,770,000 – _____ % Series 2026A Term Bonds due August 1, 2056, Priced to Yield: _____ % CUSIP† No. _____

* Preliminary, subject to change.

† Copyright 2026, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. CUSIP numbers have been assigned by an independent company not affiliated with the City, the Authority or the Corporation and are included solely for the convenience of the registered owners of the 2026A Bonds. The City, the Authority and the Corporation are not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the 2026A Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2026A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance and other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2026A Bonds.

No dealer, broker, salesperson or other person has been authorized by the City, the Authority, or the Corporation to give any information or to make any representations other than those contained herein, and if given or made, such other information or representation must not be relied upon as having been authorized by the City, the Authority, or the Corporation. 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 2026A Bonds by a person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the 2026A Bonds. Statements contained in this Official Statement that 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.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

The information set forth herein has been furnished by the City or otherwise derived from other sources that are believed to be reliable including, without limitation, the San Diego County Water Authority and The Metropolitan Water District of Southern California. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information in APPENDIX D – "INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM" attached hereto has been furnished by The Depository Trust Company, and no representation has been made by the Authority, the City, the Corporation or the Underwriters as to the accuracy or completeness of such information.

The information set forth herein other than that provided by the City, the Authority or the Corporation, although obtained from sources which are believed by the City to be reliable, is not guaranteed by the City, the Authority or the Corporation as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date thereof. This Official Statement is submitted with respect to the sale of the 2026A 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. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such documents and laws.

A wide variety of other information, including financial information concerning the City, is available from publications and websites of the City and others. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement, except as expressly noted.

THE 2026A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SECTION 3(A)(2) OF SUCH ACT. THE 2026A BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THE INDENTURE HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT.

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CITY OF SAN DIEGO

Mayor

Todd Gloria

City Council

(Also serves as the Board of Commissioners of the
Public Facilities Financing Authority of the City of San Diego)

Joe LaCava (*District 1*),

City Council President

Jennifer Campbell (*District 2*)

Stephen Whitburn (*District 3*)

Henry L. Foster III (*District 4*)

Marni Von Wilpert (*District 5*)

Kent Lee (*District 6*),

City Council President Pro Tem

Raul Campillo (*District 7*)

Vivian Moreno (*District 8*)

Sean Elo-Rivera (*District 9*)

City Attorney

Heather M. Ferbert

City Officials

Rolando Charvel, *Chief Financial Officer*

Kris McFadden, *Chief Infrastructure Officer*

Lisa Celaya, *Interim Public Utilities Director*

Benjamin Battaglia, *Department of Finance Director and City Comptroller*

Elizabeth Correia, *City Treasurer*

Andy Hanau, *City Auditor*

Charles Modica, *Independent Budget Analyst*

Diana Fuentes, *City Clerk*

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

Hawkins Delafield & Wood LLP

Los Angeles, California

Municipal Advisor

Public Resources Advisory Group

Los Angeles, California

Trustee

U.S. Bank Trust Company, National Association

Los Angeles, California

Verification Agent

Causey Public Finance, LLC

Denver, Colorado

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SUMMARY OF THE OFFERING

This summary is subject in all respects to more complete information contained in this Official Statement and should not be considered a complete statement of the facts material to making an investment decision. The offering of the 2026A Bonds to potential investors is made only by means of the entire Official Statement, including the cover page, the inside cover page, and the Appendices, and other documents available for review and to which reference is herein made. Capitalized terms used in this summary and not otherwise defined have the meanings given to such terms in this Official Statement.

- Issuer:** The Public Facilities Financing Authority of the City of San Diego (the “Authority”).
- Bonds Offered:** \$429,880,000* aggregate principal amount of the Authority’s Senior Water Revenue Bonds, Series 2026A (the “2026A Bonds”).
- Interest Payment Dates:** Interest on the 2026A Bonds will be payable semiannually on each February 1 and August 1, commencing on February 1, 2027.
- Security and Sources of Payment:** The 2026A Bonds are limited obligations of the Authority secured by Revenues consisting primarily of 2026 Installment Payments to be made by The City of San Diego (the “City”) to the San Diego Facilities and Equipment Leasing Corporation (the “Corporation”) under the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (the “Original Master Installment Purchase Agreement”), as amended and supplemented, including as supplemented by the 2026 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of July 1, 2026 (the “2026 Supplement” and, together with the Original Master Installment Purchase Agreement as previously amended and supplemented, the “Master Installment Purchase Agreement”), each by and between the City and the Corporation, and other assets pledged therefor under the Indenture, dated as of January 1, 2009, as amended and supplemented, including as supplemented by the Tenth Supplemental Indenture, dated as of July 1, 2026 (collectively, the “Indenture”), each by and between the Authority and U.S. Bank Trust Company, National Association, as successor in interest to U.S. Bank National Association and as successor trustee (the “Trustee”). The 2026 Installment Payments will be in amounts that are sufficient to pay the principal of and interest on the 2026A Bonds and will be assigned by the Corporation to the Authority pursuant to the Assignment Agreement. The pledge and right of payment from Net System Revenues securing the 2026 Installment Payments will be Parity (Senior) Obligations¹ under the Master Installment Purchase Agreement.

* Preliminary, subject to change.

¹ The Master Installment Purchase Agreement uses the term “Parity” in connection with obligations whose right of payment is not subordinated to the right of payment of any other obligations. For purposes of the forepart of this Official Statement, the term “Senior” will be used in place of “Parity” to clarify that the related obligations have a first priority lien on Net System Revenues and that such lien is senior to the lien of Subordinated Obligations on the Net System Revenues.

The 2026A Bonds are payable solely from and secured solely by the Revenues pledged therefor and amounts on deposit in the Bonds Payment Fund established under the Indenture. The obligation of the City to make 2026 Installment Payments under the 2026 Supplement does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the full faith and credit of the Authority, the City, the County of San Diego (the “County”), the State of California (the “State”), or any political subdivision of the State nor the taxing power of the City, the County, the State, or any political subdivision of the State is pledged to the payment of the principal of or interest on the 2026A Bonds. The Authority has no taxing power. Neither the 2026A Bonds nor the obligation of the City to make 2026 Installment Payments constitutes an indebtedness of the Authority, the City, the County, the State, or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation or restriction.

Rate Covenants:

The City has covenanted in the Master Installment Purchase Agreement to fix, prescribe, and collect rates and charges for the City’s water service, which will be at least sufficient to yield the greater of (i) Net System Revenues sufficient to pay during each Fiscal Year all Obligations (including the 2026 Installment Payments) payable in each Fiscal Year, or (ii) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service (which includes debt service on all Senior Obligations, including debt service on the 2026A Bonds, and excludes debt service on Subordinated Obligations) for such Fiscal Year. The City has also covenanted with respect to certain State Revolving Fund (“SRF”) Loans and certain loan agreements under the Water Infrastructure Finance and Innovation Act to maintain and may in the future covenant to maintain rates and revenues at levels different than those agreed under the Master Installment Purchase Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2026A BONDS – Rate Covenants.”

No Debt Service Reserve Fund:

No debt service reserve fund will be created or funded to secure the 2026A Bonds.

Additional Obligations:

The City expects to incur additional Obligations, payments with respect to which will be on parity with or subordinated to, the City’s obligation to make the 2026 Installment Payments, subject to satisfaction of the conditions specified in the Master Installment Purchase Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2026A BONDS – Issuance of Additional Bonds Under the Indenture.”

Use of Proceeds:

The proceeds of the 2026A Bonds will be used to (a) finance certain capital improvements to the City’s Water System (the “Water System”), (b) pay a portion of the Outstanding principal

of the Subordinated Water Revenue Commercial Paper Notes, Series A (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) of the Authority, which were issued to initially finance a portion of the capital improvements to the Water System, (c) subject to market conditions, refund a portion of the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Bonds, Series 2016A, the Public Facilities Financing Authority of the City of San Diego Subordinate Water Revenue Bonds, Refunding Series 2016B, and the Public Facilities Financing Authority of the City of San Diego Senior Water Revenue Refunding Bonds, Series 2020B, and (d) pay the costs of issuance incurred in connection with the issuance of the 2026A Bonds.

Redemption: The 2026A Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See “DESCRIPTION OF THE 2026A BONDS – Redemption of 2026A BONDS” herein.

Authorized Denominations: The 2026A Bonds will be issued as registered bonds in denominations of \$5,000 and integral multiples thereof.

Form and Depository: The 2026A Bonds will be delivered solely in registered form under a global book-entry system through the facilities of DTC.

Tax Status: In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2026A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the 2026A Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code, however, interest on the 2026A Bonds is included in the “adjusted financial statement income” of certain corporations that are subject to the alternative minimum tax under Section 55 of the Code. In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the 2026A Bonds is exempt from personal income taxes imposed by the State of California. See “TAX MATTERS.”

Continuing Disclosure: The City will execute a Continuing Disclosure Certificate to assist the Underwriters in complying with the provisions of Rule 15c2-12, as further described in “CONTINUING DISCLOSURE” herein. The form of Continuing Disclosure Certificate that the City will execute is attached as APPENDIX C hereto.

Risk Factors: The purchase and ownership of the 2026A Bonds involves investment risks. Prospective purchasers of the 2026A Bonds should read this Official Statement in its entirety. For a

discussion of certain risks relating to the 2026A Bonds, see
“RISK FACTORS.”

Ratings:

Fitch: “AA-”

Moody’s: “Aa3” See “RATINGS” herein.

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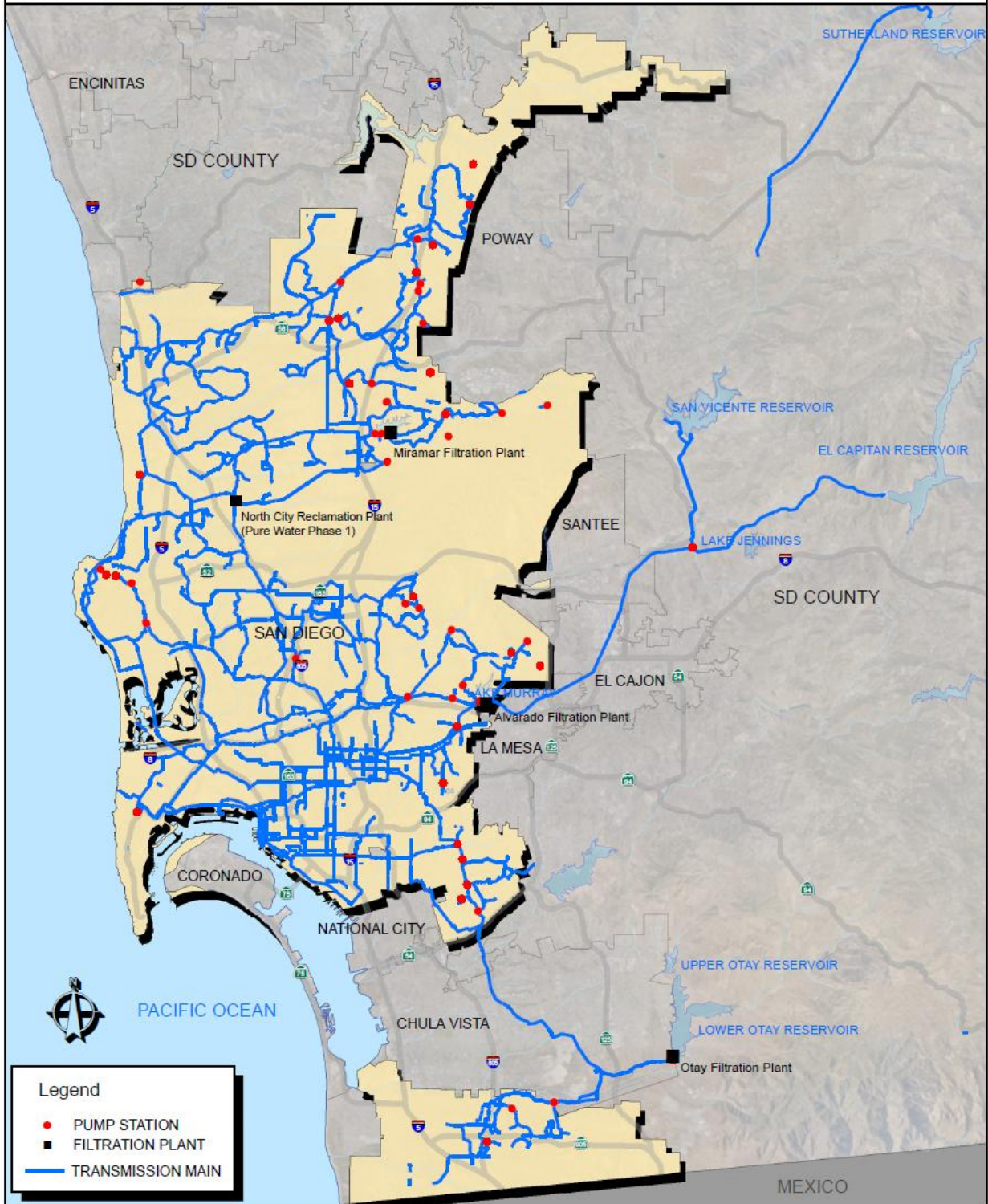
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City of San Diego Water System

Existing Facilities



OFFICIAL STATEMENT
\$429,880,000*
PUBLIC FACILITIES FINANCING AUTHORITY OF
THE CITY OF SAN DIEGO
SENIOR WATER REVENUE BONDS, SERIES 2026A
(Payable Solely from Installment Payments
Secured by Net System Revenues of the Water Utility Fund)

INTRODUCTION

This introduction is not a summary 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, the inside cover page and appendices hereto and the documents described herein. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to and summaries of the laws of the State of California and any documents, reports, and other instruments referred to herein do not purport to be complete and such references are qualified in their entirety by reference to each such law, document, report or instrument. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Indenture or the Master Installment Purchase Agreement, each as defined herein. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture” and “– Amended and Restated Master Installment Purchase Agreement.”

General

The \$429,880,000* Public Facilities Financing Authority of The City of San Diego Senior Water Revenue Bonds, Series 2026A (Payable Solely from Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “2026A Bonds”) are being issued by the Public Facilities Financing Authority of the City of San Diego (the “Authority”) pursuant to the Government Code of the State of California (the “Government Code”) and the Indenture, dated as of January 1, 2009 (the “Original Indenture”), as amended and supplemented by the First Supplemental Indenture, dated as of June 1, 2009, the Second Supplemental Indenture, dated as of June 1, 2010, the Third Supplemental Indenture, dated as of April 1, 2012, the Fourth Supplemental Indenture, dated as of June 1, 2016, the Fifth Supplemental Indenture, dated as of January 1, 2017, the Sixth Supplemental Indenture, dated as of December 1, 2018, the Seventh Supplemental Indenture, dated as of May 1, 2020, the Eighth Supplemental Indenture, dated as of April 1, 2023, the Ninth Supplemental Indenture, dated as of August 1, 2025, and the Tenth Supplemental Indenture, dated as of July 1, 2026 (the “Tenth Supplemental Indenture”), each by and between the Authority and U.S. Bank Trust Company, National Association, as successor in interest to U.S. Bank National Association and as successor trustee (the “Trustee”). The Original Indenture as heretofore amended and supplemented, including by the Tenth Supplemental Indenture, is referred to herein as the “Indenture.”

The proceeds of the 2026A Bonds will be used to (a) finance certain capital improvements to the Water System (the “Water System”) of The City of San Diego (the “City”), (b) pay a portion of the Outstanding principal of the Subordinated Water Revenue Commercial Paper Notes, Series A (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) of the Authority, which were issued to initially finance a portion of the capital improvements to the Water System, (c) subject to market conditions, refund a portion of the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Bonds, Series 2016A (the “2016A Subordinated Bonds”), the Public Facilities Financing Authority of the City of San Diego Subordinate Water Revenue Bonds, Refunding Series 2016B (the “2016B Subordinated Bonds” and, together with the 2016A Subordinated Bonds, the “2016 Subordinated Bonds”), and the Public Facilities Financing Authority of the

* Preliminary, subject to change.

City of San Diego Senior Water Revenue Refunding Bonds, Series 2020B (the “2020B Senior Bonds”), and (d) pay the costs of issuance incurred in connection with the issuance of the 2026A Bonds. See “PLAN OF FINANCE.”

The 2026A Bonds

The 2026A Bonds will bear interest at the respective rates set forth on the inside cover page hereof. Interest on the 2026A Bonds will accrue from the date of delivery of the 2026A Bonds and is payable on February 1 and August 1 of each year, commencing on February 1, 2027.

The 2026A Bonds are being issued only in fully-registered form in denominations of \$5,000 and any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company (“DTC”). DTC will act as securities depository for the 2026A Bonds. Ownership interests in the 2026A Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the 2026A Bonds, the principal, the redemption premium, if any, and interest on the 2026A Bonds will be made as described in “APPENDIX D – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM.”

Security and Sources of Payment for the 2026A Bonds

The 2026A Bonds are Senior Bonds under the Indenture that are secured by a pledge of Revenues. “Revenues” consist of Installment Payments that are Senior* Obligations received by or due to the San Diego Facilities and Equipment Leasing Corporation (the “Corporation”) pursuant to the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (the “Original Master Installment Purchase Agreement”), by and between the City and the Corporation, as amended and supplemented, including as amended by the First Amendment to Amended and Restated Master Installment Purchase Agreement, dated as of November 14, 2018, each by and between the City and the Corporation, as supplemented by the Collateral Agency, Account and Assignment Agreement, dated as of November 14, 2018 (the “Collateral Agency Agreement”), by and among the City, the Corporation, the Authority, the United States Environmental Protection Agency (the “EPA”), acting by and through the Administrator of the Environmental Protection Agency (the “WIFIA Lender”), and U.S. Bank Trust Company, National Association, as successor in interest to U.S. Bank National Association and as successor collateral agent (the “Collateral Agent”) under the Collateral Agency Agreement and as Trustee under the Indenture, and as supplemented by the 2026 Supplement to the Amended and Restated Master Installment Purchase Agreement, dated as of July 1, 2026 (the “2026 Supplement” and, together with the Original Master Installment Purchase Agreement, as previously amended and supplemented, the “Master Installment Purchase Agreement”), by and between the City and the Corporation.

The 2026A Bonds are limited obligations of the Authority secured by Revenues and other assets pledged therefor under the Indenture. The Revenues will consist primarily of 2026 Installment Payments (as defined herein) to be made by the City to the Corporation under the 2026 Supplement. The 2026 Installment Payments will be assigned by the Corporation to the Authority pursuant to the Assignment Agreement, dated as of July 1, 2026 (the “Assignment Agreement”), by and between the Corporation and the Authority, which provides for the granting, sale, assignment and transfer by the Corporation to the Authority, for the benefit of the Owners of the 2026A Bonds, all of the Corporation’s right, title, and interest in and to the 2026 Supplement. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2026A BONDS.”

* The Master Installment Purchase Agreement uses the term “Parity” in connection with obligations whose right of payment is not subordinated to the right of payment of any other obligations. For purposes of the forepart of this Official Statement, the term “Senior” will be used in place of “Parity” to clarify that the related obligations have a first priority lien on Net System Revenues and that such lien is senior to the lien of Subordinated Obligations on the Net System Revenues.

The Master Installment Purchase Agreement provides for the payment by the City of Senior Obligations and Subordinated Obligations in amounts sufficient to make payments of the principal of and interest on Bonds of the Authority. The 2026 Supplement provides for the payment by the City of Installment Payments (the “2026 Installment Payments”), which are Senior Obligations under the Master Installment Purchase Agreement, in amounts sufficient to make payments of the principal of and interest on the 2026A Bonds. The 2026 Installment Payments securing payment of the 2026A Bonds are payable from Net System Revenues on a basis that is on parity with the right of payment by the City of its Senior Obligations, which may be incurred from time to time under the Master Installment Purchase Agreement, and is senior to the right of payment by the City of its Subordinated Obligations under the Master Installment Purchase Agreement. See “Outstanding Senior Obligations and Subordinated Obligations” below.

Pursuant to the Collateral Agency Agreement, Net System Revenues are deposited into accounts established thereunder for the purposes set forth therein, including, the payment of amounts due under Senior Obligations and/or Subordinated Obligations, as the context requires (collectively, the “Secured Obligations”), and the Collateral Agent is appointed agent to enforce the rights of holders of or lenders under the Secured Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2026A BONDS” and “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Collateral Agency, Account and Assignment Agreement.”

The 2026A Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues pledged therefor and amounts on deposit in the Bonds Payment Fund established under the Indenture. The obligation of the City to make 2026 Installment Payments under the 2026 Supplement does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the full faith and credit of the Authority, the City, the County of San Diego (the “County”), the State of California (the “State”), or any political subdivision of the State nor the taxing power of the City, the County, the State, or any political subdivision of the State is pledged to the payment of the principal of or interest on the 2026A Bonds. The Authority has no taxing power. Neither the 2026A Bonds nor the obligation of the City to make 2026 Installment Payments constitutes an indebtedness of the Authority, the City, the County, the State, or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation or restriction.

Rate Covenants

The City has covenanted in the Master Installment Purchase Agreement to fix, prescribe, and collect rates and charges for the City’s water service (as described below, the “Water Service”), which will be at least sufficient to yield the greater of (i) Net System Revenues sufficient to pay during each “Fiscal Year” (being the period that begins on July 1 of each year and ends on June 30 of the following year) all Obligations (including the 2026 Installment Payments) payable in such Fiscal Year, or (ii) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service (which includes debt service on all Senior Obligations, including debt service on the 2026A Bonds, and excludes debt service on Subordinated Obligations) for such Fiscal Year. The Water Service rendered by the City includes the collection, conservation, production, storage, treatment, transmission, furnishing, and distribution services made available or provided by the Water System.

The City has also agreed to rate covenants in connection with its SRF Loans (which consist of Senior Obligations and a Subordinated Obligation) and WIFIA Loans (which are Subordinated Obligations), subject to the conditions set forth in the WIFIA Loans (each of the SRF Loans and WIFIA Loans are hereinafter defined and are collectively referred to herein as the “State and Federal Loans”). The covenants made in connection with the SRF Loans, the WIFIA Loans and any additional loans, are not made for the benefit of the Owners of the 2026A Bonds and Owners of the 2026A Bonds do not have a

right to enforce such covenants. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2026A BONDS – Rate Covenant.” For information on the possible limitation on the City’s ability to comply with the rate covenant as a consequence of Proposition 218 (as defined herein), see “RISK FACTORS – Rate-Setting Process Under Proposition 218” and “CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIC” and “– Article XIID.”

Redemption of the 2026A Bonds

The 2026A Bonds are subject to redemption prior to maturity as described herein. See “DESCRIPTION OF THE 2026A Bonds – Redemption of 2026A Bonds.”

No Debt Service Reserve Fund for the 2026A Bonds

No debt service reserve fund will be created or funded to secure the 2026A Bonds. Debt service reserve funds were created in connection with the incurrence of certain of the City’s Obligations. Amounts on deposit in, or to be on deposit in, such debt service reserve funds are not available to secure the 2026A Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2026A BONDS – No Debt Service Reserve Fund for the 2026A Bonds.”

Outstanding Senior Obligations and Subordinated Obligations

The 2026 Installment Payments securing payment of the 2026A Bonds are payable from Net System Revenues on a basis that is on parity with the right of payment by the City of Senior Obligations incurred and to be incurred under the Master Installment Purchase Agreement. Senior Obligations consist of Senior Bonds and Senior Drinking Water SRF Loans (the “Senior SRF Loans”) which are provided by the State Water Resources Control Board (the “State Water Board”). As of June 16, 2026, prior to the refunding described herein with proceeds of the 2026A Bonds (see “PLAN OF FINANCE – Refunded Bonds”), there was \$780,446,314 aggregate principal amount of Outstanding Senior Obligations that are payable from Net System Revenues, consisting of \$709,640,000 principal amount of the Senior Water Revenue Bonds, Series 2020A (the “2020A Senior Bonds”), the 2020B Senior Bonds (together with the 2020A Senior Bonds, the “2020 Senior Bonds”), the Senior Water Revenue Bonds, Series 2023A (the “2023A Senior Bonds”), the Senior Water Revenue Bonds, Series 2025A (the “2025A Senior Bonds”), and \$70,806,314 principal amount of Senior SRF Loans. The Outstanding Senior Obligations principal amount does not include the \$231,406,878 that remains to be drawn under certain Senior SRF Loans. See Table 20 – “OUTSTANDING DEBT.”

Subordinated Obligations consist of Subordinated Bonds, Commercial Paper Notes, Water Infrastructure Finance and Innovation Act (“WIFIA”) Loans which are provided by the EPA, and one Subordinated Drinking Water SRF Loan (the “Subordinated SRF Loan”). As of June 16, 2026, prior to the refunding described herein with proceeds of the 2026A Bonds (see “PLAN OF FINANCE – Refunded Bonds”), there was \$1,283,570,396 aggregate principal amount of Outstanding Subordinated Obligations that are payable from Net System Revenues, consisting of \$519,190,000 aggregate principal amount of the 2016A Subordinated Bonds, the 2016B Subordinated Bonds and the Subordinated Water Revenue Bonds, Series 2018A (the “2018A Subordinated Bonds”), \$129,540,000 aggregate principal amount of Commercial Paper Notes, \$610,000,000 outstanding under the EPA’s initial loan to the City (the “2020 WIFIA Loan”) pursuant to the Water Infrastructure Finance and Innovation Act (“WIFIA”) and the 2020 WIFIA Loan Agreement (the “2020 WIFIA Loan Agreement”), and \$24,397,048 outstanding under the EPA’s second loan to the City (the “2021 WIFIA Loan” and, together with the 2020 WIFIA Loan, the “WIFIA Loans”) pursuant to WIFIA and the 2021 WIFIA Loan Agreement (the “2021 WIFIA Loan Agreement” and, together with the 2020 WIFIA Loan Agreement, the “WIFIA Loan Agreements”), and \$443,348 outstanding under a subordinated SRF Loan with the State Water Board (the “Subordinated SRF Loan”) to finance the City’s Lead Service Line Replacement Inventory & Investigation project. See Table 20 – “OUTSTANDING DEBT.” See also “PLAN OF FINANCE – Payment of Commercial Paper Notes and Capital Expenditures” and “– Refunded Bonds” for a description of the repayment of the Commercial

Paper Notes and the refunding of a portion of the 2016A Subordinated Bonds and the 2016B Subordinated Bonds to be effected with proceeds of the 2026A Bonds. Under the Indenture, the aggregate principal amount of Commercial Paper Notes Outstanding at any time may not exceed \$250,000,000. Pursuant to the 2020 WIFIA Loan, the EPA agreed to assist in the financing of up to \$614,000,000 of certain improvements to the Water System in connection with the herein described Pure Water Program Phase 1. The Outstanding Subordinated Obligations principal amount does not include the \$95,102,952 that remains to be drawn under the WIFIA Loans and the \$5,026,732 that is available to be drawn under the Subordinated SRF Loan, as of June 16, 2026. See “PLAN OF FINANCE,” “SECURITY AND SOURCES OF PAYMENT FOR THE 2026A BONDS – Senior Obligations” and “– Subordinated Obligations” and “WATER SYSTEM FINANCIAL OPERATIONS – Outstanding Indebtedness.”

Additional Obligations

Pursuant to the Master Installment Purchase Agreement, the City may and expects to incur additional Obligations, payments with respect to which will be on parity with or subordinate to the City’s obligation to make 2026 Installment Payments, subject to satisfaction of the conditions specified in the Master Installment Purchase Agreement. In addition, the loan agreements executed by the City in connection with certain of the SRF Loans and the WIFIA Loans provide for additional requirements for the incurrence of additional Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2026A BONDS – Incurrence of Additional Obligations,” “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan,” and “WATER SYSTEM FINANCIAL OPERATIONS – Anticipated Additional Obligations.”

The City of San Diego

The City, with a total population of approximately 1.42 million as of January 1, 2026 and a land area of approximately 326 square miles, is the eighth largest city in the nation by population, and the second largest city by population (and land area) in California. The City is the county seat for the County of San Diego. Major components of the City’s diversified economy include defense, tourism, biotechnology/biosciences, financial and business services, software and telecommunications. The City’s economic base is also anchored by higher education and major scientific research institutions, including the University of California, San Diego, San Diego State University, Scripps Research Institute, the Salk Institute for Biological Studies, and the San Diego Supercomputer Center.

The City was incorporated in 1850. The City operates under and is governed by the laws of the State and the City Charter, as periodically amended since its adoption by the electorate in 1931. The City has been operating under a “Strong Mayor” form of government since January 1, 2006. Under the Strong Mayor form of government, the Mayor is the Chief Executive Officer of the City and has direct oversight over all City functions and services except for the City Council, Personnel, City Clerk, Independent Budget Analyst, Ethics Commission, City Attorney and City Auditor’s departments.

The Water System

The City owns the Water System and operates the Water System through the Public Utilities Department (the “Department”). The City has expanded the Water System from time to time to provide safe, reliable water in an efficient, cost-effective and environmentally responsible manner. See “WATER SYSTEM ORGANIZATION AND MANAGEMENT,” “WATER SYSTEM SERVICE AREA AND FACILITIES,” “WATER SUPPLY,” “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM,” and “WATER SYSTEM FINANCIAL OPERATIONS.”

The Corporation

The Corporation is a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State. The Corporation was organized to acquire, lease, and/or sell to the City real and personal property to be used in the municipal operations of the City. The Corporation was formed at

the request of the City to assist in financings such as the installment purchase financing described herein and is governed by its own Board of Directors. The Corporation is prohibited from engaging in any business or activities other than those incidental to its sole purpose, and no part of its net earnings may accrue to the benefit of any person or entity other than the City.

The Corporation has no liability to the owners or Beneficial Owners of any 2026A Bonds, and has pledged none of its moneys, funds or assets to any Installment Payments including, without limitation, the 2026 Installment Payments or any payments under the 2026A Bonds. Pursuant to the Assignment Agreement, the Corporation has assigned its right to receive the 2026 Installment Payments to the Authority.

The Authority

The Authority is a California joint exercise of powers authority established pursuant to the Third Amended and Restated Joint Exercise of Powers Agreement, dated as of January 1, 2013, by and among the City, the City solely in its capacity as the designated successor agency (the “Successor Agency”) to the former Redevelopment Agency of the City of San Diego (the “Former RDA”), and the Housing Authority of the City of San Diego (the “Housing Authority”). The Authority is organized, in part, to finance certain public capital improvements of the City, the Successor Agency or the Housing Authority.

Except as provided in the Indenture, the Authority has no liability to the owners or Beneficial Owners of any of the 2026A Bonds and has pledged none of its moneys, funds or assets toward the payment of any amount due in connection with the 2026A Bonds. The Indenture provides that the Authority transfers, conveys and assigns to the Trustee, for the benefit of the Owners, all of the Authority’s rights under the Master Installment Purchase Agreement, including the right to receive the 2026 Installment Payments from the City, the right to receive any proceeds of insurance maintained thereunder or any condemnation award rendered with respect to the related Components, and the right to exercise any remedies provided therein in the event of a default by the City under the Master Installment Purchase Agreement.

The Authority is governed by its own Board of Commissioners consisting of the members of the San Diego City Council. The Authority is dependent upon the officers and employees of the City to administer its programs.

Forward-Looking Statements

Certain statements, tables and charts included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements, tables and charts are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget,” “project” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Further, the Authority has not verified and assumes no responsibility for any forward-looking statements included herein and attributed to any third party including The Metropolitan Water District of Southern California (“MWD”) and the San Diego County Water Authority (“CWA”). See “WATER SYSTEM ORGANIZATION AND MANAGEMENT.” The Authority is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

PLAN OF FINANCE

General

The proceeds of the 2026A Bonds will be used to (a) finance certain capital improvements to the Water System, (b) pay a portion of the Outstanding principal of the Commercial Paper Notes, (c) subject to market conditions, refund a portion of the 2016A Subordinated Bonds (the refunded portion thereof being referred to herein as the “2016A Refunded Bonds”), the 2016B Subordinated Bonds (the refunded portion thereof being referred to herein as the “2016B Refunded Bonds”) and the 2020B Senior Bonds (the refunded portion thereof being referred to herein as the “2020B Refunded Bonds”), and (d) pay the costs of issuance incurred in connection with the issuance of the 2026A Bonds.

Payment of Commercial Paper Notes and Capital Expenditures

The following tables set forth the components of the Project (as defined in the Master Installment Purchase Agreement) that were funded with the proceeds of the Commercial Paper Notes and the additional components expected to be financed with a portion of the proceeds of the 2026A Bonds. See “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Description of Major Projects.”

Project Type	Capital Expenditures Funded by Commercial Paper Notes
Water Pipelines – Distribution	\$82,819,000
Water Pipelines – Transmission	26,878,000
Water Treatment Plants	77,000
Pump Stations	1,423,000
Water Storage Facilities	15,000
Total	\$111,212,000

Project Type	Projected Near-Term Capital Expenditures to be funded by the 2026A Bonds
Water Pipelines – Distribution	\$21,438,000
Water Pipelines – Transmission	6,958,000
Water Treatment Plants	20,000
Pump Stations	368,000
Water Storage Facilities	4,000
Total	\$28,788,000

To facilitate payment of the Commercial Paper Notes, on the date of issuance of the 2026A Bonds, a portion of the proceeds of the sale of the 2026A Bonds will be deposited with the Issuing and Paying Agent of the Commercial Paper Notes and held for payment of the Commercial Paper Notes as they mature. Amounts on deposit with the Issuing and Paying Agent of the Commercial Paper Notes will not be available for the payment of debt service on the 2026A Bonds.

Refunded Bonds*

A portion of the proceeds of the 2026A Bonds will be used to (i) redeem the 2016A Refunded Bonds and the 2016B Refunded Bonds. A portion of the proceeds of the 2026A Bonds will also be used to pay when due the principal of and interest on the 2020B Refunded Bonds on their respective maturity dates. The 2020B Refunded Bonds to be paid at their maturity and the 2016A Refunded Bonds and the 2016B

* Preliminary, subject to change.

Refunded Bonds to be redeemed on the redemption date described below are collectively referred to herein as the “Refunded Bonds.”

Principal of and interest on the Refunded Bonds will be paid from the proceeds of the 2026A Bonds. Such amounts will be deposited into an escrow fund (the “Refunded Bonds Escrow Fund”) to be created and maintained by U.S. Bank Trust Company, National Association, as escrow agent (the “Refunded Bonds Escrow Agent”), pursuant to an Escrow Agreement, dated as of July 1, 2026 (the “Refunded Bonds Escrow Agreement”), by and between the Authority and the Refunded Bonds Escrow Agent. Amounts deposited in the Refunded Bonds Escrow Fund will be invested in Federal Securities such that the principal of and investment earnings on such investments will be sufficient to (i) redeem the 2016A Refunded Bonds and the 2016B Refunded Bonds, which will be called for redemption on August 1, 2026 (the “Redemption Date”), at the redemption price of 100% (expressed as a percentage of the principal amount of such Refunded Bonds called for redemption) (the “Redemption Price”) plus accrued interest to the Redemption Date and (ii) pay when due the principal of and interest on the 2020B Refunded Bonds on their respective maturity dates.

Depending on market conditions on the date of pricing of the 2026A Bonds, the Refunded Bonds will be comprised of all or a portion of the following:

2016A Refunded Bonds

Maturity Date (August 1)	Original Principal Amount	Principal Amount to be Refunded	Interest Rate	Redemption Date	Original CUSIP No. (79730C)	Refunded Bonds CUSIP No. (79730C)	Not Refunded Bonds CUSIP No. (79730C)
2027	\$1,045,000	\$ 915,000	5.000%	August 1, 2026	FS8		
2028	1,095,000	960,000	5.000	August 1, 2026	FT6		
2029	1,150,000	1,010,000	5.000	August 1, 2026	FU3		
2030	1,210,000	1,060,000	5.000	August 1, 2026	FV1		
2031	1,275,000	1,115,000	5.000	August 1, 2026	FW9		
2032	1,340,000	1,175,000	5.000	August 1, 2026	FX7		
2033	1,410,000	1,235,000	5.000	August 1, 2026	FY5		
2034	1,480,000	1,295,000	5.000	August 1, 2026	FZ2		
2035	1,555,000	1,365,000	5.000	August 1, 2026	GA6		
2036	1,635,000	1,435,000	5.000	August 1, 2026	GB4		
2041	1,270,000	1,110,000	4.000	August 1, 2026	GC2		
2041	8,240,000	7,215,000	5.000	August 1, 2026	GE8		
2045	9,475,000	8,305,000	5.000	August 1, 2026	GD0		

[Remainder of page left intentionally blank.]

2016B Refunded Bonds

Maturity Date (August 1)	Principal Amount	Interest Rate	Redemption Date	CUSIP No. (79730C)
2027	\$30,560,000	5.000%	August 1, 2026	GS7
2028	32,120,000	5.000	August 1, 2026	GT5
2029	12,960,000	5.000	August 1, 2026	GU2
2030	13,630,000	5.000	August 1, 2026	GV0
2031	14,330,000	5.000	August 1, 2026	GW8
2032	15,060,000	5.000	August 1, 2026	GX6
2033	15,835,000	5.000	August 1, 2026	GY4
2034	16,645,000	5.000	August 1, 2026	GZ1
2035	17,500,000	5.000	August 1, 2026	HA5
2036	18,395,000	5.000	August 1, 2026	HB3
2037	19,340,000	5.000	August 1, 2026	HC1
2038	20,330,000	5.000	August 1, 2026	HD9
2039	18,270,000	5.000	August 1, 2026	HE7

2020B Refunded Bonds

Maturity Date (August 1)	Original Principal Amount	Principal Amount to be Refunded	Interest Rate	Payment Date	Original CUSIP No. (79730C)	Refunded Bonds CUSIP No. (79730C)	Not Refunded Bonds CUSIP No. (79730C)
2026	\$8,640,000	\$ 600,000	1.903%	August 1, 2026	JK1		
2027	8,815,000	8,815,000	2.003	August 1, 2027	JL9		
2028	8,995,000	8,995,000	2.053	August 1, 2028	JM7		
2029	9,185,000	9,185,000	2.133	August 1, 2029	JN5		
2030	9,385,000	9,385,000	2.183	August 1, 2030	JP0		
2031	9,595,000	9,595,000	2.283	August 1, 2031	JQ8		
2032	9,825,000	9,825,000	2.333	August 1, 2032	JR6		

Upon deposit of the Federal Securities pursuant to the Refunded Bonds Escrow Agreement, the Refunded Bonds will be deemed to have been paid in accordance with the defeasance provisions of the Indenture. Causey Public Finance, LLC, a firm of independent certified public accountants, will verify the arithmetical computations used to determine the sufficiency of the deposits into each of the appropriate accounts. See "Verification of Mathematical Computations" herein.

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ESTIMATED SOURCES AND USES OF BOND PROCEEDS

The following table details the sources and uses of the proceeds of the sale of the 2026A Bonds.

Sources:

Principal Amount	\$
Original Issue Premium	
Total Sources	\$

Uses:

Acquisition Fund	\$
Pay Commercial Paper Notes	
Refunded Bonds Escrow Fund ⁽¹⁾	
Pay Costs of Issuance ⁽²⁾	
Total Uses	\$

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- (1) Represents amount deposited in the Refunded Bonds Escrow Fund at closing, which will be invested in Federal Securities as described under the heading “PLAN OF FINANCE – General.”
 - (2) Costs of Issuance for the 2026A Bonds, including all eligible costs of issuing the 2026A Bonds, including fees of Bond Counsel and Disclosure Counsel, the Municipal Advisor, the Trustee, the verification agent, the rating agencies and the printer, the underwriters’ discount, and other miscellaneous expenses.

DESCRIPTION OF THE 2026A BONDS

General

The 2026A Bonds will be issued as fully-registered bonds in denominations of \$5,000 and any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company (“DTC”). DTC will act as securities depository for the 2026A Bonds. Ownership interests in the 2026A Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the 2026A Bonds, principal of, redemption premium, if any, and interest on the 2026A Bonds will be made as described in “APPENDIX D – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM.”

The 2026A Bonds will bear interest at the respective rates set forth on the inside cover page hereof. Interest on the 2026A Bonds will accrue from the date of delivery of the 2026A Bonds and is payable on February 1 and August 1 of each year, commencing on February 1, 2027. Interest on the 2026A Bonds shall be calculated on the basis of a 360-day year, comprised of twelve 30-day months. Interest coming due on a date that is not a Business Day shall be payable on the immediately following Business Day.

Redemption of 2026A Bonds*

Optional Redemption for the 2026A Bonds. The 2026A Bonds maturing on or before August 1, 20__ will not be subject to optional redemption prior to their respective stated maturity dates. The 2026A Bonds maturing on and after August 1, 20__ shall be subject to redemption, in whole or in part, at the option of the Authority (upon the direction of the City), on or after August 1, 20__, at any time, from and to the extent of prepaid 2026 Installment Payments paid pursuant to the 2026 Supplement, at a redemption price equal to the principal amount of 2026A Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The 2026A Bonds maturing on August 1, 20__ (the “2026A Term Bonds Maturing 20__”) are subject to mandatory sinking fund redemption, with sinking

* Preliminary, subject to change.

account payments payable on August 1 in each of the years, at a redemption price of par, plus interest accrued to the date fixed for redemption, in the principal amounts as follows:

2026A Bonds Maturing August 1, 20__

Sinking Fund Payment Dates (August 1)	Principal Amount
†	\$

† Maturity.

The 2026A Bonds maturing on August 1, 20__ (the “2026A Term Bonds Maturing 20__”) are subject to mandatory sinking fund redemption, with sinking account payments payable on August 1 in each of the years, at a redemption price of par, plus interest accrued to the date fixed for redemption, in the principal amounts as follows:

2026A Bonds Maturing August 1, 20__

Sinking Fund Payment Dates (August 1)	Principal Amount
†	\$

† Maturity.

The Authority may credit against any sinking account payment requirement 2026A Term Bonds or portions thereof which are of the same maturity as the 2026A Term Bonds subject to redemption and which, prior to said date, have been purchased with funds, other than moneys in a Sinking Account, at public or private sale or redeemed and cancelled by the Authority and not theretofore applied as a credit against any mandatory sinking account payment requirement.

Notice of Redemption. So long as DTC is acting as securities depository for the 2026A Bonds, notice of redemption, containing the information required by the Indenture, will be mailed by first class mail, postage prepaid, by the Trustee to DTC (not to the Beneficial Owners of any 2026A Bonds designated for redemption) not more than 60 days nor less than 30 days prior to the redemption date and shall state the date of such notice, the redemption price (including the name and appropriate address of the Trustee), and, in the case of 2026A Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said 2026A Bonds the principal amount thereof and, in the case of a 2026A Bond to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date, interest thereon shall cease to accrue, and shall require that such 2026A Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Notice of redemption may be conditioned upon the occurrence of future events, including but not limited to the issuance of refunding bonds, and may be given and rescinded by the Trustee prior to the redemption date, upon written instruction of the Authority.

Selection for Redemption. If less than all of the Outstanding 2026A Bonds are to be redeemed prior to maturity, the Authority (at the direction of the City) shall select the specific maturity and interest rate (or maturities of bonds and interest rates) of 2026A Bonds, or portions thereof equal to \$5,000 or any integral multiple thereof, including any specified reduction in any sinking account payments required to be made with respect to such Outstanding 2026A Bonds, to be redeemed. If less than all of the 2026A Bonds of like maturity are to be redeemed and the Authority (at the direction of the City) does not make the selection described in the prior sentence, the Trustee will select the particular 2026A Bonds or portions of

2026A Bonds to be redeemed at random in such manner as the Trustee in its discretion may deem fair and appropriate.

Effect of Redemption. If notice of redemption has been duly given as provided in the Indenture and money for the payment of the redemption price of the 2026A Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice, the 2026A Bonds shall become due and payable, and from and after the date so designated, interest on the 2026A Bonds so called for redemption shall cease to accrue, and the Owners of such 2026A Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof. The insufficiency of any such notice shall not affect the sufficiency of the proceedings for redemption. If said moneys are not so available on the redemption date, such 2026A Bonds or portions thereof will continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption. If there is selected for redemption a portion of a 2026A Bond, the Authority will execute and the Trustee for that 2026A Bond will authenticate and deliver, upon the surrender of such 2026A Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the 2026A Bond so surrendered, a 2026A Bond of like maturity and interest rate in any authorized denomination.

SECURITY AND SOURCES OF PAYMENT FOR THE 2026A BONDS

Pledge of Revenues; Installment Payments

Pursuant to the Indenture, the 2026A Bonds are limited obligations of the Authority payable solely from the Revenues and amounts on deposit in the Bonds Payment Fund established under the Indenture. The term “Revenues,” as applied to the 2026A Bonds, means all 2026 Installment Payments received by or due to be paid to the Corporation pursuant to the 2026 Supplement and the interest or profits from the investment of money in the Bonds Payment Fund pursuant to the Indenture. The 2026 Installment Payments will be assigned by the Corporation to the Authority pursuant to the Assignment Agreement. To secure the pledge of the Revenues, the Authority will transfer, convey, and assign to the Trustee, for the benefit of the Owners, all of the Authority’s right to receive 2026 Installment Payments from the City. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture.”

The Water Utility Fund; Application of System Revenues

The City accounts for its water operations through an enterprise fund known as the “Water Utility Fund.” The Water Utility Fund was established pursuant to an amendment to the City Charter effective February 11, 1963, and is accounted for separately from other funds of the City. The City has agreed and covenanted in the Master Installment Purchase Agreement that all System Revenues shall be received by the City in trust and shall be deposited when and as received in the Water Utility Fund, which fund the City agrees and covenants to maintain so long as any Obligations remain unpaid, and all moneys in the Water Utility Fund shall be so held in trust and applied and used solely in the amounts, at the times and only for the purposes specified below and in the following order of priority; provided that no amount shall be transferred on any date pursuant to any clause below until amounts sufficient for all the purposes specified under the prior clauses shall have been transferred or set aside; and provided further that in the event there are insufficient Net System Revenues to make all of the payments contemplated in any one clause below, then said transfers, deposits and payments directed by such clause shall be made as nearly as practicable, pro rata, based upon the respective unpaid principal amounts of the Obligations addressed by such clause:

First, the City shall pay from the Water Utility Fund directly or as otherwise required all Maintenance and Operation Costs of the Water System;

Second, on each “Senior Obligation Interest Funding Date” (being each Senior Obligation Installment Payment Date on which the Interest Portion is due and payable under the Master Installment Purchase Agreement as well as each date on which interest is due and payable on any Senior Obligation under any other Issuing Instrument (as defined herein)) and on each other date on which the following

amounts shall be due and payable, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Interest Account (established under the Indenture as the Interest Account in connection with Senior Obligations and to distinguish the same from the Subordinated Bonds Interest Account and sometimes referred to as the Senior Bonds Interest Account) of the Payment Fund (established under the Indenture as the Payment Fund in connection with Senior Obligations and to distinguish the same from the Subordinated Bonds Payment Fund and sometimes referred to as the Senior Bonds Payment Fund), the sum of (A) an amount equal to the interest due and payable on all Senior Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Senior Bonds Interest Account on any preceding Senior Obligation Interest Funding Date;

Third, on each “Senior Obligation Principal Funding Date” (being each Senior Obligation Installment Payment Date on which the Principal Portion is due and payable under the Master Installment Purchase Agreement as well as each date on which principal or mandatory sinking fund redemptions are due and payable on any Senior Obligation under any other Issuing Instrument) and on each other date on which the following amounts shall be due and payable, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Senior Obligations Principal Account of the Senior Bonds Payment Fund, the sum of (A) an amount equal to the principal and mandatory sinking fund redemptions due and payable on all Senior Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Senior Obligations Principal Account on any preceding Senior Obligation Principal Funding Date;

Fourth, on each Senior Obligation Interest Funding Date, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in any Senior Obligations Reserve Account (if any) the amount necessary so that the balance therein equals the applicable Senior Obligations Reserve Requirement; provided that in the event of any draw on a Reserve Fund Credit Facility held in any Senior Obligations Reserve Account, there shall be deemed a deficiency in such Senior Obligations Reserve Account until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount;

Fifth, on each “Subordinated Obligation Interest Funding Date” (being each Subordinated Obligation Installment Payment Date on which the Interest Portion is due and payable under the Master Installment Purchase Agreement as well as each date on which interest is due and payable on any Subordinated Obligation under any other Issuing Instrument) and on each other date on which the following amounts shall be due and payable, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Subordinated Bonds Interest Account of the Subordinated Obligations Payment Fund, the sum of (A) an amount equal to the interest due and payable on all Subordinated Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Subordinated Bonds Interest Account on any preceding Subordinated Obligation Interest Funding Date;

Sixth, on each “Subordinated Obligation Principal Funding Date” (being each Subordinated Obligation Installment Payment Date on which the Principal Portion is due and payable under the Master Installment Purchase Agreement as well as each date on which principal or mandatory sinking fund redemptions are due and payable on any Subordinated Obligation under any other Issuing Instrument) and on each other date on which the following amounts shall be due and payable, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Subordinated Obligations Principal Account of the Subordinated Obligations Payment Fund, the sum of (A) an amount equal to the principal and mandatory sinking fund redemptions due and payable on all Subordinated Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Subordinated Obligations Principal Account on any preceding Funding Date; and

Seventh, on each Subordinated Obligation Interest Funding Date, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in any Subordinated Obligations

Reserve Account (if any) the amount necessary so that the balance therein equals the applicable Subordinated Obligations Reserve Requirement; provided that in the event of any draw on a Reserve Fund Credit Facility held in any Subordinated Obligations Reserve Account, there shall be deemed a deficiency in such Subordinated Obligations Reserve Account until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount.

After the deposits described in the preceding paragraphs have been made, any amounts thereafter remaining in the Water Utility Fund may be used for any lawful purpose of the Water System. “Issuing Instrument” means any indenture, trust agreement, loan agreement, lease, installment purchase agreement or the Installment Purchase Agreement, including any Supplement or other instrument under which Obligations are issued or created. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Pledge of Net System Revenues; Payment of Installment Payments

The Master Installment Purchase Agreement provides for the payment by the City of Senior Obligations and Subordinated Obligations in amounts sufficient to make payments of the principal of and interest on Bonds of the Authority. Pursuant to the Master Installment Purchase Agreement, including as supplemented by the Collateral Agency Agreement, all Senior Obligations, including Senior Installment Payment Obligations, shall be secured by a first priority lien on and pledge of Net System Revenues. The City grants to the Collateral Agent, for the benefit of the Holders of Senior Obligations, a first priority lien on and pledge of Net System Revenues to secure Senior Obligations. Subject to the limits described in the Master Installment Purchase Agreement, all Senior Obligations shall be of equal rank with each other without preference, priority or distinction of any Senior Obligations over any other Senior Obligations.

Pursuant to the Master Installment Purchase Agreement, including as supplemented by the Collateral Agency Agreement, all Subordinated Obligations, including Subordinated Installment Payment Obligations, shall be secured by a second priority lien on and pledge of Net System Revenues that is junior and subordinate to the lien on and pledge of Net System Revenues securing Senior Obligations. The City grants to the Collateral Agent, for the benefit of the Holders of Subordinated Obligations, a second priority lien on and pledge of Net System Revenues to secure Subordinated Obligations. All Subordinated Obligations shall be of equal rank with each other without preference, priority or distinction of any Subordinated Obligations over any other Subordinated Obligations; provided that a Subordinated Obligation that by its terms under certain circumstances can require the full amount of the Subordinated Obligation to become payable in installments over not less than five years from the triggering event shall not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Subordinated Obligation over any other Subordinated Obligation; and provided further that a Subordinated Obligation that by its terms under certain circumstances must be treated as, or becomes, a Senior Obligation shall not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Subordinated Obligation over any other Subordinated Obligation. Pursuant to the Master Installment Purchase Agreement, in the event of a declaration of acceleration by the Corporation after an Event of Default under the Master Installment Purchase Agreement, all Net System Revenues (as defined herein) received thereafter shall be applied to payment of principal of and interest on Senior Obligations prior to payment of any Subordinated Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2026A BONDS – Application of Net System Revenues and Other Amounts Under the Collateral Agency Agreement” and “ – The Collateral Agency Agreement.”

Pursuant to the Master Installment Purchase Agreement, the City agrees to make Installment Payments (including the 2026 Installment Payments) solely from Net System Revenues. The 2026 Installment Payments shall be Senior Obligations under the Master Installment Purchase Agreement and the payment of the 2026 Installment Payments shall be on parity with the 2025 Installment Payments, the 2023 Installment Payments, the 2020 Installment Payments and the Installment Payments with respect to the Senior SRF Loans, and senior to the 2016 Subordinated Installment Payments, the 2018 Subordinated

Installment Payments, Commercial Paper Note Subordinated Installment Payments and the Installment Payments with respect to the WIFIA Loans and the Subordinated SRF Loan under the Master Installment Purchase Agreement. No Owner of the Obligations shall have any right to take any action or enforce any right that has a materially adverse effect on the interests of the Owners of the Installment Payment Obligations. The City agrees to make Installment Payments solely from Net System Revenues until such time as the Purchase Price for any Components has been paid in full (or provision for the payment thereof has been made pursuant to the Master Installment Purchase Agreement).

The 2026 Supplement provides for the payment by the City of 2026 Installment Payments in amounts sufficient to make payments of the principal of and interest on the 2026A Bonds. The 2026 Installment Payments securing payment of the 2026A Bonds are payable from Net System Revenues on a basis that is on parity to the right of payment by the City of its Outstanding Senior Obligations (as defined herein) under the Master Installment Purchase Agreement and senior to the 2016A Subordinated Bonds, the 2016B Subordinated Bonds, the 2018A Subordinated Bonds, the WIFIA Loans, the Subordinated SRF Loan, and the Commercial Paper Notes.

Under the Master Installment Purchase Agreement, the City has agreed that it will not discontinue or suspend any Installment Payments (including the 2026 Installment Payments) required to be made by the City under the Master Installment Purchase Agreement, whether or not the Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced, curtailed, or terminated, in whole or in part, and such Installment Payments (including the 2026 Installment Payments) shall not be subject to reduction, whether by offset or otherwise, and will not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

The term “Net System Revenues” is defined in the Master Installment Purchase Agreement as, for any Fiscal Year, the System Revenues for such Fiscal Year, less the Maintenance and Operation Costs of the Water System for such Fiscal Year.

The term “System Revenues” is defined in the Master Installment Purchase Agreement as all income, rents, rates, fees, charges, and other moneys derived from the ownership or operation of the Water System, including, without limiting the generality of the foregoing: (a) all income, rents, rates, fees, charges, or other moneys derived by the City from the water services or facilities, and commodities or byproducts, including hydroelectric power, sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, and including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Water System by or pursuant to law, and earnings on any Reserve Fund for Obligations, but only to the extent that such earnings may be utilized under the indenture, trust agreement, loan agreement, lease, or installment purchase agreement under which the applicable Obligations are issued (each, an “Issuing Instrument”) for the payment of debt service for such Obligations; (b) standby charges and Capacity Charges derived from the services and facilities sold or supplied through the Water System; (c) the proceeds derived by the City directly or indirectly from the lease of a part of the Water System; (d) any amount received from the levy or collection of taxes that are solely available and are earmarked for the support of the operation of the Water System; (e) amounts received under contracts or agreements with governmental or private entities and designated for capital costs for the Water System; and (f) grants for maintenance and operations received from the United States of America or from the State; provided, however, that System Revenues shall not include: (1) in all cases, customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (2) the proceeds of borrowings. Notwithstanding the foregoing, there shall be deducted from System Revenues any amounts transferred into a Rate Stabilization Fund Reserve as contemplated by the Master Installment Purchase Agreement and any amounts transferred from current System Revenues to the Secondary Purchase Fund as permitted by the Master Installment Purchase Agreement. There shall be added to System Revenues any amounts transferred out of such Rate Stabilization Fund Reserve or the Secondary Purchase Fund to pay Maintenance and Operation Costs of the Water System. See “WATER SYSTEM FINANCIAL

OPERATIONS – Water Utility Fund Reserves – Rate Stabilization Fund Reserve” and “– Secondary Purchase Reserves.”

The term “Maintenance and Operation Costs of the Water System” is defined in the Master Installment Purchase Agreement as (a) any Qualified Take or Pay Obligation, and (b) the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Water System, calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of maintenance and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including administrative costs of the City attributable to the Water System, including the Project and the Master Installment Purchase Agreement, salaries and wages of employees of the Water System, payments to such employees’ retirement systems (to the extent paid from System Revenues), overhead, taxes (if any), fees of auditors, accountants, attorneys or engineers, and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations, including the Master Installment Purchase Agreement, including any amounts required to be deposited in the Rebate Fund pursuant to a Tax Certificate, and fees and expenses payable to any Credit Provider (other than in repayment of a “Credit Provider Reimbursement Obligation”), but excluding in all cases (1) depreciation, replacement, and obsolescence charges or reserves therefor, (2) amortization of intangibles or other bookkeeping entries of a similar nature, (3) costs of capital additions, replacements, betterments, extensions, or improvements to the Water System, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, (4) charges for the payment of principal of and interest on any general obligation bond heretofore or hereafter issued for Water System purposes, and (5) charges for the payment of principal of and interest on any debt service on account of any Obligation on parity with or subordinate to the Installment Payments.

The term “Obligations” is defined in the Master Installment Purchase Agreement as (i) obligations of the City for money borrowed (such as bonds, notes, or other evidences of indebtedness) or as installment purchase payments under any contract (including Installment Payments), or as lease payments under any financing lease (determined to be such in accordance with generally accepted accounting principles), the principal of and interest on which are payable from Net System Revenues; (ii) obligations to replenish any debt service reserve funds with respect to such obligations of the City; (iii) obligations secured by or payable from any of such obligations of the City; and (iv) obligations of the City payable from Net System Revenues under (a) any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, (b) any contract to exchange cash flows or a series of payments, or (c) any contract to hedge payment, currency, rate spread, or similar exposure, including, but not limited, to interest rate cap agreements.

All Senior Obligations (referred to as “Parity Obligations” in the Master Installment Purchase Agreement) are of equal rank with each other without preference, priority, or distinction of any Senior Obligations over any other Senior Obligations. The term “Senior Obligations” is defined in the Master Installment Purchase Agreement as (i) Installment Obligations (as defined herein), (ii) Obligations, the principal of and interest on which are payable on parity with Installment Obligations, and (iii) Reserve Fund Obligations. The term “Installment Obligations” is defined in the Master Installment Purchase Agreement as Obligations consisting of or payable from Installment Payments, which are not subordinated in right of payment to other Installment Payments. The term “Credit Provider” is defined in the Master Installment Purchase Agreement as any municipal bond insurance company, bank, or other financial institution or organization that is performing in all material respects its obligations under any policy of insurance, letter of credit, standby purchase agreement, revolving credit agreement, or other credit arrangement providing credit support or liquidity with respect to Senior Obligations (each, a “Credit Support Instrument”). The term “Reserve Fund Obligations” is defined in the Master Installment Purchase Agreement as the obligations of the City to pay amounts advanced under any Reserve Fund Credit Facility entered into in

accordance with the provisions of the related Issuing Instrument or Supplement, which obligations shall constitute Senior Obligations or Subordinated Obligations, as designated by the City.

Senior Obligations

The pledge and right of payment from Net System Revenues securing the 2026 Installment Payments (which, in turn, secure the payment of the 2026A Bonds) will be on parity with the pledge and right of payment from Net System Revenues securing the Senior SRF Loans, the 2020 Senior Bonds, the 2023A Senior Bonds, and the 2025A Senior Bonds Outstanding as of June 16, 2026, prior to the refunding of the 2020B Refunded Bonds with proceeds of the 2026A Bonds as described herein (see “PLAN OF FINANCE – Refunded Bonds”), in the principal amount of \$780,446,314, and any Senior Obligations hereinafter incurred by the City. The Outstanding Senior Obligations principal amount does not include the \$231,406,878 that remains to be drawn under certain Senior SRF Loans as of June 16, 2026. See “INTRODUCTION – Outstanding Senior and Subordinated Obligations” above, “WATER SYSTEM FINANCIAL OPERATIONS – Outstanding Indebtedness,” and “WATER SYSTEM FINANCIAL OPERATIONS – Anticipated Additional Obligations.” All Senior Obligations are secured by a first priority lien on and pledge of Net System Revenues.

Subordinated Obligations

The Master Installment Purchase Agreement permits the issuance of Obligations secured by a lien on and pledge of Net System Revenues, which lien and pledge is subordinate to the lien on and pledge of Net System Revenues securing Senior Obligations (each, a “Subordinated Obligation”). The pledge and right of payment from Net System Revenues securing the 2026 Installment Payments (which, in turn, secure the payment of the 2026A Bonds) will be senior to the pledge and right of payment from Net System Revenues securing Subordinated Obligations incurred in accordance with the Master Installment Purchase Agreement, including the Installment Payments securing the Subordinated Obligations Outstanding as of June 16, 2026, prior to the refunding of the 2016A Refunded Bonds and the 2016B Refunded Bonds with proceeds of the 2026A Bonds as described herein (see “PLAN OF FINANCE – Refunded Bonds”), in the principal amount of \$1,283,570,396, which includes \$129,540,000 aggregate principal amount of Commercial Paper Notes (see “PLAN OF FINANCE – Payment of Commercial Paper Notes and Capital Expenditures”), that are on parity with the other Subordinated Obligations, \$519,190,000 aggregate principal amount of Subordinated Bonds, \$610,000,000 outstanding under the 2020 WIFIA Loan, \$24,397,048 outstanding under the 2021 WIFIA Loan, \$443,348 outstanding under the Subordinated SRF Loan with the State Water Board to finance the City’s Lead Service Line Replacement Inventory & Investigation project, and any Subordinated Obligations hereinafter incurred by the City. See Table 20 – “OUTSTANDING DEBT.” The Outstanding Subordinated Obligations principal amount does not include the \$95,102,952 that remains to be drawn under the WIFIA Loans and the \$5,026,732 that is available to be drawn under the Subordinated SRF Loan. Under the Indenture, the aggregate principal amount of Commercial Paper Notes Outstanding at any time may not exceed \$250 million, as described below. See “WATER SYSTEM FINANCIAL OPERATIONS – Outstanding Indebtedness.”

In 2017, the City established the Commercial Paper Notes program and authorized the issuance of up to \$250 million in Commercial Paper Notes that are secured by Subordinated Installment Payments under the Master Installment Payment Agreement. The Commercial Paper Notes are payable from draws made under an irrevocable transferable direct-pay letter of credit (the “CP Letter of Credit”) issued by Bank of America, N.A. (the “CP Bank”). Unless extended or terminated sooner in accordance with its terms, the CP Letter of Credit has a stated maturity date of January 31, 2028. To provide credit support for the Commercial Paper Notes, the City entered into a reimbursement agreement (the “CP Reimbursement Agreement”) with the CP Bank pursuant to which the CP Bank issued the irrevocable transferable direct-pay letter of credit described above. In the event the City does not immediately reimburse the CP Bank for a drawing under the CP Letter of Credit, the City is required pursuant to the CP Reimbursement Agreement to pay all principal of and interest due to the CP Bank as a result of such drawing within three years of the

applicable date of the original drawing. Upon the happening of an event of default under the CP Reimbursement Agreement, the obligations of the City to the applicable CP Bank may become immediately due and payable. Events of default under the CP Reimbursement Agreements include, but are not limited to (i) failure to pay principal of or interest on any drawing, advance or other obligations under the CP Reimbursement Agreement, (ii) failure to perform the terms of the applicable CP Reimbursement Agreement, (iii) defaults in any payment of any Senior Obligations or Subordinated Obligations, and (iv) certain downgrades of Subordinated Obligation ratings. Any obligations of the Authority incurred pursuant to the CP Reimbursement Agreements are Subordinate Installment Payments secured by Net System Revenues of the Water Utility fund.

Application of Net System Revenues and Other Amounts under the Collateral Agency Agreement

Pursuant to the Collateral Agency Agreement, the Collateral Agent shall make the following withdrawals, transfers, and payments from the accounts established under the Collateral Agency Agreement into which Net System Revenues have been deposited by the City pursuant to the Master Installment Purchase Agreement:

(i) on each Senior Obligation Interest Payment Date and on each other date on which the following amounts shall be due and payable, the Collateral Agent shall pay to the Holders (as such term is defined in the Collateral Agency Agreement) of Senior Obligations, from the Senior Obligations Interest Account, the interest due and payable, including any amounts overdue and payable, on such date to Holders of Senior Obligations; provided that if the amount on deposit in the Senior Obligations Interest Account is insufficient therefor, the Collateral Agent shall pay each Senior Obligation Holder a Pro Rata Amount.

(ii) on each Senior Obligation Principal Payment Date and on each other date on which the following amounts shall be due and payable, the Collateral Agent shall pay to the Holders of Senior Obligations, from the Senior Obligations Principal Account, the principal and mandatory sinking fund redemptions due and payable, including any amounts overdue and payable, on such date to Holders of Senior Obligations; provided that if the amount on deposit in the Senior Obligations Principal Account is insufficient therefor, the Collateral Agent shall pay each Senior Obligation Holder a Pro Rata Amount.

(iii) on each Senior Obligation Interest Payment Date, the Collateral Agent shall transfer to the holder of each Senior Obligations Reserve Fund (if any) the amount set forth in a written direction of the City, which shall be no more than the amount necessary so that the balance therein equals the applicable Reserve Requirement; provided that if the amount on deposit in the Senior Obligations Reserve Account is insufficient therefor, the Collateral Agent shall transfer to each holder of a Senior Obligations Reserve Fund a Pro Rata Amount; and provided further that in the event of any draw on a Reserve Fund Credit Facility held in any Senior Obligations Reserve Fund, there shall be deemed a deficiency in such Senior Obligations Reserve Fund until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount.

(iv) on each Subordinated Obligation Interest Payment Date and on each other date on which the following amounts shall be due and payable, the Collateral Agent shall pay to the Holders of Subordinated Obligations, from the Subordinated Obligations Interest Account, the interest due and payable, including any amounts overdue and payable, on such date to Holders of Subordinated Obligations; provided that if the amount on deposit in the Subordinated Obligations Interest Account is insufficient therefor, the Collateral Agent shall pay each Subordinated Obligation Holder a Pro Rata Amount.

(v) on each Subordinated Obligation Principal Payment Date and on each other date on which the following amounts shall be due and payable, the Collateral Agent shall pay to the

Holders of Subordinated Obligations, from the Subordinated Obligations Principal Account, the principal and mandatory sinking fund redemptions due and payable, including any amounts overdue and payable, on such date to Holders of Subordinated Obligations; provided that if the amount on deposit in the Subordinated Obligations Principal Account is insufficient therefor, the Collateral Agent shall pay each Subordinated Obligation Holder a Pro Rata Amount.

(vi) on each Subordinated Obligation Interest Payment Date, the Collateral Agent shall transfer to the holder of each Subordinated Obligations Reserve Fund (if any) the amount set forth in a written direction of the City, which shall be no more than the amount necessary so that the balance therein equals the applicable Reserve Requirement; provided that if the amount on deposit in the Subordinated Obligations Reserve Account is insufficient therefor, the Collateral Agent shall transfer to each holder of a Subordinated Obligations Reserve Fund a Pro Rata Amount; and provided further that in the event of any draw on a Reserve Fund Credit Facility held in any Subordinated Obligations Reserve Fund, there shall be deemed a deficiency in such Subordinated Obligations Reserve Fund until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount.

“Pro Rata Amount” means, with respect to any payment to be made to a holder of a Secured Obligation from funds held by the Collateral Agent in the applicable account under the Collateral Agency Agreement, an amount equal to the total amount of funds held by the Collateral Agent in such account and available to make such payment to all holders of Secured Obligations entitled to receive such payment multiplied by the quotient of the amount of such payment due and payable on such date to such holder divided by the amount of such payment due and payable on such date to all holders entitled to receive such payment.

Nothing in the Collateral Agency Agreement or the Master Installment Purchase Agreement affects or diminishes the rights and remedies of the holders of Secured Obligations under their respective Issuing Instruments, including any right in such Issuing Instrument to accelerate amounts due under the applicable Secured Obligations. Pursuant to the Master Installment Purchase Agreement, as supplemented by the Collateral Agency Agreement, the acceleration of Subordinated Obligations may only occur after all Senior Obligations have been paid in full. Pursuant to the Indenture, so long as any Senior Bonds remain Outstanding under the Indenture, no Owners of Subordinated Bonds shall have the right to declare an Event of Default, to declare any Subordinated Bonds immediately due and payable or to direct the Trustee or waive any Event of Default. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Collateral Agency, Account and Assignment Agreement.”

Incurrence of Additional Obligations

Under the Master Installment Purchase Agreement. Pursuant to the Master Installment Purchase Agreement the City may not create any Obligations, the payments of which are senior or prior in right to the payment by the City of Senior Obligations.

Without regard to the terms of the next paragraph, the City may at any time enter into or create an obligation or commitment which is a Reserve Fund Obligation, provided that the Obligation to which the Reserve Fund Obligation relates is permitted to be entered into under the terms of the Master Installment Purchase Agreement.

The City may at any time and from time to time issue or create any other Senior Obligations, provided that:

- (1) There shall not have occurred and be continuing an Event of Default under the terms of the Master Installment Purchase Agreement, any Issuing Instrument or any Credit Support Instrument; and

(2) The City obtains or provides a certificate or certificates, prepared by the City or at the City's option by a Consultant, showing that:

- (A) the Net System Revenues as shown by the books of the City for any 12-consecutive-month period within the 18 consecutive months ending immediately prior to the incurring of such additional Senior Obligations shall have amounted to or exceeded the greater of (i) at least 1.20 times the Maximum Annual Debt Service on all Senior Obligations to be Outstanding immediately after the issuance of the proposed Senior Obligations or (ii) at least 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Senior Obligations. For purposes of preparing the certificate or certificates described above, the City or its Consultant may rely upon audited financial statements, or, if audited financial statements for the period are not available, financial statements prepared by the City that have not been subject to audit by an Independent Certified Public Accountant; or
- (B) the estimated Net System Revenues for the five Fiscal Years following the earlier of (i) the end of the period during which interest on those Senior Obligations is to be capitalized or, if no interest is to be capitalized the Fiscal Year in which the Senior Obligations are issued, or (ii) the date on which substantially all new Components to be financed with such Senior Obligations are expected to commence operations, will be at least equal to 1.20 times the Maximum Annual Debt Service for all Senior Obligations which will be Outstanding immediately after the issuance of the proposed Senior Obligations.

For purposes of the computations to be made as described in paragraph (2)(B) above, the determination of Net System Revenues:

(1) may take into account any increases in rates and charges which relate to the Water System and which have been approved by the City Council, and is required to take into account any reduction in such rates and charges which have been approved by the City Council, which will, for purposes of the test described in paragraph (2)(B) above, be effective during a Fiscal Year ending within the five-Fiscal Year period for which such estimate is being made; and

(2) may take into account an allowance for any estimated increase in such Net System Revenues from any revenue-producing additions or improvements to or extensions of the Water System to be made with the proceeds of such additional indebtedness or with the proceeds of Senior Obligations previously issued, all in an amount equal to the estimated additional average annual Net System Revenues to be derived from such additions, improvements and extensions during the five-Fiscal Year period contemplated by paragraph (2)(B) above, all as shown by such certificate of the City or its Consultant, as applicable; and

(3) for the period contemplated by paragraph (2)(B) above, Maintenance and Operation Costs of the Water System shall initially be deemed to be equal to such costs for the 12 consecutive months immediately prior to incurring such other Senior Obligations for the first Fiscal Year of the five-Fiscal Year period, but adjusted if deemed necessary by the City or its Consultant, as applicable, for any increased Maintenance and Operations Costs of the Water System which are, in the judgment of the City or such Consultant, as applicable, essential to maintaining and operating the Water System and which will occur during any Fiscal Year ending within the period contemplated by paragraph (2)(B) above.

The certificate or certificates described above in paragraph (2)(B) above may not be required if the Senior Obligations being issued are for the purpose of refunding (A) any then Outstanding Senior Obligations if at the time of the issuance of such Senior Obligations a certificate of an Authorized City Representative is required to be delivered showing that the sum of Adjusted Debt Service on all Senior Obligations Outstanding for all remaining Fiscal Years after the issuance of the refunding Senior Obligations will not exceed the sum of Adjusted Debt Service on all Senior Obligations Outstanding for all remaining Fiscal Years prior to the issuance of such refunding Senior Obligations; or (B) then Outstanding Balloon Indebtedness, Tender Indebtedness or Variable Rate Indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to or otherwise purchased pursuant to a standby purchase or other liquidity facility relating to such indebtedness.

Without regard to the provisions of the third paragraph of under “– Under the Master Installment Purchase Agreement”, if (i) no Event of Default has occurred and is continuing and (ii) no event of default or termination event attributable to an act of or failure to act by the City under any Credit Support Instrument has occurred and is continuing, the City may issue or incur Subordinated Obligations, and such Subordinated Obligations must be paid in accordance with the provisions of the Master Installment Purchase Agreement, provided that:

(1) City obtains or provides a certificate or certificates, prepared by the City or at the City’s option by a Consultant, showing that:

- (A) the Net System Revenues as shown by the books of the City for any 12-consecutive-month period within the 18 consecutive months ending immediately prior to the incurring of such additional Subordinated Obligations shall have amounted to at least 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Subordinated Obligations; or
- (B) the estimated Net System Revenues for the five Fiscal Years following the earlier of (i) the end of the period during which interest on those Subordinated Obligations is to be capitalized or, if no interest is to be capitalized, the Fiscal Year in which the Subordinated Obligations are issued; or (ii) the date on which substantially all new facilities financed with such Subordinated Obligations are expected to commence operations, will be at least equal to 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Subordinated Obligations.

(2) For purposes of preparing the certificate or certificates described in clause (1) of above, the City and its Consultant(s) may rely upon audited financial statements or, if audited financial statements for the period are not available, financial statements prepared by the City that have not been subject to audit by an Independent Certified Public Accountant,

(3) For purposes of the computations to be made as described in clause (B) above, the determination of Net System Revenues:

- (A) may take into account any increases in rates and charges which relate to the Water System and which have been approved by the City Council and must take into account any reduction in such rates and charges which have been approved by the City Council, which will, for purposes of the test described in clause (B) above, be effective during any Fiscal Year ending within the five-Fiscal Year period for which such estimate is made; and
- (B) may take into account an allowance for any estimated increase in such Net System Revenues from any revenue-producing additions or improvements

to or extensions of the Water System to be made with the proceeds of such additional indebtedness, with the proceeds of Obligations previously issued or with cash contributions made or to be made by the City, all in an amount equal to the estimated additional average annual Net System Revenues to be derived from such additions, improvements and extensions during the five –Fiscal Year period contemplated by clause (B) above, all as shown by such certificate of the City or its Consultant, as applicable; and

- (C) for the period contemplated by clause (B) above, must initially include Maintenance and Operation Costs of the Water System in an amount equal to such costs for any 12-consecutive-month period within the 24 consecutive months ending immediately prior to incurring such Subordinated Obligations for the first Fiscal Year of the five–Fiscal Year period, but adjusted if deemed necessary by the City or its Consultant, as applicable, for any increased Maintenance and Operations Costs of the Water System which are, in the judgment of the City or its Consultant, as applicable, essential to maintaining and operating the Water System and which will occur during any Fiscal Year ending within the period contemplated by clause (B) above.

(4) The certificate or certificates described above in paragraph (1) above will not be required if the Subordinated Obligations being issued are for the purpose of refunding (i) then Outstanding Senior Obligations or Subordinated Obligations if at the time of the issuance of such Subordinated Obligations a certificate of an Authorized City Representative is delivered showing that the sum of Debt Service for all remaining Fiscal Years on all Senior Obligations and Subordinated Obligations Outstanding after the issuance of the refunding Subordinated Obligations will not exceed the sum of Debt Service for all remaining Fiscal Years on all Senior Obligations and Subordinated Obligations Outstanding prior to the issuance of such refunding Subordinated Obligations; or (ii) then-Outstanding Balloon Indebtedness, Tender Indebtedness or Variable Rate Indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to or otherwise purchased by a standby purchase agreement or other liquidity facility relating to such indebtedness.

See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Amended and Restated Master Installment Purchase Agreement – System Revenues – Additional Obligations.”

Under SRF and WIFIA Loans. The City’s SRF Loans include conditions precedent to the incurrence of additional Obligations, which includes Senior Bonds. Among other things, the City has agreed pursuant to one of the Senior SRF Loans that the incurrence of additional Senior Obligations or Subordinated Obligations, as the case may be, is subject to net system revenues (as defined in the applicable SRF Loan) during any 12-consecutive-month period within the 18 consecutive months ending immediately prior to the issuance of such debt obligation being at least 110% MADS (herein defined) on all outstanding Obligations and the proposed additional debt. The SRF Loans also include other, less restrictive requirements for the incurrence of additional Obligations than as described above. In addition, the City has covenanted, pursuant to three of the Senior SRF Loans and pursuant to the Subordinated SRF Loan, to ensure that net system revenues prior to issuance of additional Senior Obligations or Subordinated Obligations will be at least 120% of maximum annual debt service on all Senior Obligations in each Fiscal Year, and at least 110% of maximum annual debt service on all Obligations in each Fiscal Year, where “maximum annual debt service” means the maximum amount of debt service due on Water System obligations, including the proposed additional debt to be outstanding, in a Fiscal Year during the period commencing with the Fiscal Year for which such calculation is made and within the next five years in which debt service for any Water System obligations will become due. See Table 20 – “OUTSTANDING

DEBT” and “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan.” These covenants will continue to apply until the respective SRF Loans have been fully repaid.

The WIFIA Loan Agreements provide that the City may incur additional Senior Obligations and additional Subordinated Obligations so long as there shall have not occurred and be continuing an Event of Default under the Master Installment Purchase Agreement, any Issuing Instrument (including the WIFIA Loan Agreements) or any Credit Support Instrument that will not be cured by the application of the proceeds of the additional Obligations, and subject to the satisfaction of certain conditions, including, (i) the City may not incur any Senior Obligations, of which any proceeds are or will be applied to project costs of the Pure Water Program Phase 1, (ii) with respect to additional Senior Obligations, provision of a certificate showing that (1) the Net System Revenues as shown by the books of the City for any 12-consecutive-month period within the eighteen (18) consecutive months ending immediately prior to the incurring of such additional Senior Obligations shall have amounted to or exceeded the greater of (I) at least 1.20 times the Maximum Annual Debt Service on all Senior Obligations to be Outstanding immediately after the issuance of the proposed additional Senior Obligations or (II) at least 1.10 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed additional Senior Obligations, or (2) the estimated Net System Revenues for the five City Fiscal Years following the earlier of (I) the end of the period during which interest on those additional Senior Obligations is to be capitalized or, if no interest is to be capitalized, the City Fiscal Year in which the additional Senior Obligations are issued, or (II) the date on which substantially all new components to be financed with such additional Senior Obligations are expected to commence operations, will be at least equal to 1.20 times the Maximum Annual Debt Service for all Senior Obligations which will be Outstanding immediately after the issuance of the proposed additional Senior Obligations, and (iii) with respect to additional Subordinated Obligations, provision of a certificate showing (a) the Net System Revenues as shown by the books of the City for any 12-consecutive-month period within the 18 consecutive months ending immediately prior to the incurring of such additional Subordinated Obligations shall have amounted to at least 1.10 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed additional Subordinated Obligations; or (b) the estimated Net System Revenues for the five City Fiscal Years following the earlier of (I) the end of the period during which interest on those additional Subordinated Obligations is to be capitalized or, if no interest is to be capitalized, the City Fiscal Year in which the additional Subordinated Obligations are issued; or (II) the date on which substantially all new facilities financed with such additional Subordinated Obligations are expected to commence operations, will be at least equal to 1.10 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed additional Subordinated Obligations. For the purposes of the computations described in this paragraph, the amounts may be adjusted as described under the heading “– Incurrence of Additional Obligations – Under the Master Installment Purchase Agreement” above.”

Further, the WIFIA Loan Agreements provide that, as a condition to the issuance of any additional Senior Obligations or additional Subordinated Obligations that constitute Variable Rate Indebtedness (other than Variable Rate Indebtedness that is commercial paper or the proceeds of which are applied to repay reimbursement obligations in respect of any letter of credit issued to support commercial paper Obligations), to the extent that such issuance would cause the principal amount of all Outstanding Variable Rate Indebtedness to exceed 25% of the principal amount of all Outstanding Senior Obligations and Subordinated Obligations, the City must enter into a Qualified Hedge with respect to such additional Obligations. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Hedges Under the WIFIA Loan Agreements.”

Rate Covenants

Master Installment Purchase Agreement. The City has covenanted in the Master Installment Purchase Agreement to fix, prescribe, and collect rates and charges for the Water Service that will be at least sufficient to yield the greater of (i) Net System Revenues sufficient to pay during each Fiscal Year all

Obligations (including the 2026 Installment Payments) payable in such Fiscal Year or (ii) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service (which does not include debt service on Subordinated Obligations) for 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 the City will not reduce the rates and charges then in effect unless the Net System Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the Master Installment Purchase Agreement. The term “Adjusted Net System Revenues” is defined in the Master Installment Purchase Agreement as, for any Fiscal Year, the Net System Revenues for such Fiscal Year, minus an amount equal to earnings from investments in any Reserve Fund securing Senior Obligations for such Fiscal Year. The term “Adjusted Debt Service” is defined in the Master Installment Purchase Agreement as, for any Fiscal Year, Debt Service on Senior Obligations for such Fiscal Year, minus an amount equal to earnings from investments in any Reserve Fund for Senior Obligations for such Fiscal Year (currently, no such Reserve Fund exists). Net System Revenues (and, therefore, Adjusted Net System Revenues) may be increased or reduced by transfers in to or out of the Rate Stabilization Fund Reserve or the Secondary Purchase Fund. See “WATER SYSTEM FINANCIAL OPERATIONS – Water Utility Fund Reserves.”

SRF Loans. The City periodically agrees to various covenants in connection with its SRF Loans, including provisions whereby the City covenants to ensure that net system revenues are equal to at least 110% of maximum annual debt service on all Obligations in each Fiscal Year, where “maximum annual debt service” means the maximum amount of debt service due on Water System obligations in a Fiscal Year during the period commencing with the Fiscal Year for which such calculation is made and terminating with the last Fiscal Year in which debt service for any Water System obligations will become due (“110% MADS”). Certain of the City’s existing SRF Loans also contain other, less restrictive covenants than those described in this paragraph or set forth in the Master Installment Purchase Agreement.

In addition, the City has covenanted, pursuant to three of the Senior SRF Loans and the Subordinated SRF Loan, to ensure that net system revenues are equal to at least 120% of maximum annual debt service on all Senior Obligations in each Fiscal Year, and at least 110% of maximum annual debt service on all Obligations in each Fiscal Year, where “maximum annual debt service” means the maximum amount of debt service due on Water System obligations in a Fiscal Year during the period commencing with the Fiscal Year for which such calculation is made and within the next five years in which debt service for any Water System obligations will become due. See Table 20 – “OUTSTANDING DEBT” and “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan.”

The City may enter into additional loans and agree to different rate covenants in connection therewith. The covenants in the agreements for the SRF Loans are not made for the benefit of the Owners of the 2026A Bonds and Owners of the 2026A Bonds do not have a right to enforce such covenants.

WIFIA Loans. In connection with the WIFIA Loans that are scheduled to be repaid in full in 2058, the City has covenanted to ensure (a) Net System Revenues are equal to at least 110% of the debt service with respect to all Outstanding Obligations (which includes the 2026 Installment Payments) for such Fiscal Year, and (b) Adjusted Net System Revenues are equal to at least 120% of the debt service with respect to all Outstanding Senior Obligations for such Fiscal Year. The City may enter into additional loans and agree to different rate covenants in connection therewith. These covenants will continue to apply until the respective WIFIA Loans have been fully repaid. The covenants in the agreements for the WIFIA Loan Agreements are not made for the benefit of the Owners of the 2026A Bonds and Owners of the 2026A Bonds do not have a right to enforce such covenants.

See “– Pledge of Net System Revenues; Payment of Installment Payments” above. For information on the possible limitation on the City’s ability to comply with its rate covenants described above as a consequence of Proposition 218, see “RISK FACTORS – Rate-Setting Process Under Proposition 218” and “CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIII C” and “– Article XIII D.” For a description of the reserve funds established by the City within the

Water Utility Fund, see “WATER SYSTEM FINANCIAL OPERATIONS – Water Utility Fund Reserves – Rate Stabilization Fund Reserve.”

The Collateral Agency Agreement

Pursuant to the Collateral Agency Agreement, the Collateral Agent shall serve as agent of the Trustee and the Owners of Secured Obligations for purposes of receiving payments of Net System Revenues from the City and making payments on Obligations from Net System Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2026A BONDS - Pledge of Net System Revenues; Payment of Installment Payments.” In addition, as provided in the Collateral Agency Agreement, the Collateral Agent shall have the right to exercise all of the rights and remedies described in the Collateral Agency Agreement, on behalf of and for the benefit of Owners of Secured Obligations and any trustee on their behalf, including the Trustee, under the First Amendment thereto, the Indenture and any other Issuing Instrument. Under the Master Installment Purchase Agreement and the Collateral Agency Agreement, the Collateral Agent (rather than the Corporation) shall have all rights, pursuant to the Master Installment Purchase Agreement, the Collateral Agency Agreement or any other Issuing Instrument, (a) as a grantee of a pledge of Net System Revenues, (b) to accelerate or otherwise declare any Obligations immediately due and payable, (c) to exercise any remedies by or on behalf of the Owners of any Obligations or otherwise with respect to the Net System Revenues following an event of default under the Master Installment Purchase Agreement, or (d) to receive and/or apply any Net System Revenues to the payment of any Obligations following an event of default under the Master Installment Purchase Agreement. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Collateral Agency, Account and Assignment Agreement.”

Payment of Bonds Under the Indenture

Senior Bonds. Pursuant to the Indenture, on or before each February 1 and August 1, and such other date as provided for in a Supplemental Indenture (each an “Interest Payment Date”), the Trustee shall transfer from the Senior Bonds Payment Fund and deposit in the Senior Bonds Interest Account that amount of money that, together with any money contained in the Senior Bonds Interest Account, equals the aggregate amount of interest becoming due and payable on all Outstanding Senior Bonds on such Interest Payment Date. No deposit need be made in the Senior Bonds Interest Account if the amount contained in the Senior Bonds Interest Account equals at least the aggregate amount of interest becoming due and payable on all Outstanding Senior Bonds on such Interest Payment Date. All money in the Senior Bonds Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Senior Bonds as it shall become due and payable (including accrued interest on any Senior Bonds redeemed prior to maturity).

On or before each Principal Payment Date, the Trustee shall transfer from the Senior Bonds Payment Fund and deposit in the Senior Bonds Principal Account that amount of money that, together with any money contained in the Senior Bonds Principal Account, equals the aggregate principal becoming due and payable on all Outstanding Senior Bonds. No deposit need be made in the Senior Bonds Principal Account if the amount contained therein is at least equal to the aggregate amount of principal becoming due and payable on Outstanding Senior Bonds. All money in the Senior Bonds Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Senior Bonds as it shall become due and payable. Within the Senior Bonds Payment Fund, there is established a special account designated the “Senior Bonds Redemption Account.” All money in the Senior Bonds Redemption Account shall be held in trust by the Trustee and shall be applied, used, and withdrawn to redeem Senior Bonds.

Any delinquent Installment Payments pledged to the Senior Bonds shall be applied first to the Senior Bonds Interest Account for the immediate payment of interest payments past due and to the Senior Bonds Principal Account for immediate payment of principal payments past due on any Senior Bond. Any remaining money representing delinquent Installment Payments pledged to Senior Bonds shall be deposited

in the Senior Bonds Payment Fund to be applied in the manner provided therein. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

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

Except to the extent that payment is made of the principal of the Commercial Paper Notes from the proceeds of Commercial Paper Notes or the proceeds of a Draw under the related Subordinated Credit Support Instrument, on or before each “Principal Payment Date” (being each August 1, each date on which Commercial Paper Notes are due and payable, and such other date as provided for in a Supplemental Indenture), the Trustee shall transfer from the Subordinated Bonds Payment Fund and deposit in the Subordinated Bonds Principal Account that amount of money that, together with any money contained in the Subordinated Bonds Principal Account, equals the aggregate principal becoming due and payable on all Outstanding Subordinated Bonds. No deposit need be made in the Subordinated Bonds Principal Account if the amount contained therein is at least equal to the aggregate amount of principal becoming due and payable on Outstanding Subordinated Bonds. All money in the Subordinated Bonds Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Subordinated Bonds as it shall become due and payable.

In addition to the above accounts, the Trustee shall establish and maintain within the Subordinated Bonds Payment Fund a special account designated the “Subordinated Bonds Redemption Account.” All money in the Subordinated Bonds Redemption Account shall be held in trust by the Trustee and shall be applied, used, and withdrawn to redeem Subordinated Bonds.

Any delinquent Installment Payments pledged to the Subordinated Bonds shall be applied first to the Subordinated Bonds Interest Account for the immediate payment of interest payments past due and to the Subordinated Bonds Principal Account for immediate payment of principal payments past due on any Subordinated Bond. Any remaining money representing delinquent Subordinated Installment Payments pledged to Subordinated Bonds shall be deposited in the Subordinated Bonds Payment Fund to be applied in the manner provided therein.

On or before each date that any Commercial Paper Note matures, the Trustee shall transfer from the Subordinated Bonds Payment Fund or from the Subordinated Bonds Interest Account, as applicable, to the Issuing and Paying Agent for deposit in the applicable Reimbursement Account that amount of money that equals the aggregate amount of interest or principal becoming due and payable on the Commercial Paper Notes to the extent that payment of such interest on or principal of the Commercial Paper Notes is not made from the proceeds of Commercial Paper Notes but is made from the proceeds of a Draw under the related Subordinated Credit Support Instrument. On or before each date any related Subordinated Credit

Provider Reimbursement Obligations become due and payable, the Trustee shall transfer from the Subordinated Bonds Payment Fund and deposit in the applicable Reimbursement Account that amount of money that, together with any amounts transferred pursuant to the preceding sentence, equals the amount of any such Subordinated Credit Provider Reimbursement Obligations when due. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture.”

Issuance of Additional Bonds Under the Indenture

Pursuant to the Indenture, the Trustee must, upon Written Request of the Authority, by a supplement to the Indenture, establish one or more other series of Bonds secured by the pledge made under the Indenture equally and ratably with any Senior Bonds previously issued and delivered (if such Bonds are to be Senior Bonds) or equally and ratably with any Subordinated Bonds (if such Bonds are to be Subordinated Bonds), in such principal amount as shall be determined by the Authority, but only upon compliance with the provisions of the Indenture, the requirements of the Agreement applicable to the incurrence of Senior Obligations (if such Bonds are to be Senior Bonds) or Subordinated Obligations (if such Bonds are Subordinated Bonds) and any additional requirements set forth in the applicable Supplemental Indenture, which are conditions precedent to the execution and delivery of Additional Bonds (as defined in the Indenture):

- (1) No Event of Default will have occurred and be then continuing;
- (2) The Supplemental Indenture providing for the execution and delivery of such Additional Bonds must specify the purposes for which such Additional Bonds are then proposed to be delivered, which will be one or more of the following: (i) to provide moneys needed to provide for Project Costs by depositing into the Acquisition Fund the proceeds of such Additional Bonds to be so applied; (ii) to provide for the payment or redemption of Bonds then Outstanding under the Indenture, by depositing with the Trustee moneys and/or investments required for such purpose under the defeasance provisions set forth in the Indenture; or (iii) to provide moneys needed to refund or refinance all or part of any other current or future obligations of the City with respect to the funding of the Water System. Such Supplemental Indenture may, but is not required to, provide for the payment of expenses incidental to such purposes, including the Costs of Issuance of such Additional Bonds, capitalized interest with respect thereto for any period authorized under the Code (in the case of Tax-Exempt Bonds) and, in the case of any Additional Bonds intended to provide for the payment or redemption of existing Bonds, or other Obligations of the City, expenses incident to calling, redeeming, paying or otherwise discharging the Obligations to be paid with the proceeds of the Additional Bonds.
- (3) The Supplemental Indenture providing for the execution and delivery of such Additional Bonds must state whether such Additional Bonds shall be Senior Bonds or Subordinated Bonds.
- (4) If such Additional Bonds are Subordinated Bonds, the Supplemental Indenture must specify whether such Additional Bonds will be secured by the Common Subordinated Bonds Reserve Fund, a Separate Subordinated Bonds Reserve Bonds or no reserve fund.
- (5) The Additional Bonds must be payable as to principal and interest on such dates as will be provided for in the Supplemental Indenture, except that the first interest payment due with respect thereto may be for a period of not longer than twelve (12) months.
- (6) If such Additional Bonds are Senior Bonds, the Authority must deliver or cause to be delivered to the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount (or a Surety Bond in an amount) sufficient to increase the balance in the Reserve Fund to the Reserve Fund Requirement.

(7) If such Additional Bonds are Common Subordinated Reserve Fund Bonds, the Authority must deliver or cause to be delivered by the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount sufficient to increase the balance of the Common Subordinated Bonds Reserve Fund to the Common Subordinated Bonds Reserve Fund Requirement.

(8) If such Additional Bonds are Subordinated Bonds to be secured by a Separate Subordinated Bonds Reserve Fund, the Authority must deliver or cause to be delivered by the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount (or a Surety Bond in an amount) sufficient to increase the balance in such Separate Subordinated Bonds Reserve Fund to the Separate Subordinated Bonds Reserve Fund for such Series of Subordinated Bonds.

(9) The Additional Bonds must be payable as to principal on August 1 and as to interest on February 1 and August 1 of each year during their term, except that the first interest payment due with respect thereto may be for a period of not longer than twelve (12) months. Fixed serial maturities or mandatory sinking account payments, or any combination thereof, shall be established in amounts sufficient to provide for the retirement of all of the Additional Bonds of such Series on or before their respective maturity dates.

(10) The aggregate principal amount of Bonds and Additional Bonds executed and delivered under the Indenture may not exceed any limitation imposed by law or by any Supplemental Indenture.

(11) The Trustee must be the Trustee for the Additional Bonds.

Nothing in the Indenture will limit in any way the power and authority of the Authority to incur other obligations payable from other lawful sources.

The term “Additional Senior Bonds” means those Bonds authorized and issued pursuant to the Indenture and payable on parity with other Bonds having a first priority lien on Net System Revenues, including the 2020 Senior Bonds (prior to the refunding described herein under the caption “PLAN OF FINANCE – Refunded Bonds”), the 2023A Senior Bonds, the 2025A Senior Bonds and the 2026A Bonds. The term “Additional Subordinated Bonds” means those Bonds authorized and issued pursuant to the Indenture on parity with the 2016 Subordinated Bonds (prior to the refunding described herein under the caption “PLAN OF FINANCE – Refunded Bonds”) and 2018A Subordinated Bonds. See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture – Additional Bonds – Execution and Delivery of Additional Bonds.”

No Debt Service Reserve Fund for the 2026A Bonds

No debt service reserve fund will be created or funded to secure the 2026A Bonds. Debt service reserve funds were created in connection with the incurrence of certain of the City’s Obligations, and amounts on deposit in, or to be on deposit in, such debt service reserve funds are not available to secure the 2026A Bonds.

DEBT SERVICE SCHEDULE

The following table sets forth the amounts required in each Fiscal Year for the payment of principal of and interest on Outstanding Senior Obligations and Subordinated Obligations as of June 16, 2026 and the expected issuance of the 2026A Bonds, secured by Net System Revenues. A portion of the proceeds of the 2026A Bonds will be used to pay a portion of the principal of the Outstanding Commercial Paper Notes.

TABLE 1
DEBT SERVICE ON ALL OUTSTANDING OBLIGATIONS⁽¹⁾

Fiscal Year	Senior Obligations Debt Service ⁽²⁾	Senior 2026A Bonds		Total Principal and Interest	Total Debt Service on Senior Obligations	Subordinated Obligations Debt Service ⁽³⁾	Total Debt Service
		Principal	Interest				
2027	\$58,814,343					\$71,436,958	\$130,251,301
2028	56,121,143					71,580,824	127,701,967
2029	55,882,804					71,536,775	127,419,579
2030	57,575,208					64,102,053	121,677,261
2031	57,774,068					63,917,083	121,691,151
2032	57,974,443					63,728,111	121,702,554
2033	60,812,422					57,566,463	118,378,885
2034	47,082,999					56,360,808	103,443,806
2035	46,923,561					56,526,548	103,450,110
2036	46,759,129					56,698,491	103,457,619
2037	45,722,445					57,738,615	103,461,060
2038	44,679,570					59,512,607	104,192,176
2039	44,437,945					59,757,817	104,195,762
2040	44,154,340					60,043,733	104,198,073
2041	43,633,765					60,563,894	104,197,659
2042	42,891,215					61,304,692	104,195,907
2043	42,131,840					62,066,308	104,198,148
2044	41,341,190					62,854,751	104,195,941
2045	40,527,733					63,668,836	104,196,569
2046	39,685,852					64,512,700	104,198,552
2047	38,785,071					65,414,979	104,200,050
2048	37,831,646					66,367,438	104,199,084
2049	44,278,827					14,197,735	58,476,562
2050	43,389,252					15,084,482	58,473,734
2051	31,131,419					15,343,904	46,475,323
2052	30,862,419					15,612,194	46,474,613
2053	30,588,894					15,889,655	46,478,548
2054	17,303,569					16,176,599	33,480,168
2055	17,005,444					16,473,352	33,478,796
2056	16,699,694					16,780,249	33,479,943
2057	766,069					17,097,636	17,863,705
2058	393,065					17,425,872	17,818,937
2059	336,649					17,765,328	18,101,977
Total⁽⁴⁾:	<u>\$1,284,298,032</u>					<u>\$1,555,107,492</u>	<u>\$2,839,405,524</u>

(1) Includes current debt service on Outstanding Obligations as of June 16, 2026, including debt service on the Refunded Bonds to be repaid or refunded with a portion of the proceeds of the 2026A Bonds as described under the caption "PLAN OF FINANCE." Does not include any future indebtedness under the Master Installment Purchase Agreement, debt service on the Outstanding Commercial Paper Notes that will be repaid using a portion of the 2026A Bonds, debt service on the Commercial Paper Notes that will remain Outstanding after the refundings to be effected with proceeds of the 2026A Bonds, the undrawn amounts under the WIFIA Loans or any undrawn amounts under the Senior SRF Loans and Subordinated SRF Loan. See "WATER SYSTEM FINANCIAL OPERATIONS – Outstanding Indebtedness." In addition, the schedule of debt service assumes that there is no redemption or prepayment of obligations prior to their scheduled maturity.

(2) Debt service on the Senior SRF Loans, the 2020 Senior Bonds, the 2023A Senior Bonds, and the 2025A Senior Bonds, based on amounts outstanding as of June 16, 2026 (as shown in Table 20), prior to the refunding of the 2020B Refunded Bonds to be effected with proceeds of the 2026A Bonds as described under the caption "PLAN OF FINANCE – Refunded Bonds." Does not include the \$231.4 million that remains to be drawn under certain Senior SRF Loans.

(3) Debt service on the 2016 Subordinated Bonds, the 2018A Subordinated Bonds, the 2020 WIFIA Loan, the 2021 WIFIA Loan, and the Subordinated SRF Loan based on amounts outstanding as of June 16, 2026 (as shown in Table 20), prior to the refunding of the 2016A Refunded Bonds and the 2016B Refunded Bonds to be effected with proceeds of the 2026A Bonds as described under the caption "PLAN OF FINANCE – Refunded Bonds." Excludes principal of and interest on the Outstanding Commercial Paper Notes. Does not include the \$95.1 million that remains to be drawn under the WIFIA Loan. Does not include the \$5.0 million that remains to be drawn under the Subordinated SRF Loan.

(4) Amounts have been rounded; total may not equal the sum of the components.

Source: Department of Finance, City of San Diego.

WATER SYSTEM ORGANIZATION AND MANAGEMENT

General

The Water System is owned by the City and operated by the City through the Department. The Department is comprised of several branches that are funded by both the Water Utility Fund and the Sewer Revenue Fund, depending upon which system benefits from the tasks completed. Though the different branches cover all tasks required by the Department, separate accounting is kept for each fund. The Department ultimately reports to the Mayor, who has operational authority over the Department and appoints managers and directors who are charged with the operations of the Department. The City Council of the City (the “City Council”) has the authority to approve the Department’s budget, to set rates and charges of the City utilities, including the Water System, and to approve execution of certain contracts. For information on how the City sets the rates and charges of the Water System see “WATER SYSTEM FINANCIAL OPERATIONS – Establishment of Water Service Charges.” In accordance with the provisions of the City Charter, the Water System funds are separate from the City’s General Fund.

Officers

The Senior Executive officers managing the Department and their respective biographies are provided below.

Kris McFadden. Mr. McFadden serves as the Chief Infrastructure Officer and oversees the following departments: Public Utilities, Transportation, and Stormwater. Previously, he oversaw Development Services, Engineering & Capital Projects, Environmental Services, Planning, Special Capital Projects, Sustainability & Mobility, and Transportation. Mr. McFadden joined the City of San Diego in April 2008 as Deputy Director in the Stormwater Department and was promoted to oversee the Transportation & Stormwater Department in 2014. He has worked for the City of San Diego for over 17 years and has over 28 years of government experience. Before joining the City, Mr. McFadden worked for the City of Fort Lauderdale where he was responsible for all environmental regulations related to Stormwater, Water, and Wastewater. Before this time, Mr. McFadden worked for the State of Florida as an Environmental Specialist, where he focused on water quality and 401 Certification programs. Mr. McFadden has a Bachelor of Science degree in Biology from Allegheny College, a Master of Science degree in Biology from Florida Atlantic University, and a Master’s Degree in Marine Affairs & Policy from the University of Miami.

Lisa Celaya. Ms. Celaya serves as the Interim Director for the Department overseeing day-to-day operations and directly oversees Customer Support Division. Ms. Celaya previously served as an Assistant Director in the Department for the Business Support Branch for the Water Delivery Branch and most recently as the Executive Assistant Director. In addition to over 20 years of experience with the City in finance and analytical roles, Ms. Celaya spent nearly seven years with the San Diego County Water Authority as the Financial Resources Manager. She earned a Bachelor of Science in Business Administration from San Diego State University and a Master of Public Administration from National University.

Doug Campbell. Mr. Campbell serves as the Assistant Director of the Water Recovery Branch, overseeing the Wastewater Collection Division, the Wastewater Treatment & Disposal Division, and the Pure Water Program. These divisions are responsible for the operation and maintenance of the Municipal Collection System and operation of the wastewater treatment plants. Mr. Campbell has over 24 years of experience in the water, wastewater, and potable reuse industry, including serving as the Laboratory Director of the City of San Diego Water Quality Laboratory, Assistant Deputy Director over the City’s drinking water treatment plants, and Deputy Director over the City’s Pure Water Operations division. He

earned his Bachelor of Science in Earth Sciences—Chemistry and Master of Science in Earth Sciences from the University of California San Diego.

Carl Smith. Mr. Smith serves as the Assistant Director of the Business Support Branch. In this capacity he oversees the day-to-day operations of all Business Support activities which include Employee Services & Quality Assurance (ESQA), Finance, and Innovation Technology. Mr. Smith’s responsibilities include human resources management, rate analysis and setting, debt financing, and ensuring efficient and innovative technology services for the Department. He earned his Bachelor of Science in Management and Leadership from Excelsior University and a Master of Public Administration from National University.

Drew Kleis. Mr. Kleis serves as the Assistant Director of the Water Delivery Branch, which includes the Water Distribution, Water Production and Water Meter Services Divisions. The Water Distribution Division is responsible for the operation and maintenance of the water distribution system, and the management, administration, planning and technical support associated with the maintenance and construction activities for the water distribution system, backflow preventers, fire hydrants, and isolation valves. It also provides Capital Improvement Program support for the City’s replacement of aging water distribution pipelines. The Water Production Division is responsible for the management, administration, planning and technical support associated with the operations and maintenance of the nine reservoirs and three water treatment plants. The Water Meter Services Division is responsible for metered service connections including meter reading, and maintenance, inspection and enforcement of backflow and cross connection controls. Prior to his current role, Mr. Kleis served as the Deputy Director of the City’s Stormwater Department and has 21 years of experience in storm water planning and management. He earned his Bachelor of Arts in Environmental Studies from the University of California, Santa Barbara and a Master of City & Regional Planning from California Polytechnic State University, San Luis Obispo.

Christiana Gauger. Ms. Gauger serves as the Assistant Director of the Technical Support Branch. The Technical Support Branch is responsible for determining the quality of the City’s source water, drinking water, recycled water, wastewater, and the marine environment; administering the Industrial Wastewater Control Program to regulate local industry discharges; overseeing the Department’s National Pollutant Discharge Elimination System (“NPDES”) permits; managing the dam safety program; conducting air and storm water compliance audits for Department facilities; and planning, engineering, and capital program management that ensures new facilities and upgrades for municipal potable water, raw water, reclaimed water, and regional wastewater systems are implemented to meet regulatory standards in a fiscally and technically sound manner. She joined the Department in October 2025. Prior to this role, she served as the City’s Chief Compliance Officer, where she oversaw wage, labor, and safety compliance and facilitated citywide audit responses. She has also held leadership roles in the Purchasing and Contracting Department and the Information Technology Department. Ms. Gauger has over 20 years of experience in financial and policy analysis, operations management, and public administration across government, academic, and nonprofit sectors. She earned her Bachelor of Arts in Sociology at the University of Toronto and a Master of Arts in Sociology from the University of Windsor.

Oversight

The Independent Rates Oversight Committee (“IROC”) was established by City ordinance to oversee and advise on various aspects of the Water System and the Wastewater System. There are 11 members on IROC, appointed by the Mayor and confirmed by the City Council, and two ex-officio members, one representing and appointed by the Metropolitan Wastewater Joint Powers Authority, and one representing and appointed by the ten-member City representatives to the CWA. IROC serves as an official advisory body to the Mayor and the City Council on policy issues relating to the oversight of Department operations; their recommendations are taken into consideration but are not binding on the Department.

WATER SYSTEM SERVICE AREA, CUSTOMERS AND FACILITIES

Water System Service Area

The Water System serves the City and the cities of Del Mar, Coronado and Imperial Beach, providing water to retail, wholesale, and recycled water customers. The Water System’s service area covers 404 square miles, including 326 square miles of the City, and a population of approximately 1.42 million people as of January 1, 2026. The map that follows the Table of Contents of this Official Statement shows the boundaries of the service area of the Water System.

The following table sets forth the volume of water deliveries made by the Department to its retail and wholesale customers for Fiscal Years 2021 through 2025. Potable water includes local water and purchased water. See “WATER SUPPLY.”

TABLE 2
WATER DELIVERIES
Fiscal Years 2021 through 2025
(In Acre Feet (“AF”))

Delivery Type	2021	2022	2023⁽¹⁾	2024⁽¹⁾	2025
Potable Water	178,115	181,050	159,941	159,701	179,667
Recycled / Untreated Water	12,306	10,290	10,048	10,600	11,704
Total Water Deliveries	190,421	191,339	169,989	170,301	191,371

⁽¹⁾ The decline in water deliveries in Fiscal Years 2023 and 2024 reflects extended rainy seasons and long-term conservation trends.
Source: Public Utilities Department, City of San Diego.

Retail Customer Base. The City has five types of potable retail customer groups, consisting of Single Family Residential (“SFR”), Multi-Family Residential (“MFR”), Non-Residential, Irrigation, and Temporary Construction. For Fiscal Year 2025, retail customers accounted for approximately 95% of total water deliveries and represented approximately 95% of the revenues from total water sales with the balance being provided to wholesale customers. Of the Water System’s roughly 284,000 retail service connections, approximately 91% are SFR and MFR accounts, which comprised approximately 57% of total water sales revenue in Fiscal Year 2025.

Single Family Residential. SFR refers to individual dwelling units served by a separate meter, and accounted for approximately 34% of total water sales revenues in Fiscal Year 2025.

Multi-Family Residential. MFR encompasses multi-family dwellings such as apartment or condominium complexes, in which two or more dwelling units share a meter, and accounted for approximately 23% of total water sales revenues in Fiscal Year 2025.

Non-Residential. Non-Residential users are comprised of a diverse group of customers and accounted for 24% of total water sales revenues in Fiscal Year 2025. These customers are treated equivalently in cost calculations and are assigned the same peaking factors. These customers also typically have lower peaking factors than residential customers due to their relatively consistent usage trend.

Irrigation. Irrigation customers consist of SFR, MFR, and Non-Residential accounts that are used solely for irrigation. These customers use water primarily to irrigate personal or business landscaping. This diverse group of customers accounted for 12% of total water sales revenue for Fiscal Year 2025.

Temporary Construction. Temporary construction refers to meters that are placed on fire hydrants during construction to provide water to the construction site until the installation of a permanent meter. Costs for these customers are usually higher than the average customer because of additional administrative costs associated with transient meters. This group of customers generated approximately 0.5% of total water sales revenue for Fiscal Year 2025.

Irrigation and Temporary Construction customers typically have high peak demands characterized by relatively large amounts of water used in short periods of time when compared to average usage. Peak usage is more costly to deliver than constant usage.

The following table sets forth the historical number of retail metered connections to the Water System for each year from Fiscal Years 2021 through 2025.

TABLE 3
HISTORICAL NUMBER OF RETAIL METERED CONNECTIONS TO WATER SYSTEM
Fiscal Years 2021 through 2025

Customer Type	2021	2022	2023	2024	2025
Single Family Residential	226,115	226,106	226,211	226,238	224,158 ⁽²⁾
Multi-Family Residential	30,631	30,752	30,930	31,107	33,499
Non-Residential ⁽¹⁾	17,233	17,198	17,174	17,152	17,154
Irrigation	7,912	7,927	7,976	7,994	8,093
Recycled Water	783	779	793	794	828
Temporary Construction	500	528	561	563	575
Total	283,174	283,290	283,645	283,848	284,307
Percent Growth		0.04%	0.13%	0.07%	0.16%

⁽¹⁾ “Non-Residential” consists of Commercial, Industrial or Outside City customers.

⁽²⁾ Decrease primarily attributed to customer reclassification to Multi-Family Residential as property use and billing classifications are updated.
Source: Public Utilities Department, City of San Diego.

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The following table sets forth the 10 major retail customers of the Water System for Fiscal Year 2025. These customers provided approximately 12% of the total sales revenues for such Fiscal Year.

TABLE 4
MAJOR RETAIL CUSTOMERS
Fiscal Year 2025

Customers	Millions of Cubic Feet	Billings	% of Total Sales Revenues⁽³⁾
City of San Diego	401.68	\$33,252,348	4.77%
United States Navy	162.84	13,147,664	1.89
University of California San Diego	114.36	9,233,958	1.32
San Diego Family Housing LLC	96.65	8,949,132	1.28
San Diego Unified School District	51.45	5,595,900	0.80
CP Kelco	51.55	3,963,506	0.57
Other Federal Agencies ⁽¹⁾	50.98	3,756,366	0.54
San Diego Zoo	25.81	2,030,813	0.29
Sea World	24.11	1,873,366	0.27
The Irvine CO	18.27	1,624,553	0.23
Total Major Retail Customers⁽²⁾	997.72	\$83,427,606	11.96%

⁽¹⁾ Excludes the United States Navy.

⁽²⁾ Figures may not add to total due to independent rounding.

⁽³⁾ Reflects percentage of Fiscal Year 2025 total water sales revenues of \$697,271,322 for the Water System. See the line item entitled "Sales of Water" in TABLE 16 – "STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION FOR THE WATER UTILITY FUND."

Source: Public Utilities Department, City of San Diego.

Wholesale Treated Water Customer Base. The City currently sells and delivers potable water on a wholesale basis to the California-American Water Company ("Cal-American") and the Otay Water District (the "OWD"). The City also treats and delivers potable water to the City of Del Mar ("Del Mar"). Del Mar initially purchases untreated water directly from CWA, which water is delivered for the benefit of Del Mar to the City's Miramar Water Treatment Plant. Del Mar then pays its apportioned expenses to the Department for treating and pumping the water to Del Mar's connection. As a result, deliveries to Del Mar are included in the total deliveries of potable water by the City, but are not considered to be a component of total water sales. Deliveries to Del Mar totaled 929 AF in Fiscal Year 2025. For Fiscal Year 2025, wholesale treated water customers accounted for approximately 3.3% of total water deliveries and represented approximately 3.7% of the revenues from total water sales.

Recycled Water Customer Base. Recycled water (also referred to as reclaimed water) is produced from wastewater processed at water reclamation plants owned and operated by the City as part of the City's Wastewater System. The City has three recycled wholesale customers, OWD, the Olivenhain Municipal Water District and the City of Poway. The City has 828 (823 retail and 5 wholesale) metered Recycled Water System connections. For Fiscal Year 2025, retail and wholesale recycled water customers accounted for approximately 2.6% of the revenues from total sales of water.

Water System Facilities

Existing Water System Facilities. In order to serve its 404 square mile service area, the Water System maintains nine raw water storage reservoirs, three water treatment plants, 29 treated water storage facilities, and approximately 3,300 miles of water transmission and distribution lines. Water is transported

from the treatment plants through the transmission and distribution system to supply approximately 284,000 metered service connections. The Water System consists of approximately 130 different pressure zones, which may be gravity supplied, pressure reduced (via 384 pressure regulating stations), or pressure boosted (via 49 water-pumping stations).

Raw Water Reservoirs. The City has nine reservoirs with a total capacity of 569,021 AF, with 192,979 AF of such capacity belonging to CWA and other local water agencies and the remaining 376,042 AF belonging to the City. As of December 31, 2025 the City had 117,254 AF of water in storage, or 31% of total City storage capacity. The following table outlines each of the nine reservoirs' total capacity, City owned capacity, and current City storage. See "Reservoir Storage Rights" immediately following this table. The City cooperates with CWA on the Emergency Storage Project, pursuant to which a system of reservoirs, interconnected pipelines and pumping stations is being created to improve the availability of water to the San Diego region in the event of an interruption in imported water deliveries. Currently, the pipelines that carry imported water for CWA, a portion of which is purchased by the Department, extend for hundreds of miles and cross several major fault lines along the region. A severe earthquake, drought or other significant disaster could cut off the City's imported water supply for up to six months. See "REGULATORY RISKS – Dam Licensing and Safety Issues."

Although the City's reservoirs have historically supplied approximately 17% of any given year's potable water demands on average, they provide the City certain flexibility in determining how much imported water to purchase in any given year. In Fiscal Year 2025, the City used local stored water (accumulated after two years of wet weather) to supply approximately 28% of its annual sales. This use of local water is reflected in the current stored water levels in Table 5 and reduced water purchase volumes in Fiscal Year 2026, as set forth in Table 19.

Historically, pursuant to a City Council policy last updated in 1973, the City generally maintained, as part of its water storage policy, a minimum amount of water storage in its nine reservoirs such that it could meet the water supply needs of the Water System for approximately six months in case of emergency, such as a substantial disruption or interruption of imported water sources. Since the time the policy was last updated, substantial investments in water reliability, including the San Vicente Dam raise, Carlsbad Desalination Facility and the City Pure Water program, have greatly increased the region's resilience to an immediate disruption to imported water. The City also has access to additional water through certain of CWA's back-up or redundant storage facilities. While the City's largest reservoirs largely hold imported water, the City also uses its reservoirs to hold local rainwater. The City amended its water storage policy to reduce the number of months' water supply to around 2 months at 75% peak monthly demand in May 2026. Current supply levels exceed this level.

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TABLE 5
RAW WATER RESERVOIRS
(As of December 31, 2025)
(In AF)

Reservoir	Total Storage Capacity (A)	City Storage Capacity (B)	Current City Storage Level (C)	Current City Percent Full (C/B)
Barrett	34,806	34,806	25,105	72%
El Capitan ⁽¹⁾⁽²⁾	112,807	102,807	20,763	20
Lake Hodges ⁽¹⁾⁽²⁾	30,633	5,317	2,901	55
Lake Murray ⁽²⁾	4,684	4,684	3,520	75
Lower Otay ⁽³⁾	49,849	49,849	31,733	64
Miramar	6,682	6,682	5,576	83
Morena ⁽²⁾	50,694	50,694	7,717	15
San Vicente ⁽¹⁾	249,358	91,695	17,143	19
Sutherland	29,508	29,508	2,796	9
Total	569,021⁽⁴⁾	376,042	117,254	31%

⁽¹⁾ The El Capitan, Lake Hodges, and San Vicente reservoirs have shared storage rights with other Agencies and Water Districts.

⁽²⁾ The California Department of Water Resources' Division of Safety of Dams has placed restrictions on the total water storage levels of El Capitan (50,733 AF since May 2015), Lake Hodges (5,996 AF since February 2023), Morena (16,742 AF since November 2021), and Lake Murray (3,884 AF since July 2023). The restrictions of El Capitan and Lake Hodges are shared proportionally with other users that maintain storage rights with respect to these reservoirs. As the reservoir water level reaches the restriction level, the City releases water from the reservoirs downstream and increases the portion of local water going to the City's treatment and delivery system to reduce water levels to the restriction levels. For information regarding Lake Murray Dam and Lake Hodges Dam, see "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Description of Major Projects – Water Storage Facilities" and "REGULATORY RISKS – Dam Licensing and Safety Issues."

⁽³⁾ Lower Otay Reservoir has operational flood gates at the 47,067 AF spillway level that could be closed to capture an additional 2,782 AF in an auxiliary spillway basin if decided upon for operational purposes.

⁽⁴⁾ Figure includes approximately 2% - 5% of total amount of water in storage that is inaccessible due to reservoir outlets being abandoned, blind flagged, or silted.

Source: Public Utilities Department, City of San Diego.

Reservoir Storage Rights. The City has executed agreements with various water districts and CWA to provide for storage capacity rights at the El Capitan Reservoir, Lake Hodges Reservoir, and the San Vicente Reservoir. Helix Water District has storage capacity rights of up to 10,000 AF of water in El Capitan Reservoir. CWA has storage capacity rights of up to 20,000 AF in Lake Hodges Reservoir and nearly 158,000 AF in San Vicente Reservoir due to CWA's Emergency Storage Project ("ESP"); CWA fully funded and built various facilities and infrastructure in order to raise the height of the City's San Vicente Dam and increase the reservoir's storage capacity. In addition, the Santa Fe Irrigation District and the San Dieguito Water District ("SFSD Districts") have combined total storage capacity rights of approximately 5,300 AF in Lake Hodges Reservoir. See "REGULATORY RISKS – Dam Licensing and Safety Issues."

Water Treatment Plants. The Department maintains and operates three water treatment plants, Alvarado Water Treatment Plant ("Alvarado"), Miramar Water Treatment Plant ("Miramar") and Otay Water Treatment Plant ("OWTP"), with a combined rated capacity of 378 million gallons per day ("mgd") through which potable water is supplied. Supplemental treated supplies from CWA are used to help operate the distribution system reliably and efficiently.

The following table summarizes the capacity and demands of the three Water Treatment Plants.

TABLE 6
CAPACITY AND DEMAND OF WATER SYSTEM WATER TREATMENT PLANTS
As of June 30, 2025
(Amounts in Million Gallons Per Day)

Water Treatment Plant	Current Rated Capacity	Current Average Demand⁽¹⁾	Current Peak/Max Demand⁽¹⁾
Alvarado	200	65	84
Miramar	144	58	91
OWTP	34	19	26
Total	378	142	201⁽²⁾

⁽¹⁾ Current Demand data calculated for Fiscal Year 2025.

⁽²⁾ Total is not intended to reflect the aggregate peak/maximum demand supported by all water treatment plants, because such plants do not all reach the peak/maximum demand simultaneously.

Source: Public Utilities Department, City of San Diego.

Treated Water Storage Facilities. The Department maintains and operates 29 treated water storage facilities, including steel tanks, standpipes, concrete tanks, and rectangular concrete reservoirs. These water storage facilities are used to regulate system pressure, provide peaking and emergency supply, and provide level control of pump stations. Capacities vary for these facilities from less than 0.5 million gallons to 35 million gallons and in the aggregate hold a daily total of approximately 280 million gallons, which represents 1.2 to 2.2 days depending on daily demand.

Delivery System. The Water System consists of approximately 3,300 miles of transmission and distribution pipelines, including transmission lines up to 84 inches in diameter and distribution lines as small as four inches in diameter. Transmission lines are pipelines with larger diameters that convey raw water to the water treatment plants and convey treated water from the water treatment plants to the treated water storage facilities. Distribution lines are pipelines with smaller diameters that directly service the retail users connected to a meter. The Department also maintains and operates 49 water pump stations that deliver treated water from the water treatment plants to approximately 284,000 metered service connections in approximately 130 different pressure zones. In addition, the Department maintains several emergency connections to and from neighboring water agencies, including the Santa Fe Irrigation District, the Poway Municipal Water District, Cal-American, the Sweetwater Authority and the OWD.

Additional Water System Facilities. The City has a robust Water System CIP that provides for continuous improvements and additions to the Water System. See “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM.” One of the most significant components of the Water System CIP is the Pure Water Program, which is a multi-year program that is being undertaken in phases in conjunction with improvements to the City’s Wastewater System. One of the goals of the Pure Water Program is to increase the City’s production of local water in order to reduce water purchases and reduce the City’s dependency on imported water sources. See “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Pure Water Program.”

WATER SUPPLY

Sources of Water Supply

The Water System has historically received an average of 83% of its potable water supply from water purchased from CWA and 17% from rainfall, runoff or prior water purchases stored in its nine impounding reservoirs. CWA, in turn, obtains water from a diversified supply portfolio, including supplies conveyed and treated through facilities of the MWD.

As described under “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Pure Water Program,” the City is currently in the process of developing a significant new local potable water supply through the phased implementation of the Pure Water Program. Phase 1 of the Pure Water Program is expected to begin producing purified drinking water before the end of Calendar Year 2026 and, upon full production, is expected to provide up to 30 mgd of potable water supply. Completion of Phase 1 alone is expected to more than double the amount of local water available to the City and materially reduce reliance on imported water purchases from the CWA. Over the longer term, the full Pure Water Program is intended to increase local potable water supplies to approximately half of the City’s total water portfolio. Accordingly, the respective percentages of imported and local water supplies are expected to shift materially over time as Pure Water Program projects are completed and placed into operation. See “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Pure Water Program” for a description of the City’s capital improvements to decrease its reliance on imported water.

The following table reflects the total water sources of supply used for delivery of potable water to the City for Fiscal Years 2021 through 2025.

TABLE 7
WATER SUPPLIES USED FOR DELIVERY OF POTABLE WATER
Fiscal Years 2021 through 2025
(In AF)

<u>Fiscal Year</u>	<u>Local Water Supplies</u>	<u>CWA Water Supplies</u>	<u>Total Water Supplies for Potable Use</u>
2021	39,992	144,708	184,700
2022	20,400	170,800	191,200
2023	25,854	145,528	171,382
2024	42,758	118,578	161,335
2025	48,582	125,644	174,226

Source: Public Utilities Department, City of San Diego.

Certain Information Regarding the San Diego County Water Authority and Metropolitan Water District of Southern California

CWA/MWD Information Disclaimer. From time to time, CWA and MWD provide information (“CWA/MWD Information”) about their financial and operating conditions to the public. This information often includes information concerning, among other things, the recent developments with respect to CWA and MWD, operating revenues and expenses (historical and projected), debt service, water supply, conservation measures, water delivery systems and capital investment plans. CWA/MWD Information can be found on the website of the Municipal Securities Rulemaking Board (“MSRB”) through the Electronic Municipal Market Access System (“EMMA”), including offering documents related to securities of CWA or MWD or for which CWA or MWD, as the case may be, is an obligated person for the purposes of SEC

Rule 15c2-12. CWA and MWD have indicated that each, as the case may be, has entered into certain continuing disclosure undertakings pursuant to which it is required to file certain annual financial and operating information and notices of certain enumerated events with the MSRB through the EMMA System. CWA/MWD Information, including information contained in the aforementioned offering documents and continuing disclosure reports, and any other information contained on the website of the MSRB is not incorporated by reference into this Official Statement. The City undertakes no responsibility for and makes no representation as to the accuracy or completeness of (i) any CWA/MWD Information or (ii) any material contained on the website of the MSRB, including, but not limited to, updated information on the website of the MSRB or links to other Internet sites accessed through the website of the MSRB. Such information is not guaranteed by the City as to its accuracy or completeness and no representation is made as to the sufficiency of such information for all purposes or the absence of material adverse changes in such information subsequent to the date of the respective publicly available source document. Neither CWA nor MWD has entered into any contractual commitment with the City or the owner of the Bonds to provide information with respect to CWA to the City or the owner of the 2026A Bonds. Neither CWA or MWD has reviewed this Official Statement and neither of CWA or MWD has made any representations or warranties with respect to the accuracy or completeness of the information contained or incorporated in this Official Statement, including information regarding CWA or MWD.

San Diego County Water Authority. The Department relies on water purchased from CWA to meet its current water supply requirements. According to publicly available information published by CWA, CWA currently acquires the majority of its water from three main sources: (i) desalinated water, (ii) independent water purchases and (iii) MWD. According to MWD, MWD obtains its water from the Colorado River through the United States Bureau of Reclamation and from northern California via the State Water Project (the “SWP”), through the California Department of Water Resources (“DWR”).

Pursuant to information published by CWA:

In Fiscal Year 2025, (i) CWA member agencies’ combined imported and local water use totaled 469,318 AF; (ii) local and supplemental sources accounted for 154,147 AF or 33% of the total water used (includes surface, recycled, seawater desalination, and groundwater supplies, and excluding estimated water savings from conservation programs); (iii) imported supplies accounted for 315,170 AF or 67% of the total water used; and (iv) approximately 299,271 AF of imported water supplies was used for municipal and industrial needs, with the balance going to meet agricultural demands.

The Metropolitan Water District of Southern California. MWD was created in 1928 to provide wholesale imported water to its member agencies.

According to publicly available information published by MWD:

MWD sources portions of water from legal entitlements to receive water from the Colorado River by means of the Colorado River Aqueduct (“CRA”) and from legal entitlements to receive water from the Feather River by means of the Sacramento-San Joaquin Delta and the California Aqueduct through SWP and MWD’s State Water Contract (as amended, the “State Water Contract”) with DWR.

MWD also has a number of water transfer and storage and exchange programs with state, federal, public and private water districts and individuals in order to augment its imported water supplies.

In addition to making its imported water supplies available for annual consumptive uses, MWD also purchases and stores excess imported water in wet years for use in dry years.

In Fiscal Year ended 2025, CWA accounted for 266,285 AF or 21.2% of water transactions by MWD, resulting in CWA being the largest principal customer of MWD for that period.

For a discussion of certain risk factors related to the foregoing, see “REGULATORY RISKS” and “RISK FACTORS.”

On December 1, 2025, DWR announced an initial SWP allocation of 10% of the total water supplies requested by public water agencies, including MWD, for Calendar Year 2026, reflecting a conservative approach while acknowledging recent significant rainfall and statewide reservoir storage levels that were slightly above average. Based on improved hydrologic conditions, DWR subsequently announced on May 14, 2026, that the SWP allocation would increase to 45% of requested water supplies in 2026. The SWP allocation for each calendar year is highly dependent on rainfall and certain other factors, and is adjusted throughout the year. This allocation may be further increased or decreased by DWR based upon future evaluations of available resources. The City cannot predict and provides no assurances regarding the occurrence or timing of any subsequent changes in the 2026 SWP allocation.

CWA Wholesale Water Rates

CWA charges a volumetric rate that includes both a commodity rate and a transportation rate, as shown in the table below. Historically, on average, approximately 83% of the City’s potable water deliveries were provided from purchases of water via CWA; however, in Fiscal Years 2024 and 2025, 73.5% and 72.1%, respectively, of water deliveries were from CWA-purchased water due to the City’s increased reliance on local sources. Table 8 below sets forth the cost to purchase treated and untreated water per AF from CWA, as well as the cost to transport the purchased water. Of the total amount of water purchased from CWA during Fiscal Year 2025, approximately 107,934 AF was untreated water, and 17,710 AF was treated water.

Between 2022-2026, the cost of untreated water from CWA, excluding the transportation rate, increased approximately 48%. This increase in CWA’s rates stems from multiple factors, including a persistent decline in water sales by CWA, higher costs for water supplies, elevated inflation rates, the financial impact of prior CWA infrastructure investments, and the introduction of new local water supplies, which have further reduced demand and sales of CWA-supplied water.

TABLE 8
CWA WATER SUPPLY RATES⁽¹⁾
for Calendar Years 2022 through 2026

Municipal & Industrial (M&I) Rates per AF			Transportation Rate
Calendar Year	Untreated	Treated	Rate
2022	\$1,009	\$1,319	\$173
2023	1,085	1,435	173
2024	1,200	1,600	189
2025 ⁽²⁾	1,355	1,855	141
2026	1,490	2,020	128

⁽¹⁾ Rates shown are for volumetric charges only and do not include the additional fixed charges displayed in Table 9.

⁽²⁾ Transportation Rates per AF was reduced due to the introduction of a new fixed transportation charge implemented in Calendar Year 2025, as reflected in Table 9.

Source: CWA Rates and Charges Ordinances.

CWA is obligated to purchase a minimum of 48,000 AF of desalinated water from the desalination plant in Carlsbad, California. This is approximately 10% of CWA's water supply portfolio. The desalination plant underwent significant State-mandated improvements to its intake and discharge systems between 2023 and 2025 to comply with California's Ocean Plan Amendment standards for protecting marine life. The approximately \$286 million capital project costs were financed through multiple sources, including tax-exempt bonds, federal grant funding, and an additional WIFIA loan. The cost of these improvements are passed on to CWA via an adjustment to the unit price of purchased desalinated water, which in turn are passed on to member agencies such as the City as part of the CWA rate setting process. Table 8 sets forth CWA adopted water supply rates for Calendar Years 2022 through 2026. In January 2026, the CWA Board approved its Long-Range Financing Plan for Calendar Years 2026 through 2035 (the "2026 CWA Long-Range Financing Plan"), which projects future increases in water rates, including compound annual growth rates for volumetric rates ranging from 5.5% in a high-demand scenario to 9.5% in a low-demand scenario. Subsequently, on May 21, 2026, CWA released a draft Cost of Service Study (the "CWA Draft COS Study") for Calendar Year 2027 rates. The draft indicates that, due to lower revenue requirements, a reduced rate increase of 3.0% is proposed. The CWA Board will consider this rate proposal at a hearing on June 25, 2026.

In addition to the volumetric charges the City pays for imported water, the City is subject to fixed charges levied by both CWA and MWD on their member agencies. CWA assesses fixed charges to maintain its system capacity and infrastructure, and fixed charges are allocated to member agencies based on either their historical share of delivered water or their number of retail water meters. MWD assesses fixed charges to CWA, and CWA passes through these MWD charges to member agencies based on historical averages of delivered water sourced from MWD. CWA is in the process of revising some of its fixed and volumetric charges with the primary goal of recovering a greater portion of CWA's revenue requirement from fixed charges. As part of this effort, a new fixed transportation charge was implemented in Calendar Year 2025 which moves 40% of the revenue requirement associated with the transportation of water to a fixed basis, while 60% continues to be collected through a volumetric rate. The stated goal of the shift in rate design is to provide CWA additional financial stability in light of potential reduced future sales as several agencies, including the City, strive to reduce their reliance on imported water. The City continues to evaluate any proposed rate structure adjustments in terms of the potential impact to the costs of imported water from CWA and any fiscal impact to the Water System. The CWA Budget for Fiscal Years 2026 and 2027, as well as its Rates and Charges for Calendar Year 2026, were adopted on June 26, 2025. In the 2026 CWA Long-Range Financing Plan, CWA projects the compound annual growth rate for fixed charges to range from 0.9% in a high-demand scenario to 1.6% in a low-demand scenario. When both the volumetric and fixed charges are combined, the weighted compound annual growth rate through Calendar Year 2035 was projected to average 4.2% in a high-demand scenario to 7.2% in a low-demand scenario. The rate proposal included in the CWA Draft COS Study described above remains subject to CWA Board approval and the overall impact varies by agency based on variable and fixed cost mixes. The City's expenditure and revenue projections, as set forth in this Official Statement, do not reflect the lower rate proposal; the City anticipates integrating financial impacts into its next water rate proposal, subsequent to a determination by the CWA Board of the applicable rates.

The City's Office of the Independent Budget Analyst stated in its January 7, 2026 report entitled "IBA Review of the Public Utilities Department FY 2027-2031 Five-Year Financial Outlook" that water purchases make up the majority of CWA's budget, accounting for 63% of its budget for Fiscal Year 2027, and that CWA has water purchase obligations (equal to a minimum of 325,700 AF of water each year) in excess of its current and projected water sales (323,781 AF for Fiscal Year 2025, based on CWA's annual comprehensive financial report for Fiscal Year 2025). The excess water cannot be stored for future use for various reasons specified in the IBA Report and the imbalance between required water purchases and water

sales is reportedly one of the largest drivers in CWA rate increases as, when CWA’s water sales drop below its minimum water purchase volumes, CWA increases rates to maintain the same amount of revenue.

CWA has taken certain actions to address the imbalance described above. In June 2025, CWA and MWD entered into a settlement agreement that permits, among other things, CWA to sell certain of its excess water to other agencies within the MWD jurisdiction. CWA entered into such an arrangement with Western Municipal Water District in March 2026, providing for the sale of at least 10,000 AF of water per year for the next 21 years, which arrangement CWA has valued at approximately \$100 million over the first five years. Subsequently, in April 2026, CWA entered into an agreement with Eastern Municipal Water District providing for the sale up to 10,000 AF of water per year for the next 21 years. In addition, on June 3, 2026, CWA signed a Memorandum of Understanding (“CWA MOU”) with U.S. Bureau of Reclamation (“Reclamation”), MWD and agencies in Nevada and Arizona that provides for the ability to transfer water across state lines. No water transfers under the CWA MOU have been announced. The CWA Long-Range Financing Plan does not account for any revenue increases or cost decreases resulting from these actions and any potential additional water deals, either with entities within California or between Colorado Basin States (consisting of Colorado, New Mexico, Utah, Wyoming, Arizona, California and Nevada) (the “Basin States”). The CWA Draft COS Study reflects the recently executed third-party water sale agreements with Eastern Municipal Water District and Western Municipal Water District, which CWA expects to generate gross revenue of \$23.4 million in Calendar Year 2027. The draft rates included in the CWA Draft COS Study are not included in the projections in Table 19, which used the information contained in the CWA Long-Range Financial Plan, which reflects the actions taken by CWA as of the date of this Official Statement. An addendum to that plan is expected to be approved by the CWA board in Fall of 2026.

The following table provides the fixed charges allocated to the City by CWA between Calendar Years 2022 and 2026. Because some of the fixed charges are based on a Fiscal Year basis, while other fixed charges and commodity charges are based on Calendar Year, total water purchase costs for Fiscal Year 2026 are calculated using a combination of Calendar Year 2025 and 2026 fixed supply rates in Table 9 and commodity (water supply) rates in Table 8. In Fiscal Year 2025, the total Cost of Purchased Water Used was \$287.4 million (with \$284.1 million of the cost for water purchases and \$3.3 million for In Lieu Tax payment). Cost of Purchased Water was approximately 40.6% of the total Water Utility Fund’s Operating Expenses in Fiscal Year 2025.

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TABLE 9
MWD AND CWA FIXED WATER SUPPLY COSTS
Calendar Years 2022 through 2026
(\$ Amounts in Thousands)

<u>Calendar Year</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
MWD Fixed Charges					
Capacity Reservation Charges	\$3,745	\$ 2,751	\$3,456	\$4,335	\$4,840
Readiness-to-Serve ⁽¹⁾⁽²⁾	4.562	4.339	4.439	4.881	4.472
CWA Fixed Charges					
Customer Service	10,059	10,119	11,203	12,464	13,476
Emergency Storage Charge	25,375	25,020	26,373	28,407	31,267
Infrastructure Access Charge	20,111	20,138	21,121	21,725	21,895
Supply Reliability Charge	16,610	16,877	18,058	21,268	21,723
Transportation Fixed ⁽³⁾	--	--	--	12,464	17,756
In Lieu Tax Payment ⁽¹⁾	2,602	2,951	3,187	3,290	3,455
Total Fixed Charges	\$83,06	\$82,195	\$87,837	\$108,834	\$118,883

(1) Fiscal Year charge; all other charges based on Calendar Year.

(2) The Readiness-to-Serve charge is a function of the 10-year rolling average of water purchases for CWA and the rate established by MWD.

(3) CWA introduced a fixed Transportation Charge in 2025 which moves 40% of the revenue requirement associated with the transportation of water to a fixed basis.

Source: CWA Rates and Charges Ordinances and Public Utilities Department, City of San Diego.

The availability of water from MWD and CWA depends, in part, on allocations of water from the Colorado River. The current operating guidelines governing Colorado River reservoir operations at Lake Mead and Lake Powell are scheduled to expire at the end of Calendar Year 2026. Reclamation is undertaking a process to develop and finalize the Post-2026 Colorado River Operations Guidelines to establish new long-term operational rules intended to address structural supply-demand imbalances and ongoing hydrologic uncertainty within the Colorado River Basin through 2060. As part of this process, Reclamation released its Post-2026 Operational Guidelines and Strategies for Lake Powell and Lake Mead – Draft Environmental Impact Statement (the “EIS”) on January 9, 2026. The EIS analyzes five operational alternatives, each varying in how releases from Lake Powell (formed by Glen Canyon Dam in Utah and Arizona) and Lake Mead (behind Hoover Dam on the Arizona-Nevada border) are coordinated, shortages are triggered and shared, and conserved water is stored and released. The EIS does not designate a preferred alternative. Under the different operational alternatives, Arizona generally receives the most cuts early on, followed by Nevada; California’s access to water is generally protected the longest.

Negotiations among the Basin States and the federal government remain ongoing. Multiple deadlines for longer-term measures have been missed and no proposal has been agreed upon by the Basin States. In April 2026, Reclamation adopted two near-term operational actions to protect Lake Powell reservoir elevations in response to extremely low snowpack conditions, including reducing releases from Lake Powell to Lake Mead. On May 1, 2026, Arizona, California and Nevada (the “Lower Basin States”) jointly submitted a proposal to Reclamation to provide up to 3.2 million acre-feet in voluntary conservation through 2028 as a near-term bridge while long-term negotiations continue; federal funding for those conservation activities and California’s intra-state allocation of conservation obligations remain

unresolved. The federal government has stated that it intends to finalize guidelines by October 1, 2026. Neither the near-term operational actions nor the proposal by the Lower Basin States is expected to adversely impact water supplies to the San Diego region. More broadly, the Department does not currently expect the post-2026 process, by itself, to materially impair its ability to meet customer demands, due to continued access to diversified imported supplies through the CWA, local resources, and the phased implementation of the Pure Water Program, which is expected to reduce long-term reliance on imported water. However, final post-2026 operational rules could affect the availability, cost, or reliability of imported water supplies over time.

Local Supply and Storage Programs

Both MWD and CWA have encouraged the development of additional water supply projects such as water recycling and groundwater projects by their member agencies. MWD offers incentives of up to \$340 per AF for up to 25 years for recycled water and desalinated groundwater and seawater produced and beneficially reused within MWD's service territory through its Local Resources Program. CWA provides similar incentives through its Local Water Supply Development Program. The purpose of the Local Resources and Local Water Supply Development Programs is to promote the development of cost-effective local supply projects that prevent or reduce the demand for imported water and improve regional water supply reliability. These two programs reimburse member agencies for all or a portion of the difference between the actual per AF cost of producing local supplies, and the revenue generated by the participant through the sale of that AF of recycled water. The City's existing water recycling projects receive incentives from the CWA program. CWA stopped accepting new applications for the Local Water Supply Development Program in 2009.

The City's MWD Local Resources Program contract for the North City Water Reclamation Plant expired in 2023 after a 25-year term, but the program incentive continues to be an attractive option for ongoing water supply projects such as the City's Pure Water Program, which is intended to reduce the Department's dependence on CWA water supplies. In December 2019, the MWD Board approved the City's application for funding up to 33,600 acre-feet per year ("AFY") at a rate of \$340 per AF, or up to \$11,424,000 per year, for 25 years beginning when Phase 1 of the Pure Water program is in full production. The City expects to begin receiving these funds in Fiscal Year 2027. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Pure Water Program."

Local Water

Historically, the vast majority of the City's local water has come from the rainfall that is captured as run-off via the watersheds of its nine impounding reservoirs; however, the City expects purified water produced through the Pure Water Program to become an increasingly significant component of its local water portfolio over time (see "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Pure Water Program"). The City also has several groundwater basins within its jurisdiction; the groundwater from these basins is predominantly brackish. Improved technologies for processing brackish groundwater and past severe drought have made using groundwater more attractive when discussing a foreseeable affordable water supply source. Groundwater does not currently provide a significant source of water for the City. The increased use of local water in Fiscal Years 2024 and 2025 have resulted in less local water being available for future years. See Table 7 – "WATER SUPPLIES USED FOR DELIVERY OF POTABLE WATER." The City is assessing the development potential of its groundwater basins.

Recycled Water

The City has made significant capital investments in the recycled water program, which treats wastewater so that it can be used for purposes other than drinking water. Recycled water usage is seasonal

and is primarily used for irrigation. Customers also use the water for dust suppression or soil compaction at construction sites, in cooling towers, ornamental fountains, and for office building toilet and urinal flushing (dual plumbing). The City is significantly upgrading its use of recycled water through its Pure Water Program. See “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Pure Water Program.”

City Water Conservation Efforts

The Water Conservation Program was established by the City Council in 1985 and promotes permanent water savings. These savings have been achieved by creating a water conservation ethic, adopting programs, policies, and ordinances designed to promote water conservation practices, and implementing comprehensive public information and education campaigns.

The Department utilizes a broad range of conservation methods, including public outreach, water use surveys, water waste prevention ordinances and enforcement, and participation in rebate and incentive programs, including programs supported in part by non-City funding sources. The City’s conservation efforts are implemented within a long-term regulatory framework established pursuant to State of California Senate Bill 606 and Assembly Bill 1668 (2018), which require urban water suppliers to meet efficiency standards for indoor and outdoor water use, commercial, institutional, and industrial water use performance measures, and system water losses. The City began reporting compliance with these standards in 2024 and must meet applicable requirements by 2027. Due to effective conservation programs and customer drought responses, the City achieved approximately 112 gallons per capita per day of water use in 2025, about 25 percent below its State-mandated “20x2020” target. The City also maintains water use restrictions and enforcement authority under its Water Shortage Contingency Plan to respond to drought conditions and potential supply constraints, as appropriate.

The Department works closely with the City’s Planning and Development Services Departments to incorporate water efficiency requirements into planning and permitting processes for new development and redevelopment. The City periodically evaluates and updates its conservation programs and long-range planning assumptions to reflect evolving technologies, regulatory requirements, and climate conditions.

City Planning and Resource Management

The City has developed and continues to develop strategic plans for the Water System to address water supplies and future demand.

2012 Long-Range Plan. An important planning document is the City’s 2012 Long-Range Water Resources Plan (“2012 Long-Range Plan”), completed in December 2013, which evaluated alternative water supply strategies through a 2035 planning horizon and identified actions to reduce reliance on imported water and improve supply reliability. The plan identified potable reuse as a key long-term strategy for maximizing local supply, which led to the development of the City’s Pure Water Program. See “– Pure Water Program” for additional information. Components of the 2012 Long-Range Plan have been incorporated into subsequent planning documents, including the City’s Urban Water Management Plan (see description of the 2025 UWMP under “– Urban Water Management Plan” below).

Urban Water Management Plan. The Department is required by the Urban Water Management Planning Act, California Water Code Sections 10610 through 10657, to prepare and adopt an Urban Water Management Plan (“UWMP”) every five years. The UWMP serves as the City’s primary long-range water resources planning document and evaluates water supply reliability, demand projections, conservation programs, water shortage contingency planning, and resource alternatives over a 20-year planning horizon. The City Council adopted the 2025 UWMP on May 11, 2026.

Projected Future City Water Demand

As part of the UWMP, the City determined due to reduced population growth factors adopted by San Diego Association of Governments that there were sufficient supplies from the City and CWA to meet the City's long-term water needs. The UWMP also projects generally flat water demands over the next 20 years. Over 50% of these needs are projected to be met by local water sources (*i.e.*, reservoirs and the Pure Water Program) reducing the City's exposure to the challenges seen in the State and relating to the Post-2026 Colorado River Operations Guidelines. See "WATER SYSTEM FINANCIAL OPERATIONS – Financial Projections and Modeling Assumptions" for more information. There can be no assurance that actual demand for the services provided by the Water System will remain consistent with these projections. See "RISK FACTORS – Water System Demand."

WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM

Background

The Department prepares a five-year Water System Capital Improvement Program ("CIP") (consisting of the current budget year and future year projections) on an annual basis, and the City incorporates the first year of such plan into the Water System's annual budget. The Department's Engineering and Program Management Division also prepares a ten-year internal Water System Capital Improvement Program in connection with the consideration of longer-term projects. The Water System CIP includes the total estimated project cost since project inception, including expenditures, encumbrances, continuing appropriations, the annual budget for the current Fiscal Year and projections of expenses in subsequent years.

The Water System CIP is established to address current and future system needs in a cost-effective manner. The principal drivers of the Water System CIP are: improving infrastructure to reduce pipeline breaks and emergency repairs; improving process technology; improving the Water System to meet system demands and regulatory standards, including compliance with the Federal Safe Drinking Water Act and the DDW Compliance Order (defined herein); and implementation of the Pure Water Program.

Any ongoing project under the Water System CIP, other than an annual allocation that was initiated prior to the current Fiscal Year, will have expenditures, encumbrances or continuing appropriations in the current Fiscal Year. The Department may budget additional funding for such projects during current and future Fiscal Years depending upon project scheduling. The Department includes the amounts it has budgeted for each Fiscal Year in an annual appropriation ordinance (each, an "Annual Appropriation Ordinance"), which becomes effective upon adoption by the City Council. Each Annual Appropriation Ordinance authorizes the City to appropriate revenues for expenditures relating to capital improvement projects for the applicable Fiscal Year. In addition, each Annual Appropriation Ordinance provides guidance regarding the administration of the Water System CIP. Modifications to a project's budget may occur during the course of the Fiscal Year through City Council action. Appropriations for projects that are contained in the Water System CIP for Fiscal Year 2026 have been approved in the Annual Appropriation Ordinance for Fiscal Year 2026.

Integrated Master Planning

The Department is currently preparing the first Integrated Master Plan (the "IMP") that will examine existing assets and future projects for its Water and Wastewater utilities to develop a prioritized capital improvement program. This planning effort is for the first time looking holistically across the Department's Water, Metropolitan and Municipal wastewater systems. This is also the first integrated master plan to be done since the City's implementation of SAP's Enterprise Asset Management software.

This will allow the system and the planning efforts to be used hand in hand to make more informed decisions on capital outlays and associated maintenance work.

Another critical addition to this IMP is the assessment of climate change impacts to the Department's facilities and operations and recommendations for specific adaptation measures that will become essential inputs to the IMP. Sea level rise, flooding, droughts, wildfires, extreme heat, and other climate change related hazards will impact existing and new facilities and can present challenges to the Department's operations in the future. The planning document will review vulnerability assessments and information will be evaluated for the degree to which each of the Department's facilities is susceptible to the adverse effects of climate and climate change. The vulnerability assessment was performed for future conditions incorporating climate change. For the climate change analysis, the projected changes in the vulnerability metrics are estimated for two future 30-year periods with respect to the historical period. The analysis is conducted for Calendar Years 2036-2065 in the near future and Calendar Years 2061-2090 in the late future. The historical reference period for climate change analysis is Calendar Years 1981-2010. The sea level rise scenarios are analyzed through Calendar Year 2100.

Preliminary work has identified several areas of climate impacts that are being incorporated into the planning discussion including:

- The number of extreme heat days is projected to be substantially greater at nearly all wastewater collection and distribution facilities, however days exceeding 95°F are not projected to significantly impact many facilities in the Water System.
- Increasing wildfire probability will increase the vulnerability of several pump stations.
- Flooding vulnerability is projected to increase. Coastal and precipitation-based flooding can impact water dams, pipes and pump stations.
- Coastal erosion can impact water infrastructure, with pipelines being particularly vulnerable.

See "WATER SYSTEM FINANCIAL OPERATIONS—Climate Change Assessment and Mitigation Plans."

Description of Major Projects

The Department has developed the Water System CIP to address current and future Water System needs. The current cost estimate of Water System CIP projects for the period from Fiscal Years 2026 through 2031, with inflation, is approximately \$2.48 billion, the cost estimate is subject to change. The budget for each project and program is established and approved by the City Council and adjustments to such budgets require approval of the City Council. The Water System CIP is comprised of eight project categories. The following is a brief description of the Water System CIP by categories. The seven categories below that are not Pure Water Program projects are collectively referred to as the Water System's "Baseline" CIP projects.

Pure Water Program. The Pure Water Program is the Department's program to provide a safe, secure, and sustainable local drinking water supply for San Diego. Advanced water purification technology will be used to produce potable water from advanced primary treated water. See "WATER SYSTEM CAPITAL IMPROVEMENT PLAN – Pure Water Program" for additional information on the Pure Water Program.

Transmission Pipelines. Transmission pipelines are designed to transport water from the major supply sources (water treatment plants, pump stations and potable reservoirs) to supply the distribution grid. The Water System CIP provides for the replacement of 16-inch and larger diameter water pipelines at various locations throughout the City, which are in a deteriorated condition or have reached the end of their

service life. The Department is also assessing its transmission pipelines and is scheduling the replacement of these pipelines based on the condition of existing facilities, system needs and available funds.

Distribution Pipelines. The Water System CIP includes the replacement of distribution water pipelines located throughout the City. Distribution pipelines are supplied by the transmission system and run throughout the City’s street grid to supply the customer service connections. The Department plans the awarding of contracts for the replacement of the highest priority pipes, which includes cast iron pipes mandated by the DDW Compliance Order and high priority asbestos cement pipes based on their higher risk of failure and degraded condition.

Water Storage Facilities. The Water System CIP includes projects that will replace and/or make improvements to the existing water storage facilities throughout the Water System. A priority project within this category is the repair, replacement or rehabilitation of Lake Murray Dam. The City is also currently evaluating project alternatives for Hodges Dam, as well as short-term projects to support this aging dam.

Water Treatment Plants. The Water System CIP provides for upgrades and improvement of the treatment facilities at Alvarado, Miramar, and OWTP.

Pump Stations. The Water System CIP includes projects that will upgrade, rehabilitate and construct pump stations throughout the Water System to improve service reliability and the ability to accommodate current and future water demands.

Groundwater. The Water System CIP provides for investigation work related to legal, technical, regulatory, and water quality issues; and for the planning, design, and construction of groundwater facilities to increase the local water supply. There are no groundwater projects anticipated through Fiscal Year 2031.

Miscellaneous. Other CIP projects include water security projects at reservoirs and dams; solar projects; pressure regulating station replacements; and instrumentation and control upgrades at water facilities.

The following table shows categories of projects with the estimated cost of expenditures contained in the Water System CIP for the period of Fiscal Years 2026 through 2031. Final Water System CIP project costs will be refined as the Water System CIP progresses. The budget for each project and program is established and approved by the City Council and adjustments to such budgets require approval of the City Council.

Beyond the next five years, the City expects an increase in expenses for Phase 2 of the Pure Water Program, the replacement of the most critical pipelines in the Water System, and significant projects relating to dams and reservoir improvements, including the rehabilitation of Lake Murray Dam. The City has been undertaking complete condition assessments for all nine of the dams within the Water System. Upon completion of the condition assessments, the City anticipates the initiation of capital improvement projects to make dam repairs and improvements. See “REGULATORY RISKS – Dam Licensing and Safety Issues” for additional information.

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TABLE 10
SUMMARY OF PROJECTED WATER SYSTEM CIP PROJECTS⁽¹⁾⁽²⁾⁽³⁾
Fiscal Years 2026 through 2031
(\$ Amounts in Thousands; Except for Footnotes)

Description	Estimated		Projected				Fiscal Year 2026-2031
	2026	2027	2028	2029	2030	2031	Total ⁽⁴⁾
Pure Water Program ⁽⁵⁾	\$182,989	\$57,247	\$40,515	\$35,144	\$34,510	\$36,910	\$387,315
Transmission Pipelines	147,992	155,976	114,099	142,275	67,698	60,895	688,935
Pipelines	91,049	102,096	94,990	128,898	195,608	170,061	782,702
Storage Facilities ⁽⁶⁾	12,868	19,811	34,933	42,974	68,294	100,999	279,879
Water Treatment Plants	7,776	8,964	20,119	23,178	20,174	17,659	97,871
Pump Stations	3,460	11,053	11,102	17,994	19,823	9,995	73,427
Groundwater Projects ⁽⁷⁾	0	0	0	0	0	0	0
Miscellaneous Projects ⁽⁸⁾	8,344	17,641	27,426	45,087	47,679	25,587	171,764
Total⁽⁴⁾	\$454,478	\$372,789	\$343,183	\$435,550	\$453,787	\$422,106	\$2,481,893

- (1) Projections as of March 2026 for the Water System Baseline CIP (which represents the Water System CIP costs excluding the costs of the Pure Water Program) and as of March 2026 for the Pure Water Program 2026 estimated expenses.
- (2) Amounts reflect the aggregate cost of all Water System CIP projects required to satisfy the DDW Compliance Order as well as projects related thereto or necessary for the operation thereof. This is anticipated to total \$16.2 million in this period.
- (3) The projected amounts in Fiscal Year 2027 and thereafter reflect an annual inflation rate of 3.1% due to anticipated increases in construction costs over time and the expected execution of the Water System CIP.
- (4) Figures may not add to total due to independent rounding.
- (5) Projections include only the portion of the Pure Water Program attributable to the Water System. Projections include approximately \$127.1 million for Pure Water Program Phase 2.
- (6) Storage Facilities include treated and untreated water reservoirs.
- (7) No Groundwater Projects are anticipated through the projection period.
- (8) Miscellaneous Projects include water security projects, laboratory improvements, and solar projects.
- Source: Public Utilities Department, City of San Diego.

Pure Water Program

General. The Pure Water Program is the largest infrastructure project in the City’s history, consisting of multi-year improvements and additions to the City’s Water System and the Wastewater System that will enable the City to (i) meet Clean Water Act standards at the Point Loma Wastewater Treatment Plant (the “Point Loma Plant”) and (ii) reduce the City’s reliance on imported water and produce a sustainable local drinking water supply. Advanced water purification technology will be used to produce potable water from recycled water already treated to Title 22 specifications under the California Code. It is contemplated that the Pure Water Program will be implemented in two phases, subject to adjustment as described below. The Pure Water Program is expected to reduce the City’s ocean wastewater discharges by more than 50% and increase the City’s local water supplies to approximately half the City’s water portfolio (at least 83 mgd capacity of potable water) as early as the end of Calendar Year 2035. As described below, the cost of the project is shared between the Water System and the Wastewater System. Multiple financing sources have been and will be used to fund the Pure Water Program, including grants, long-term loans and bonds, and Water System revenues and Wastewater System revenues. The use of multiple funding sources mitigates the impact to rate-payers by distributing the revenue requirements among all those who will benefit from the Pure Water Program.

The Pure Water Program consists of many complex, interrelated capital projects. As the capital projects are undertaken, construction costs may change from prior estimates due to multiple factors, including but not limited to, availability of supplies and labor, unforeseen project adjustments, and increasing costs. Contingencies are incorporated into each project; however, depending upon the magnitude of the necessary cost adjustments, these contingencies could be exceeded, resulting in costs increasing

materially higher than reflected in the City’s projections described herein for one or more of the projects. As construction of the herein described Phase 1 projects are over 80% complete, the potential and magnitude of any cost adjustments are more applicable to Phase 2, as described below. The use of multiple funding sources will allow the Department to evaluate the program and address increased costs on an as needed basis. Any potential capital cost adjustments would impact the capital cost of the Pure Water Program and may also impact projected operational costs of the Pure Water Program.

Pure Water Program – Phase 1. The Phase 1 projects are being constructed in the North City area of the City and are expected to produce up to 30 mgd of purified drinking water. The projects include: (1) the North City Water Reclamation Plant expansion and influent conveyance; (2) the new North City Pure Water Facility, which will treat the tertiary-treated water to purified water standards; (3) a new 8-mile North City Pure Water Pipeline, which will convey the purified drinking water from the new Pure Water Facility to Miramar Reservoir, at the end of which the purified water will be blended with the City’s other water supplies before being treated at the adjacent Miramar Water Treatment Plant and distributed to customers; (4) a new 30 mgd North City Pure Water Pump Station, which will pump the purified water through the Pure Water Pipeline; (5) the North City Morena Pump Station and Pipeline, which will convey wastewater from the pump station to the North City Water Reclamation Plant for treatment; and (6) certain Miramar Water Treatment Plant and Miramar Reservoir Pump Station Improvements, which will continuously pump the raw water from the Miramar Reservoir to the Miramar Water Treatment Plant. California Environmental Quality Act and National Environmental Policy Act reviews are complete for the North City Phase 1 Project, and the Environmental Impact Report (“EIR”) was certified by the City Council on April 10, 2018. The U.S. Bureau of Reclamation issued the Record of Decision on the Final Environmental Impact Statement on November 1, 2018, and in May 2020, the Miramar Reservoir NPDES Permit, which allows purified water to be released to the Miramar Reservoir, was formally adopted by the Regional Water Quality Control Board. That master permit established a schedule for several conditions that must be satisfied before water can be released to the Miramar Reservoir. The City is working to satisfy the remaining permit conditions and continues to coordinate with the State Water Board’s Division of Drinking Water and the Regional Water Quality Control Board on required approvals for system startup. Satisfaction of remaining conditions is subject to regulatory review, system commissioning, and operational testing.

The total cost for the Pure Water Program Phase 1 is projected to be \$1.75 billion, which includes a project contingency of approximately 20%. The Department has determined that costs for the program will be allocated between the Water Utility Fund and Sewer Revenue Fund of the Water System and Wastewater System, respectively, in the following manner: all capital and operational costs related to facilities for the conveyance of wastewater and the treatment of the wastewater through secondary treatment would be borne by the Sewer Revenue Fund (including its customers and regional partners); all capital and operational costs related to treatment and conveyance of reused water treated beyond the secondary standards will be borne by the Water Utility Fund. Based on the cost allocation between the Water System and the Wastewater System, approximately \$984.9 million is allocated to the Water Utility Fund and approximately \$764 million is allocated to the Sewer Revenue Fund. These costs include in-house City costs as well as contractual services for program management, treatment process optimization, environmental reports, outreach, design, and construction. Final cost allocation of the Phase 1 projects will begin after substantial completion is reached. Of the \$984.9 million in costs allocated to the Water System for Phase 1, approximately \$724.7 million has been expended through Fiscal Year 2025, with the remaining \$260.2 million projected for Fiscal Years 2026 through 2031. The Phase 1 projects for the Water System overall are expected to be funded with \$733.5 million in WIFIA Loans, \$44 million in grant funding, and the remaining amounts in cash or previously issued bonds. See “—Capital Improvement Financing Plan—WIFIA Loans.” See also Table 10 – “SUMMARY OF PROJECTED WATER SYSTEM CIP PROJECTS” and Table 11 – “PROJECTED SOURCES OF FUNDS FOR CAPITAL EXPENDITURES OF THE WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM” below.

As of March 2026, all construction contracts for the major components of Phase 1 have been awarded and construction is over 80% complete. The costs and construction timeframe, however, remain subject to various uncertainties. Among other things, certain contractors have signaled possible construction delays and cost increases. To achieve Phase 1 full production of 30 mgd, construction of nearly all individual components of Phase 1 must be completed and commissioned at approximately the same time. The timing of water production assumes substantial completion of Phase 1 in Calendar Year 2027, with initial production scheduled to occur before end of Calendar Year 2026 and full production six to eight months after initial production; completion of various regulatory and technical aspects of Phase 1 may not conclude until a couple of years following water production. Completion of Phase 1, alone, will more than double the amount of local water available, reducing the City's need for imported water, making it more resilient to the long-term impact of drought. Due to the size and complexity of the project, which is spread across 12 individual construction contracts, the City anticipates that there may be substantial changes to cost allocations, final project close-out costs and schedules. The City is aware of several unknowns, including the size of final close out change orders and how liability for those change orders will be allocated among the City, construction contractors, sub-contractors, designers and other related parties. In addition, these changes and any delays relating thereto will result in the Water System buying additional imported water from its wholesaler, which will increase short-term financial pressure.

Pure Water Program Phases. Phased implementation allows the City to adapt to changing conditions, and in some cases, update previous planning assumptions. The City continues to review and evaluate the various phases of the Pure Water Program, including the methods to be employed to purify water and the final locations of the facilities. The remaining 53 mgd of the total 83 mgd Pure Water Program goal (*i.e.*, the portion not being produced as part of Phase 1) was originally planned to be delivered by facilities located in the central and southern areas of the City. As part of its update to the Pure Water Program plan (which includes accounting for changes in treatment technology, wastewater flows, water demands, and projections of both flows and demands), the City is evaluating the feasibility of producing all of the remaining 53 mgd in the Central Area (Phase 2), as described below. The major remaining decisions for the Phase 2 Central Area projects are whether to use Murray Reservoir or San Vicente Reservoir as the discharge location for Phase 2 Central Area purified water and the location of certain major facilities. If the City elects to utilize Murray Reservoir as the discharge location, the project would be structured as direct potable reuse because the volumetric limitations of the reservoir are not compatible with indirect potable reuse, which is the approach being used for the North City projects in Phase 1. Direct potable reuse regulations were approved for use in California effective October 1, 2024. The implementation of Phase 1 is not dependent on implementation of any other phase of the Pure Water Program.

The City contemplates that Phase 2 of the Pure Water Program will include one or more facilities in the central portion of San Diego between the San Diego River and National City (referred to herein as the "Central Area"). As part of the work for Phase 2, the City has designed and is constructing a demonstration facility to prove that the processes contemplated as part of Phase 2 can produce purified water in compliance with the regulatory requirements for potable reuse. The results of the demonstration facility testing will also help determine parameters for full-scale design of the Phase 2 facilities. The Phase 2 demonstration facility began operations in 2026. \$127.1 million for work associated with the Phase 2 demonstration facility is included in the projected Water System CIP expenditures through Fiscal Year 2031. See Table 10 – "SUMMARY OF PROJECTED WATER SYSTEM CIP PROJECTS." The projected \$127.1 million of Phase 2 costs occurring between Fiscal Years 2026 and 2031 will be initially funded from cash. These cost projections are subject to change. The City is collaborating with stakeholders, including regulatory bodies and community groups, to continually refine the scope and costs to ensure fiscal responsibility as Phase 2 progresses. The City expects that Phase 2 will be largely funded with debt obligations, and will seek the lowest possible cost of funds, including State and federal funding. However, in light of current interest rate trends and State and federal fiscal policies, the borrowing for Phase 2 will

likely be at a higher interest rate than loans secured for Phase 1 of the Pure Water program, which were secured at decades-low interest rates. The City is currently in negotiations with its environmental stakeholder on the final scale of the Phase 2 project. These negotiations are intended to facilitate the City's meeting its contractual agreement with its environmental stakeholder and regulations at the most efficient cost to both its water and wastewater rate payers.

Capital Improvement Financing Plan

The Water Utility Fund's share of the costs of the projects in the Water System CIP for Fiscal Years 2026 through 2031 is expected to be approximately \$2.48 billion in the aggregate.

Overall, the Water System CIP for Fiscal Years 2026 through 2031 is expected to be financed with a combination of additional Obligations (revenue bonds and Commercial Paper Notes), proceeds from several State and Federal Loans, and cash and Capacity Charge revenues. Some, but not all, of the funding sources for certain projects of the Water System CIP have already been secured. The estimated costs of, and the projected schedule for, the Water System CIP are subject to various uncertainties. Among the uncertainties are the size and scale of the Phase 2 project, which is assumed to proceed pursuant to a schedule previously adopted by the City and using estimates largely established in Calendar Year 2012; the City expects to have greater specificity by the end of Calendar Year 2026 and will adjust the Water System CIP accordingly. The City may ultimately decide not to proceed with certain Water System CIP projects or may proceed with them on a different schedule, resulting in different results than those described in this Official Statement. See "RISK FACTORS – Water System CIP."

WIFIA Loans. A portion of the Pure Water Program Phase 1 expenditures is expected to be financed with the proceeds of two WIFIA Loans in the aggregate amount of \$733.5 million. As of June 16, 2026, approximately \$638.4 million has been advanced under the WIFIA Loans. Water Utility Fund Obligations incurred to finance Phase 1 of the Pure Water Program is subordinate to the City's obligation to make 2026 Installment Payments.

State and Federal Loans. For the projection period set forth in Table 11 (*i.e.*, Fiscal Years 2026 through 2031), the City anticipates financing a total of \$493.6 million of Baseline CIP projects with proceeds of State and Federal Loans. Of this amount, the City has three existing Senior SRF Loans in the construction phase that are expected to disburse \$231.4 million between Fiscal Years 2026 through 2031. The timeline for SRF reimbursements has recently ranged from two to ten months, so the Fiscal Year in which the funding is received is subject to change. In addition, the State Water Board's Drinking Water SRF Loan Program has allocated funding for one transmission pipeline replacement project that is currently estimated to total up to \$50 million, with the loan agreement anticipated to be executed in late Calendar Year 2026.

In addition, the City has applied through the U.S. Army Corps of Engineers ("USACE") for a federal loan under the Corps Water Infrastructure Financing Program ("CWIFP") in the maximum amount of \$240.6 million (the "CWIFP Loan") to fund certain costs associated with dam improvements, which appear as "Water Storage" in Table 10, with the funding source reflected in Table 11. The CWIFP Loan may be undertaken in the form of one or more draw-down loans, evidenced by one or more installment agreements, depending on projected expenditures and construction phases for these projects. The City expects to begin negotiations on the related loan agreement in mid-Calendar Year 2026. The debt service under the CWIFP Loan is expected to be secured by Net System Revenues of the Water Utility Fund on a subordinate basis to the 2026A Bonds and other Senior Obligations. The timing of loan execution and disbursement amounts are not yet finalized, and no assurance can be made that the City and USACE will execute and deliver the CWIFP loan agreement.

Additional Obligations. For Baseline CIP, it is expected that costs will be financed with proceeds from Commercial Paper Notes and/or Bonds in the amount of approximately \$1.15 billion for Fiscal Years

2026 through 2031. The aggregate principal amount of Commercial Paper Notes outstanding at any time may not exceed \$250 million, therefore the Department projects to repay Commercial Paper Notes by issuing Bonds approximately every two years. The timing of these note and bond offerings are dependent on the project construction schedules and cash flow needs.

Department Cash and Capacity Charge Revenues. A portion of the Pure Water Program is expected to be funded with Department cash based on final project costs; and a portion of the Baseline CIP is expected to be funded with Department cash and Capacity Charge revenues in the amount of approximately \$454.0 million.

See “WATER SYSTEM FINANCIAL OPERATIONS – Financial Projections and Modeling Assumptions.” Notwithstanding any contributions from the Sewer Revenue Fund to finance Pure Water Program components of the Water System CIP, amounts from the Sewer Revenue Fund are not available to pay principal of and interest on the 2026A Bonds.

TABLE 11
PROJECTED SOURCES OF FUNDS FOR CAPITAL EXPENDITURES OF THE
WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM
Fiscal Years 2026 through 2031
(\$ Amounts in Thousands; Except for Footnotes)

	<u>Estimated</u>	<u>Projected</u>					<u>Fiscal Year</u> <u>2026-2031</u>
	<u>2026⁽¹⁾</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>Total</u>
Source of Funds for Pure Water Program CIP⁽²⁾:							
WIFIA Loans	\$112,738	\$60,609	\$28,346	\$5,695	\$607	\$42	\$208,036
Commercial Paper/Revenue Bonds	0	0	0	0	0	0	0
Grants	0	0	0	0	0	0	0
Cash ⁽³⁾	70,251	(3,361)	12,169	29,449	33,903	36,868	179,279
Total Source of Funds for Pure Water Program CIP	<u>\$182,989</u>	<u>\$57,247</u>	<u>\$40,515</u>	<u>\$35,144</u>	<u>\$34,510</u>	<u>\$36,910</u>	<u>\$387,315</u>
Source of Funds for Baseline CIP:							
Commercial Paper/Revenue Bonds ⁽⁴⁾⁽⁵⁾	\$177,000	\$200,000	\$345,000	\$115,000	\$190,000	\$120,000	\$1,147,000
State and Federal Loans ⁽⁶⁾	50,807	97,876	109,407	83,173	87,913	64,434	493,610
Grants	0	0	0	0	0	0	0
Capacity Charge Revenues/Cash ⁽⁷⁾	43,682	17,665	(151,739)	202,234	141,364	200,762	453,967
Total Source of Funds for Baseline CIP	<u>\$271,489</u>	<u>\$315,541</u>	<u>\$302,668</u>	<u>\$400,406</u>	<u>\$419,277</u>	<u>\$385,196</u>	<u>2,094,578</u>

⁽¹⁾ Estimated sources are based on unaudited actuals as of March 2026, and do not reflect any accruals.

⁽²⁾ Projections are based on full production of the Pure Water Program Phase 1 in Fiscal Year 2027.

⁽³⁾ Projections assume that \$127.1 million of Phase 2 of the Pure Water Program is initially funded on a pay-as-you-go basis; the majority of Phase 2 costs will be financed subsequent to Fiscal Year 2031.

⁽⁴⁾ \$140 million of the \$177 million associated with from the Fiscal Year 2026 is expected to be derived from proceeds of the 2026A Bonds. It is anticipated that the remaining \$37 million in Fiscal Year 2026 will be financed with proceeds of Commercial Paper Notes.

⁽⁵⁾ If CIP expenses are less than the amounts forecasted in this Official Statement, the City will adjust with a corresponding decrease in Commercial Paper Notes issuance and use, based on the year in which those savings materialized.

[Footnotes continued on next page.]

[Footnotes continued from prior page.]

- ⁽⁶⁾ Includes proceeds through Fiscal Year 2031 from current and anticipated SRF Loans and a Federal Loan for certain Baseline CIP projects; the granting of any such anticipated loans cannot be ensured. The projected time frame for the distribution of SRF Loan funds has recently ranged from two to ten months and may be delayed depending on the Drinking Water SRF Loan program’s fund distribution timing. Negotiations for the CWIFP Loan are anticipated to begin in mid-Calendar Year 2026; no assurance can be made that the City and USACE will execute and deliver a CWIFP loan agreement.
- ⁽⁷⁾ The negative cash values in Fiscal Year 2028 represent prior pay-as-you-go funding being reimbursed from proceeds of either short-term or long term debt issuances or incurrences.

Source: Public Utilities Department, City of San Diego.

WATER SYSTEM FINANCIAL OPERATIONS

Establishment of Water Service Charges

The primary revenue sources of the Water Utility Fund are generated from water sales to retail and wholesale customers. Retail water sales are collected on a combined utility bill, which includes water as well as sewer charges and storm drain fees; only receipts from water sales are revenues to the Water Utility Fund. The water component is comprised of two parts, a fixed monthly service charge or “Base Fee,” based on the size of the water meter, and a commodity charge that is for the volume of water used. Bills are distributed on a bi-monthly basis for most customers and a monthly basis for high consumption residential, non-residential, and irrigation customers. Additional revenues are derived from capacity charges, interest earnings from the investments of available funds and rental income.

Water Service Charges. The Water System’s water service charge for all retail user classes includes a fixed monthly service charge (also referred to as a base fee) and a commodity charge that is for the volume of water used. The base fee is determined by the customer’s meter size and is charged to the customer whether or not the customer uses water. The base fee is based upon the assumption that the Department incurs certain costs to make water available to serve the commodity to the water customer upon demand. The fee covers costs such as the general administrative costs of the Department for billing, payment processing, and account management related to the Water System. The size of the customer’s connection provides an approximation of the amount of water the customer conceivably could have delivered to his or her property. The commodity charge is a set rate charge for each customer class based upon the amount of HCF of water consumed during the billing cycle multiplied by the fee associated with each tier or class. The City has a three-tiered commodity charge structure for SFR customers (which may be converted to uniform rates as a result existing litigation (See “Rate Setting”), subject to City council approval and certain other conditions precedent) while all other customer classes are billed a uniform rate for their respective customer classification. See Table 13 for a schedule of commodity charges applicable to each customer class and the base fees for the various water meter sizes in the Water System through Fiscal Year 2026.

In connection with the Patz Litigation (see “LITIGATION – Patz Litigation”), a unitary rate proposal is expected to be introduced for City Council consideration in October 2026, which, if adopted, would be effective January 2027. The unitary rate would provide for all customers paying the same amount for each unit of water regardless of consumption level.

Wholesale Revenues. Wholesale customers pay negotiated charges that are calculated differently based on their unique characteristics and are contracted for specified terms. See Table 15 for historical water sale revenue for wholesale customers.

Capacity Charges. The term “Capacity Charge” means a charge imposed upon a person, firm, corporation or other entity incident to the granting of a permit for a new water connection or due to an increase in water usage by the addition of any type of dwelling, commercial or industrial unit, which charge is based upon an increase in water consumption as measured by equivalent dwelling units (“EDUs”), and

the proceeds of which are restricted to be used to construct, improve and expand the Water System to accommodate the additional business of such added dwellings or commercial or industrial units.

Capacity charges are not treated as operating income for financial reporting purposes but are considered System Revenues and are accounted for in debt service coverage calculations. Pursuant to State law, capacity charge revenue can be applied only for paying costs associated with capital expansion, bonds, contracts, or other indebtedness of the Water System related to expansion. Capacity charges are included in the Capital Contributions line of Table 16 – Statement of Revenues, Expenses and Changes in Fund Net Position for the Water Utility Fund. Because capacity charges are primarily collected on new construction within the City, capacity charge revenues are impacted by increases and decreases in residential and non-residential construction. The current capacity charge is \$3,047 per EDU, and has been unchanged since last adjusted in 2007. The water available for use for a typical SFR is equated to one EDU and equals 500 gallons per day.

Non-residential customers are charged based upon calculated usage or an inventory of plumbing components that are assigned a number of “fixture units,” which are converted to EDUs using a conversion factor that equates 20 fixture units to one EDU. The minimum capacity assigned to any user is one EDU.

The following table sets forth the historical capacity charge revenues from Fiscal Years 2021 through 2025. Aggregate capacity charge revenues may not equal the amount derived by multiplying the capacity charge rate by the number of EDUs because of individual customer account characteristics.

TABLE 12
WATER UTILITY FUND
HISTORICAL CAPACITY CHARGE REVENUES
Fiscal Years 2021 through 2025

<u>Fiscal Year</u>	<u>New Equivalent Dwelling Units</u>	<u>Capacity Charge Revenues⁽¹⁾</u>
2021	4,833	\$14,727,291
2022	5,886	17,940,413
2023	5,911	18,025,251
2024	6,472	19,727,960
2025	5,265	16,102,082

⁽¹⁾ Amounts include potable and recycled capacity charge revenues. Amounts are not available to pay for operations and maintenance costs.

Source: Department of Finance and Public Utilities Department, City of San Diego.

Rate Setting

General. A cost of service analysis (“COS Analysis”) is a comprehensive evaluation conducted to forecast the future maintenance and operation costs, capital expenditures, and other financial factors impacting the City’s water system. This analysis provides the foundation for developing multi-year rate cases, typically for two to five years, which are used to set water rates for a designated period. The rate setting process begins with the City engaging an outside consulting firm to perform the COS Analysis. This independent review ensures that rate proposals are grounded in reliable data and financial projections, including factors like the Pure Water Program and anticipated changes in wholesale water costs. Their work culminates in a formal report, which is used by City staff to propose rate cases for City Council consideration.

Recent Rate Cases and Council Decisions. The City completed a COS Analysis in 2022 and 2023, resulting in the “2024 Rate Case” for Fiscal Years 2024 and 2025. As part of the City Council’s consideration of the 2024 Rate Case, they chose to split the first year’s increase in half, with the first part being implemented in December 2023, and the second part being implemented on July 1, 2024. An updated

2024 COS Analysis was conducted and released on July 8, 2025. Based on this latest analysis, City staff proposed a four-year rate case covering Fiscal Years 2026 through 2029 (the “2026 Rate Case”).

On October 28, 2025, the City Council approved rate increases for Fiscal Year 2026 of 14.7% consisting of 13.6% estimated CWA pass-through costs and 1.1% for Water System needs) and Fiscal Year 2027 of 14.5% consisting of 11.4% estimated CWA pass-through costs and 3.1% for Water System needs. The City Council did not approve the proposed rate adjustments for Fiscal Years 2028 and 2029, directing that rates for those fiscal years be revisited in future proceedings. Therefore, water rates for Fiscal Years 2028 and 2029 remain subject to further review and approval by the City Council.

The CWA pass-through portion of the rate increases are based upon information publicly available from CWA and include steady water demand projections and a moderate capital program; however, these projections are subject to change as CWA reassesses its rate design and any additional increased costs related to water supplies. CWA Budget and Rates for Calendar Years 2026 and 2027 (the “CWA Budget”) were approved on June 26, 2025. The CWA Budget reflects efforts by CWA to address diminishing water purchases through sales, exchanges, and transfers of water supplies, a moderate risk scenario capital program, and a change in CWA’s proposed capital funding strategy. See “WATER SUPPLY – CWA Wholesale Water Rates.” The City expects to pass through only the actual CWA pass-through cost impact to its ratepayers following adoption of applicable rates by the City Council; future CWA pass-through rates will likely be reduced if the rates charged by CWA are reduced. See “– Financial Projections and Modeling Assumptions,” which also describes the various assumed rate increases for January 1, 2028 and thereafter for modeling purposes.

Among other things, the 2024 COS Analysis assumes a three-tiered rate structure for single-family residents based on the different peaking characteristics of customer demand. The tiers represent indoor water usage, average summer usage levels and water use above those levels. In connection with the settlement of the *Patz Litigation*, a unitary rate proposal is expected to be introduced for City Council consideration in October 2026, which, if adopted, would be effective January 2027. The unitary rate would provide for all customers paying the same amount for each unit of water regardless of consumption level. The underlying information for a uniform rate structure has been gathered in connection with the 2024 COS Analysis such that preliminary information is available to the City. Any such rate adjustments will be completed in accordance with Proposition 218, subsequent to the commission of an additional COS Analysis, and will include charges to cover the settlement payment based on the Water System’s cash flow needs. The City does not expect the transition toward a uniform rate structure across all customer classes to materially affect the Net System Revenues; the transition is expected to redistribute cost recovery among customer classes and customers. See “LITIGATION – *Patz Litigation*.”

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TABLE 13
FIVE-YEAR WATER SERVICE CHARGE HISTORY FOR SINGLE FAMILY RESIDENTIAL, MULTI-FAMILY RESIDENTIAL,
NON-RESIDENTIAL, IRRIGATION, AND TEMPORARY CONSTRUCTION
Fiscal Years 2022 through 2026

		<u>FY 2022</u> <u>(effective</u> <u>1/1/2022)</u>	<u>FY 2023</u> <u>(effective</u> <u>1/1/2023)</u>	<u>FY 2024</u> <u>(effective</u> <u>12/1/2023)</u>	<u>FY 2025</u> <u>(effective</u> <u>7/1/2024)</u>	<u>FY 2025</u> <u>(effective</u> <u>1/1/2025)</u>	<u>FY 2025</u> <u>(effective</u> <u>5/1/2025)</u>	<u>FY 2026</u> <u>(effective</u> <u>1/1/2026)</u>
<u>CWA pass-through costs:</u>		3.00%	2.50%	1.80%	1.80%	5.00%	5.50%	13.6%
<u>Increase in Water System costs⁽¹⁾:</u>		--	--	3.20%	3.40%	3.70%	--	1.1%
<u>Total Increase amount⁽²⁾:</u>		3.00%	2.50%	5.00%	5.20%	8.70%	5.50%	14.7%
BASE FEES⁽³⁾								
Meter Size:	5/8 inch	\$27.09	\$27.77	\$24.11	\$25.15	\$27.33	\$28.84	\$35.53
	3/4 inch	27.09	27.77	24.11	25.15	27.33	28.84	35.53
	1 inch	35.87	36.77	38.98	40.66	44.19	46.63	56.83
	1.5 inch	55.97	57.37	76.16	79.43	86.32	91.07	110.10
	2 inch	81.08	83.11	120.77	125.97	136.89	144.42	174.02
	3 inch	140.09	143.59	276.92	288.83	313.87	331.14	397.73
	4 inch	224.22	229.83	462.80	482.71	524.56	553.42	664.05
	6 inch	432.65	443.47	1,072.52	1,118.64	1,215.63	1,282.49	1,537.58
	8 inch	683.77	700.86	1,654.05	1,715.80	1,864.57	1,967.13	2,357.85
	10 inch	977.57	1,002.01	3,124.45	3,259.10	3,541.69	3,736.49	4,477.77
	12 inch	1,813.79	1,859.13	3,942.63	4,112.18	4,468.74	4,714.53	5,649.59
	16 inch	3,153.50	3,232.34	5,801.51	6,051.01	6,575.68	6,937.35	8,312.81
COMMODITY CHARGE								
<u>Customer Type:</u>								
Single Family Residential								
	Tier 1	0-4 HCF ⁽⁴⁾	\$5.415	\$5.550				
	Tier 2	5-12 HCF	6.065	6.217				
	Tier 3	13-18 HCF	8.664	8.881				
	Tier 4	19+ HCF	12.183	12.488				
	Tier 1 ⁽⁵⁾	0-5 HCF			\$6.090	\$6.400	\$6.950	\$7.340
	Tier 2	6-11 HCF			6.890	7.240	7.870	8.310
	Tier 3	12+ HCF			8.670	9.120	9.910	10.460
	Typical Single Family Monthly Bill ⁽⁶⁾		\$79.08	\$81.06	\$82.12	\$86.11	\$93.56	\$98.78
	Multi-Family Residential	per HCF ⁽⁷⁾	\$6.553	\$6.717	\$7.150	\$7.520	\$8.170	\$8.620
	Non-Residential ⁽⁸⁾	per HCF ⁽⁷⁾	6.394	6.554	6.970	7.330	7.970	8.410
	Irrigation	per HCF ⁽⁷⁾	7.265	7.447	8.200	8.620	9.370	10.550
	Temporary Construction	per HCF ⁽⁷⁾	7.388	7.573	7.860	8.260	8.980	10.880

[Footnotes on next page.]

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- (1) Increases in Water System costs due to CIP, implementation of Pure Water Program, and drought.
 - (2) Percentages reflect the total impact on Department water service charge revenue for the indicated Fiscal Year. Increased percentage amounts for individual customers may vary depending on the service type provided and actual volume of water delivered.
 - (3) The base fee is dependent on the meter size.
 - (4) 1 HCF (Hundred Cubic Feet) equals 748 gallons.
 - (5) The 2024 Rate Case adjusted the tiered rate structure for the Single Family Residential customer class by reducing the tiers from four to three and revising the breakpoint between each tier.
 - (6) Reflects base fee and commodity charge. Based on 9 HCF per month and an average meter size of 3/4 inch.
 - (7) One rate applies for all usage amounts.
 - (8) Non-Residential consists of Commercial and Industrial customer types.
- Source: Public Utilities Department, City of San Diego.

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Collection of Water Service Charges

In order to receive water service and be billed for water fees, a person must contact the Department to have water service initiated. The person initiating the service does not have to be the owner of the property to which the water is delivered. Each customer has a meter from which the Department measures the amount of the water consumed. The meter is read by the Department to calculate the volumetric portion of water fees to be charged based on customer classification. All of the water used by the customer is billed. Water shutoffs for nonpayment are currently suspended (see “– Accounts Receivable” below).

Accounts Receivable

In March 2018, the City suspended residential water service disconnections for nonpayment due to billing system concerns. This pause included a suspension of collection activities and the cessation of late fees and interest charges.

Effective February 2020, California Senate Bill 998 (“SB 998”) established new statewide requirements for residential water shutoffs, requiring utilities to implement customer protections including deferred payment plans, alternative payment arrangements, and a formal bill dispute resolution process. In addition, in April 2020, Governor Newsom signed a statewide executive order prohibiting water shutoffs due to the COVID-19 emergency. Although the moratorium expired in December 2021, the City has not resumed service disconnections, instead focusing on substantial improvements to billing performance and customer engagement to ensure readiness and compliance before implementing any future delinquency enforcement. Following sustained improvements in these areas, the City has initiated efforts to address nonpayment and resume delinquency enforcement in a phased and customer-focused manner. The City is currently developing an implementation plan that includes additional staffing and training, updates to the billing system, a comprehensive communication strategy, and a phased resumption of service disconnections. Adoption of an SB 998-compliant policy will require City Council approval, which is anticipated within the next year.

To mitigate the financial impact of unpaid balances accrued during the pandemic, the City leveraged external assistance through the California Water and Wastewater Arrearage Payment Program (“Arrearage Program”), administered by the State Water Board. Since January 2022, the City has received approximately \$51 million in relief for customer accounts in arrears accrued from March 4, 2020 through December 31, 2022, which was applied to qualifying residential and commercial accounts in Fiscal Years 2022 through 2024. Despite these efforts, the suspension of shutoffs has contributed to elevated accounts receivable.

As of Fiscal Year 2025, outstanding receivables over 120 days on a cumulative basis totaled \$73.2 million, representing 10.5% of total water sales revenues for such Fiscal Year. This percentage may remain elevated until shutoffs for nonpayment resume in compliance with SB 998 and internal policy updates. As of May 1, 2026, \$24.3 million of past due balances is associated with accounts that are considered inactive. Inactive accounts with a balance over 365 days past due are recognized in the City’s allowance for doubtful accounts and recognized in the City’s financial statements but have not been written off and are therefore still included in the outstanding accounts receivable. The City has payment plans available for all customers and has made concerted efforts to engage with large, high balance customers to reduce their outstanding balances.

The City remains committed to resuming shutoffs only after a deliberate, customer-centered reimplementation process that is grounded in transparency, legal compliance, and continued service improvements. The exact timing remains contingent on completion of updated internal procedures, customer outreach, and billing system readiness.

See “RISK FACTORS — Future Suspensions and Moratoriums on Utility Shut-Offs” regarding, among other things, a Mayoral order regarding a moratorium on utility shutoffs and payment deferrals.

The following table sets forth information related to accounts receivable for Fiscal Years 2021 through 2025.

TABLE 14
WATER CUSTOMER ACCOUNTS RECEIVABLE
BY FISCAL YEAR
Fiscal Years 2021 through 2025
(\$ Amounts in Thousands, Except in Footnotes)

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025⁽⁵⁾</u>
Water Sales Revenue	\$578,070	\$552,962	\$557,681	\$547,178	\$697,271
Accounts Receivable ⁽¹⁾	\$141,632 ⁽⁴⁾	\$144,997 ⁽⁴⁾	\$182,806 ⁽⁴⁾	\$190,962 ⁽⁴⁾	\$218,909
Accounts Receivable Over 120 Days ⁽²⁾	\$ 32,798 ⁽⁴⁾	\$ 26,689 ⁽⁴⁾	\$ 48,604 ⁽⁴⁾	\$ 44,514 ⁽⁴⁾	\$ 73,222
% of Total Water Sales Revenues ⁽³⁾	5.67%	4.83%	8.72%	8.14%	10.50%

⁽¹⁾ Accounts Receivable are as of June 30 of the indicated Fiscal Year; includes the receivable portion of the billed customer accounts and water delivered but not yet billed in between cycles.

⁽²⁾ The suspension of shutoffs, as described under this sub-caption “Accounts Receivable”, has contributed to the increases.

⁽³⁾ Percentage of Accounts Receivable over 120 days as compared to Water Sales Revenues.

⁽⁴⁾ Accounts receivable during Fiscal Year 2021 through Fiscal Year 2024 may reflect the financial impact of the COVID-19 pandemic on some Water customers. In January 2022, the City received a payment of approximately \$19.7 million under the Arrearage Program to cover customer debt accrued between March 4, 2020 and June 15, 2021 resulting during the COVID-19 pandemic emergency. \$19.2 million was credited to eligible residential and commercial customer accounts in Fiscal Year 2022, which led to a reduction in Accounts Receivable Over 120 Days that is shown in Fiscal Year 2022 above, and the remaining \$0.5 million was credited to customers in Fiscal Year 2023. In Fiscal Year 2024, the City received an additional \$31.3 million, which covered customer debt accrued between June 16, 2021 and December 31, 2022 and was credited to customers in Fiscal Year 2024, resulting in the decline in Accounts Receivable Over 120 Days for Fiscal Year 2024. No additional amounts are expected from the Arrearage Program.

⁽⁵⁾ Increase in Water Sales Revenues for Fiscal Year 2025 and the corresponding increases for each line item for such fiscal year reflect a combination of higher usage (see Table 2) and price increases (see Table 13) after the relatively wet weather (and lower water use) experienced in Fiscal Years 2023 and 2024.

Sources: The City’s Annual Comprehensive Financial Reports (“ACFR”) for Fiscal Years 2021-2025, with respect to “Water Sales Revenue,” Public Utilities Department and Department of Finance, City of San Diego, for all other line items and footnotes.

Revenues

The Water Utility Fund’s principal source of revenues is water service charges to City residents and non-residential enterprises as shown below. The following tables set forth the historical sources of water sales revenues of the Water Utility Fund for Fiscal Years 2021 through 2025, followed by the Water Utility Fund’s Statements of Revenues, Expenses, and Changes in Fund Net Assets for Fiscal Years 2021 through 2025.

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TABLE 15
HISTORICAL SOURCES OF WATER SALES REVENUES
Fiscal Years 2021 through 2025
(\$ Amounts in Thousands, Except in Footnotes)

<u>Sources</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Retail					
Single Family Residential	\$230,500	\$213,853	\$210,007	\$198,315	\$239,693
Multi-Family Residential	120,540	113,276	121,068	123,557	160,551
Non-Residential ⁽¹⁾	120,660	120,571	129,634	135,485	167,924
Irrigation	70,413	67,475	62,063	56,419	85,635
Recycled	11,698	12,140	10,122	9,153	10,664
Untreated	10	11	9	6	13
Wholesale to Other Retailers					
Treated ⁽²⁾	19,894	20,929	19,115	18,314	25,526
Recycled/Reclaimed	4,355	4,707	5,663	5,929	7,265
Total⁽⁵⁾	<u>\$578,070</u>	<u>\$552,962⁽³⁾</u>	<u>\$557,681⁽³⁾</u>	<u>\$547,178⁽³⁾</u>	<u>\$697,271⁽⁴⁾</u>

⁽¹⁾ Non-Residential consists of Commercial, Industrial, Outside City and Temporary Construction customer types.

⁽²⁾ Primarily reflects wholesale revenues from Cal-American.

⁽³⁾ The total does not include \$19.2 million in revenues that was reclassified as Federal Grant Assistance in Fiscal Year 2022, \$0.5 million recorded in Fiscal Year 2023 and \$31.3 million in revenues which was reclassified as Federal Grant Assistance in Fiscal Year 2024 resulting from the COVID-19 relief fund payment received under the Arrearage Program. See Footnote 7 of Table 16 for additional information.

⁽⁴⁾ Increase in Water Sales Revenues for Fiscal Year 2025 reflects a combination of higher usage (see Table 2) and price increases (see Table 13) after the relatively wet weather (and lower water use) experienced in Fiscal Years 2023 and 2024.

⁽⁵⁾ Total may not equal the sum of the respective line items due to rounding.

Source: Department of Finance, City of San Diego.

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TABLE 16
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION⁽¹⁾
FOR THE WATER UTILITY FUND
Fiscal Years 2021 through 2025
(\$ Amounts in Thousands, Except in Footnotes)

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
OPERATING REVENUES					
Sales of Water	\$578,070	\$552,962 ⁽⁷⁾	\$557,681 ⁽⁷⁾	\$547,178 ⁽⁷⁾	\$697,271
Charges for Services	4,150	3,692	5,084	5,644	2,995
Revenue from Use of Property	6,186	-- ⁽⁸⁾	--	--	--
Other	3,370	2,982	5,464	3,627	3,523
TOTAL OPERATING REVENUES	<u>\$591,776</u>	<u>\$559,636</u>	<u>\$568,229</u>	<u>\$556,449</u>	<u>\$703,789</u>
OPERATING EXPENSES					
Salary and Benefits	\$92,280	\$80,695 ⁽⁹⁾	\$96,953 ⁽¹⁴⁾	\$ 117,716 ⁽¹⁴⁾	\$145,336 ⁽¹⁴⁾
Supplies	214,481	236,342 ⁽¹⁰⁾	223,264	220,353	267,770 ⁽¹⁰⁾
Contracts	161,709 ⁽³⁾	171,028 ⁽³⁾	151,530 ⁽³⁾	171,689 ⁽³⁾	191,414 ⁽³⁾
Information Technology	9,030	10,493	11,975	12,123	12,281
Energy and Utility	10,773	10,902	13,651	14,083	12,422
Other Expenses	3,691	3,180	3,246	4,028	7,560
Depreciation	62,373	66,725	69,612	68,385	70,498
TOTAL OPERATING EXPENSES	<u>\$554,337</u>	<u>\$579,365</u>	<u>\$570,231</u>	<u>\$608,377</u>	<u>\$707,281</u>
OPERATING INCOME (LOSS)	<u>\$37,439</u>	<u>\$(19,729)</u>	<u>\$(2,002)</u>	<u>\$(51,928)</u>	<u>\$(3,492)</u>
NONOPERATING REVENUES (EXPENSES)					
Earnings on Investments	\$1,839	\$(7,121) ⁽¹¹⁾	\$9,767	\$11,701	\$9,359
Federal Grant Assistance	4	21,015 ⁽⁷⁾	947 ⁽⁷⁾	31,542 ⁽⁷⁾	362
Leases from Amortization of Deferred Inflow	--	7,273 ⁽⁸⁾	1,108	1,111	1,108
Other Agency Grant Assistance	15,406 ⁽⁴⁾	(5,344)	1,981	1,184	193
Gain (Loss) on Sale/Retirement of Capital Assets	30,509 ⁽⁵⁾	(375)	6,266	(445)	(928)
Debt Service Interest Expense	(42,478)	(41,805)	(46,695)	(51,913)	(55,450)
Other	22,309 ⁽⁶⁾	40,942 ⁽¹²⁾	20,245	9,689	6,671
TOTAL NON OPERATING REVENUES (EXPENSES), NET	<u>\$27,589</u>	<u>\$14,585</u>	<u>\$(6,381)</u>	<u>\$2,869</u>	<u>\$(38,685)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>\$65,028</u>	<u>\$(5,144)</u>	<u>\$(8,383)</u>	<u>\$(49,059)</u>	<u>\$(42,177)</u>
CONTRIBUTIONS AND TRANSFERS					
Capital Contributions ⁽²⁾	\$32,486	\$36,603	\$36,920	\$36,567	\$35,594
Transfers from Other Funds	--	--	3	--	20,000 ⁽¹⁵⁾
Transfers from Governmental Funds	313	--	--	--	--
Transfers to Other Funds	(180)	(2,835)	(320)	(660)	(3,926)
Transfer to Governmental Funds	--	--	--	--	--
Extraordinary Loss	--	(10,705) ⁽¹³⁾	--	--	--
CHANGE IN NET POSITION	<u>\$97,647</u>	<u>\$17,919</u>	<u>\$28,220</u>	<u>\$(13,152)</u>	<u>\$9,491</u>
Net Position at Beginning of Year	<u>\$2,153,021</u>	<u>\$2,250,668</u>	<u>\$2,268,587</u>	<u>\$2,296,807</u>	<u>\$2,284,105⁽¹⁶⁾</u>
NET POSITION AT END OF YEAR	<u><u>\$2,250,668</u></u>	<u><u>\$2,268,587</u></u>	<u><u>\$2,296,807</u></u>	<u><u>\$2,283,655</u></u>	<u><u>\$2,293,596</u></u>

[Footnotes on next page.]

- (1) Terms used in this table are derived from the City’s ACFRs for the indicated year. Certain terms included in this table do not have the meanings ascribed to them in the Master Installment Purchase Agreement (the “MIPA”). Also, amounts included in this table reflect the application of generally accepted accounting principles (“GAAP”) and, as such, do not match tables in this Official Statement that were not prepared in accordance with GAAP.
- (2) Capital Contributions include capital grants, donated/found assets, and Capacity Charges revenues.
- (3) Fiscal Years 2021- 2025 Contracts expense includes accrued costs related to the Patz v. City of San Diego litigation (“Patz Litigation”), which is currently under review by the courts. Following the trial court ruling against the City in September 2021 and subsequent remedies proceeding in March 2022, the City recorded \$39.9 million as an expense in Fiscal Year 2021 to reflect the accrual of contingent settlement liability, subsequently recorded an additional \$48.8 million in Fiscal Year 2022, \$13.3 million in Fiscal Year 2023, and \$10.3 million in Fiscal Year 2024, and \$6.6 million in Fiscal Year 2025 for a total of \$118.9 million. These combined amounts represent the total estimated settlement amount plus a monthly charge for each month through Fiscal Year 2025 that the City continued to use its tiered rate structure. For more information on the Patz Litigation, see “LITIGATION – Patz Litigation.”
- (4) The Other Agency Grant Assistance amount in Fiscal Year 2021 is primarily due to accrual of grant revenue from the SWRCB from the Proposition 68 grant program.
- (5) The Gain on Sale of Capital Assets amount in Fiscal Year 2021 is primarily due to the receipt of Water Utility Fund’s share of proceeds from the sale of Qualcomm Stadium to San Diego State University.
- (6) The Other Revenue in Fiscal Year 2021 primarily represents the refund from MWD as a result of the CWA’s decade-long rate case litigation in state Superior Court seeking to compel MWD to set legal rates and repay overcharges.
- (7) The increase in Fiscal Year 2022 and Fiscal Year 2024 Federal Grant Assistance are mainly due to COVID-19 relief fund payments under the Arrearage Program which covered \$19.2 million in customer debt accrued between March 4, 2020 and June 15, 2021 received in Fiscal Year 2022, \$0.5 million recorded in Fiscal Year 2023, and \$31.3 million from June 16, 2021 to December 31, 2022 (received in Fiscal Year 2024). Sales of Water line was reduced by \$19.2 million in Fiscal Year 2022, \$0.5 million in Fiscal Year 2023, and \$31.3 million in Fiscal Year 2024 to offset the corresponding payments in the Federal Grant Assistance line.
- (8) Revenue from Use of Property was reclassified in Fiscal Year 2022 to be reported with Leases from Amortization of Deferred Inflow as nonoperating revenue with the implementation of Governmental Accounting Standards Board Statement No. 87.
- (9) The decrease in Fiscal Year 2022 Salary and Benefits expense is primarily due to a decrease in pension expense as a result of recognition of investment gains and losses.
- (10) The increase in Fiscal Year 2022 and Fiscal Year 2025 Supplies expense is primarily due to an increase in water purchases.
- (11) Investment Income decreased in Fiscal Year 2022 primarily due to a \$9 million unrealized loss on pooled investments.
- (12) The increase in Fiscal Year 2022 non-operating Other revenue is primarily due to receipt of \$25 million from the one-time State appropriation to assist with the Pure Water Program Phase 1 project.
- (13) Extraordinary Loss reflects the liability recorded for one-time costs associated with the unwinding of Proposition B.
- (14) The increases in Fiscal Year 2023 through Fiscal Year 2025 Salary and Benefits expense are primarily due to negotiated salary increases and related fringe costs as well as increase in pension expense.
- (15) The increase in the Fiscal Year 2025 Transfers from Other Funds is due to the one-time transfer of unused funds from the Fleet Operating Replacement Water Fund.
- (16) Restatement of Net Position in Fiscal Year 2025. Beginning Net Position was increased by \$0.5 million based on a change in accounting principle for the implementation of GASB Statement No. 101, Compensated Absences.

Source for footnotes: Department of Finance, City of San Diego.
Sources for table: The City’s ACFRs for Fiscal Years 2021-2025.

Management’s Discussion and Analysis

The following discussion relates to certain items set forth in Table 16. Some of the following information is provided in connection with the financial condition and results of operations of the Water Utility Fund for Fiscal Year 2025.

Operating Revenues. Total operating revenues for Fiscal Year 2025 were \$703.8 million, which represented an increase of \$147.3 million from the previous Fiscal Year. This was largely due to multiple water rate increases that became effective in July 2024, January 2025, and May 2025. In addition, there was an increase in billing adjustments related to amounts underbilled in prior years.

Operating Expenses. Total operating expenses for Fiscal Year 2025 were \$707.3 million, an increase of \$98.9 million from the previous Fiscal Year. This is primarily due to an increase in water purchases from CWA. In addition, there were increases in pension expense, salaries associated with negotiated pay, and contractual expenses related to the Pure Water Program and multiple other projects.

Non-operating Revenues (Expenses). Non-operating activity for Fiscal Year 2025 resulted in a net revenue decrease of \$41.6 million from the previous fiscal year. This was primarily due to payments received from the Arrearage Program in Fiscal Year 2024. No additional amounts are expected from the Arrearage Program.

Contributions and Transfers. Total contributions and transfers for Fiscal Year 2025 increased by \$15.8 million from the previous fiscal year primarily because Transfers In for Fiscal Year 2025 increased by \$20.0 million from Fiscal Year 2024 due to the one-time transfer of unused funds from the Fleet Operating Replacement Water Fund.

Water Utility Fund Reserves

The City maintains four reserves within the Water Utility Fund: the Emergency Operating Reserve, the Secondary Purchase Reserve, the Rate Stabilization Fund Reserve (“Rate Stabilization Fund Reserve”), and the Emergency Capital Reserve. The Department operates these reserve funds in accordance with the City’s reserve policy (the “City Reserve Policy”). The City’s Reserve Policy is reviewed biennially. Changes are approved by the City Council and incorporated into City Council Policy. The most recent updates to the City Reserve Policy were approved by the City Council in December 2022. The Department anticipates meeting all reserve targets during the five-year outlook period. See “– Rate Setting” and “– Financial Projections and Modeling” for more information.

Emergency Operating Reserve. The Emergency Operating Reserve is intended to be used in the event of a catastrophe that prevents the Water System from operating in its normal course of business. The reserve level is defined as the number of days of operation it could support in the event of a major disruption to the Water System. It is calculated based on the annual operating budget for the Fiscal Year, less the budgeted operating contingency and the budget for water purchases and debt service. The Emergency Operating Reserve target is equivalent to 70 days of operation. This reserve level target of 70 days recognizes that the Water System has a large, diversified customer base, a steady and reliable demand for services, and other reserves available for specific needs. Use of the Emergency Operating Reserve is restricted to emergency situations, and City Council approval is required to appropriate these reserves. Any request to utilize the Emergency Operating Reserve will include a plan and timeline for replenishment, which may be in conjunction with the City Council authorization of a future COS Analysis and rate adjustment. As of June 30, 2025, the Emergency Operating Reserve was \$4.9 million below the target level of \$60.7 million; transfers to restore this reserve and to meet the City’s Fiscal Year 2026 policy target level of \$70.8 million took place in March 2026.

Secondary Purchase Reserve. The Secondary Purchase Reserve was established and is maintained pursuant to the Master Installment Purchase Agreement to purchase additional water supply in case of a major drought or unforeseen emergency that diminishes the City’s normal supply. The size of the reserve is equal to 6% of the annual water purchase budget (including commodity charge and fixed costs). City Council action is required in order to appropriate this reserve as well. As of June 30, 2025, there was \$16.6 million in the Secondary Purchase Reserve, which was \$2.2 million below the policy target. Transfers to restore this reserve and to meet the City’s Fiscal Year 2026 policy target level of \$21.1 million took place in March 2026.

Rate Stabilization Fund Reserve. The Rate Stabilization Fund Reserve was established and is maintained pursuant to the Master Installment Purchase Agreement. Transfers in and out of this fund serve as a revolving mechanism to mitigate potential fluctuations in the rates for the Water System operations, and maintain stable debt service coverage ratios for the Outstanding Obligations. The permitted uses of the Rate Stabilization Fund Reserve are limited to the Maintenance and Operation Costs of the Water System. Funds transferred to the Rate Stabilization Fund Reserve from system revenues are deducted from the amount of system revenues for purposes of calculating debt service coverage. The City Reserve Policy establishes a baseline target for the Rate Stabilization Fund Reserve in an amount equal to 5% of the prior Fiscal Year Water System total operating revenues. The funding level in the Rate Stabilization Fund Reserve can go up or down depending on year to year changes in the Water System’s operating revenues and expenditures.

As of June 30, 2025, the Rate Stabilization Fund Reserve had a balance of \$15.7 million, which was below the Department’s reserve target of \$27.8 million by approximately \$12.1 million. The Department expects to transfer \$69.0 million to the Rate Stabilization Fund Reserve during Fiscal Year 2026 but any transfer will be subject to the actual revenues and expenses that develop during Fiscal Year 2026. Table 18 illustrates the historical use of the Rate Stabilization Fund Reserve, and Table 19 illustrates the projected utilization in future years. The Department expects the balance of the Rate Stabilization Fund Reserve to remain above the reserve target in Fiscal Years 2026 through 2031. Projected deposits are discretionary and could be modified as needed for any reason.

Emergency Capital Reserve. The Emergency Capital Reserve is intended to be used for emergency capital needs. The reserve is budgeted annually at \$5.0 million in the Water System CIP budget. If the reserve is used to fund unforeseen emergency conditions resulting in the need to immediately repair or replace existing assets, approval from the Chief Financial Officer or the Chief Operating Officer is required per City Reserve Policy. As of June 30, 2025, there was \$5.0 million in the Emergency Capital Reserve.

In addition to these four reserves, the Water System has contributed to the City-wide Pension Payment Stabilization Reserve which was established in 2016 to mitigate any unanticipated increases in the annual pension payment, also known as the Actuarially Determined Contribution (“ADC”). For more information, see “– San Diego City Employees’ Retirement System – Water Utility Fund Contribution.”

The following table presents the Water Utility Fund’s reserve amounts, cash and investments, and days of cash on hand as of June 30 for the Fiscal Years 2021 through 2025.

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TABLE 17
RESERVES AND CASH AND INVESTMENTS
IN WATER UTILITY FUND
Fiscal Years 2021 through 2025
(\$ Amounts in Thousands, Except in Footnotes)

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025⁽²⁾</u>
Reserve Funds⁽¹⁾					
Emergency Operating Reserve	\$ 40,777	\$ 44,860	\$ 44,860	\$ 55,776	\$ 55,776
Secondary Purchase Reserve	16,388	16,628	16,628	16,628	16,628
Rate Stabilization Fund Reserve ⁽³⁾	132,117	114,117	105,117	45,717	15,717
Emergency Capital Reserve	5,000	5,000	5,000	5,000	5,000
Total Reserve Funds	<u>\$ 194,282</u>	<u>\$ 180,605</u>	<u>\$ 171,605</u>	<u>\$ 123,121</u>	<u>\$ 93,121</u>
Cash and Investments in Water Utility Fund⁽⁴⁾	\$ 385,042	\$ 411,382	\$ 271,626 ⁽⁶⁾	\$ 236,515 ⁽⁶⁾	\$ 174,946 ⁽⁶⁾
Days of Cash on Hand⁽⁵⁾	286	293	198 ⁽⁶⁾	160 ⁽⁶⁾	100 ⁽⁶⁾

⁽¹⁾ Established in accordance with City Reserve Policy.

⁽²⁾ As of June 30, 2025, the Emergency Operating Reserve and the Secondary Purchase Reserve amounts were below the target levels set forth in the City Reserve Policy by \$4.9 million and \$2.2 million, respectively. Although cash to meet the target levels was available, the City did not book the transfers before the close of the Fiscal Year; the transfers were included in the Fiscal Year 2026 contributions made in March 2026. The Rate Stabilization Fund was below the Fiscal Year 2025 target level by \$12.1 million, consistent with the projection in the 2024 COS Analysis showing Rate Stabilization Fund amounts being temporarily below target levels. The Emergency Capital Reserve amount was at its target level in accordance with the City Reserve Policy.

⁽³⁾ In Fiscal Year 2021, \$52 million was transferred to the Rate Stabilization Fund from several one-time revenue sources, including the sale of the stadium site, one-time grant funding, and legal settlements from MWD. In Fiscal Years 2022 and 2023, \$18 million and \$9 million, respectively, were transferred from the Rate Stabilization Fund to cover the accrual of liability claims. In Fiscal Years 2024 and 2025, \$59.4 million and \$30.0 million, respectively, were transferred from the Rate Stabilization Fund to System Revenues to cover operations expenses and to accommodate the gradual increase to water rates that were implemented in Calendar Year 2024.

⁽⁴⁾ Cash and Investments (which includes the Reserve totals above) consists of cash on hand and investments held in the City Treasurer's Pooled Investment Fund, and does not include Restricted Cash and Investments.

⁽⁵⁾ Days of cash on hand is calculated by: Cash and Investments / (Operating Expenses less Depreciation / 365 days).

⁽⁶⁾ A reduction in the cash amounts in Fiscal Years 2023-2025 were due to a variety of factors, including a reduction in water sales due to consecutive wet winters in Fiscal Years 2023 and 2024, increases in accounts receivable, a lag in reimbursement of capital expenses from bonds, loans, Commercial Paper Notes, and the City's goal of maintaining affordability, as described in the 2024 Cost of Service Analysis.

Sources for Reserves, Days of Cash on Hand, and footnotes: Public Utilities Department and Department of Finance, City of San Diego. Source for Cash and Investments: The City's ACFRs for Fiscal Years 2021-2025, City of San Diego.

Unaudited Cash and Investments within the Water Utility Fund as of April 30, 2026 was valued at \$70.0 million (unrealized gains/losses not included). This results in an estimated 43 days of cash on hand as of April 30, 2026. The 43 days of cash on hand includes an estimated Maintenance and Operations Cost of \$594.3 million for Fiscal Year 2026 (as shown in Table 19). In addition, pending reimbursements of capital expenses of approximately \$26.7 million from Commercial Paper, an estimated \$40.6 million from WIFIA loans, and \$17.5 million from SRF loans are not yet reflected in the April 30, 2026 cash balance. The number of days of cash on hand for Fiscal Year 2026 is expected to be lower than those for Fiscal Years 2021 through 2025, as set forth in Table 17. This reduction follows the strategy included in the City's last COS Analysis, which balances affordability with rising imported water costs. The projections in Table 19 reflect the Department's plan to rebuild its cash balance over the next several fiscal years towards a target of 150-160 days of cash on hand. As noted in "– Financial Projections and Modeling Assumptions" section below, the assumptions for such fiscal years are based on estimated revenue requirements prepared by the City for financial modeling purposes and remain subject to City Council review and approval.

Debt Service Coverage

The following table sets forth the historical debt service coverage for the Water Utility Fund for Fiscal Years 2021 through 2025.

TABLE 18
CALCULATION OF HISTORICAL DEBT SERVICE COVERAGE
Fiscal Years 2021 through 2025
(\$ Amounts in Thousands, Except in Footnotes)

		<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025⁽⁷⁾⁽⁸⁾</u>
All System Revenues prior to Rate Stabilization Fund Reserve transfers ⁽¹⁾		\$ 681,839	\$ 634,299	\$ 637,485	\$ 631,407	\$ 757,584
Transfers (to)/from Rate Stabilization Fund		(52,000)	18,000	9,000	59,400	30,000
Total System Revenues⁽¹⁾		\$ 629,839	\$ 652,299	\$ 646,485	\$ 690,807	\$ 787,584
Total Maintenance & Operation Costs⁽²⁾		(\$492,144)	(\$515,475)	(\$500,939)	(\$540,652)	(\$640,709)
Net System Revenues absent transfers to or from the Rate Stabilization Fund	A	\$ 189,695	\$ 118,824	\$ 136,546	\$ 90,755	\$ 116,875
Net System Revenues	B	\$ 137,695	\$ 136,824	\$ 145,546	\$ 150,155	\$ 146,875
Less: Interest Earnings on Reserve Fund ⁽³⁾		(1)	(2)	(130)	(293)	(278)
Adjusted Net System Revenues	C	\$ 137,694	\$ 136,822	\$ 145,416	\$ 149,862	\$ 146,597
Senior Obligations⁽⁴⁾						
Total Senior Debt Service		\$ 28,462	\$ 28,507	\$ 28,522	\$ 37,134	\$ 42,713
Less: Interest Earnings on Reserve Fund ⁽³⁾		(1)	(2)	(130)	(293)	(278)
Adjusted Senior Debt Service	D	\$ 28,461	\$ 28,505	\$ 28,392	\$ 36,841	\$ 42,435
Adjusted Senior Debt Service Coverage⁽⁵⁾	C/D	4.84x	4.80x	5.12x	4.07x	3.45x
All Obligations⁽⁶⁾						
Total Debt Service	E	\$ 93,547	\$ 93,839	\$ 100,330	\$ 98,545	\$ 113,884
Aggregate Debt Service Coverage absent transfers to or from the Rate Stabilization Fund	A/E	2.03x	1.27x	1.36x	0.92x	1.03x
Aggregate Debt Service Coverage⁽⁵⁾	B/E	1.47x	1.46x	1.45x	1.52x	1.29x

- (1) "System Revenues," as defined in the Master Installment Purchase Agreement, include accrual based operating revenues and non-operating revenues (i.e., interest earnings, federal and other agency grant assistance, and other income) as well as transfers from governmental and other funds, and the cash-based components of capital contributions and gain/loss on sale/retirement of capital assets. Pursuant to the Master Installment Purchase Agreement, there shall be deducted from "System Revenues" any amounts transferred into the Rate Stabilization Fund Reserve and there shall be added to "System Revenues" any amounts transferred out of such Rate Stabilization Fund. Amounts in the Rate Stabilization Fund are not included in the calculation of debt service coverage for purposes of the Master Installment Purchase Agreement. The amounts reflected as "All System Revenues" are revenues of the Water System prior to any such transfer and is provided for information only.
- (2) Amounts under Total Maintenance and Operation Costs, in accordance with the Master Installment Purchase Agreement, include accrual based operating expenses, transfers to governmental and other funds, and excludes depreciation; this includes the System's yearly changes in the accrued liability under the Patz Litigation
- (3) Interest earnings on the Senior Debt Service Reserve Fund are netted out of both System Revenues and Total Debt Service to calculate Senior Debt Service Coverage Ratios, but are not netted out for Aggregate Debt Service Coverage Ratios.
- (4) Senior Obligations consist of Senior Bonds and Senior SRF Loans.
- (5) Pursuant to Section 6.08(a) of the Master Installment Purchase Agreement, the City shall fix, prescribe and collect rates and charges for the Water Service which will be at least sufficient to yield the greater of (1) Net System Revenues sufficient to pay during each Fiscal Year all Obligations payable in such Fiscal Year or (2) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service for such Fiscal Year.
- (6) All Obligations include debt service on Outstanding Senior Obligations and the Outstanding Subordinated Obligations, including interest paid on Outstanding Commercial Paper Notes.
- (7) In Fiscal Year 2025, the Rate Stabilization Fund reserve was utilized to transfer \$30.0 million to System Revenues to cover operations expenses and to accommodate the gradual increase to water rates that were implemented in Calendar Year 2024.

[Footnotes continued on next page.]

[Footnotes continued from prior page.]

- (8) The Fiscal Year 2025 Aggregate Debt Service Coverage was lower than previously projected due to a variety of factors that occurred at the end of Fiscal Year 2025, including a drop in the expected accrual due to unbilled revenue (resulting from the City's more timely reading of water meters); a transfer of recycled water revenue from the Water Utility Fund to the Sewer Revenue Fund that included the associated revenue but not the expected expenses in the Water Utility Fund; and a drop in water sales during the month of June.

Source of Footnotes: Department of Finance and Public Utilities Department, City of San Diego.

Sources for table: Statistical Section (Unaudited) of the City's ACFRs for Fiscal Years 2021-2025 (excluding data under the headings "Net System Revenues absent transfers to or from the Rate Stabilization Fund" and "Aggregate Debt Service Coverage absent transfers to or from the Rate Stabilization Fund Reserve"); Department of Finance for data under the headings "Net System Revenues absent transfers to or from the Rate Stabilization Fund" and "Aggregate Debt Service Coverage absent transfers to or from the Rate Stabilization Fund."

Financial Projections and Modeling Assumptions

Table 19 below sets forth the financial forecast for Fiscal Years 2026 through 2031. See "INTRODUCTION – Forward-Looking Statements." The financial forecast generally utilizes base forecasts developed for the City's mid-year projections for Fiscal Year 2026, which affects assumptions in subsequent years in the forecast period. Net System Revenues are projected to increase primarily as a result of projected rate increases. The level of percentage increases in rate revenue are consistent with the City's 2024 COS Analysis. In developing the financial forecast, the City has made several assumptions including those described below.

System Revenues. The primary component of operating revenue is the retail sales of water. Water sales revenues are derived from the rates paid by customers for water service and are based on the number of customer accounts and projected usage. The City's projections assume a 0.25% increase in the number of accounts and an 8% decrease in sales volume in Fiscal Year 2026 compared to Fiscal Year 2025 levels due to elevated sales in 2025 as a result of drier than average weather conditions that have since normalized; that the number of accounts and sales volume will remain relatively flat for the rest of the forecast period; and that revenues are expected to increase due to projected rate increases. Usage projections include the assumption that current rates effective January 1, 2026 will be increased 14.5% during Fiscal Year 2027, 11.5% during Fiscal Year 2028, 11.0% during Fiscal Year 2029, 11.0% during Fiscal Year 2030, and 5.0% during Fiscal Year 2031 to cover both wholesale water cost increases and Water System needs. Rate increases assumed for Fiscal Years 2028 through 2031 have not been adopted by the City Council and will be evaluated as part of future cost of service analyses and rate proceedings. The assumptions for such fiscal years are based on estimated revenue requirements prepared by the City for financial modeling purposes and remain subject to City Council review and approval. See "– Rate Setting" for more information on the rate setting process. The City has historically increased water rates over time to adjust to increases in the cost of water purchased from CWA, which increases are generally based on the costs for the infrastructure, maintenance and operation of CWA's water supply system and the cost CWA pays to purchase water. See "WATER SUPPLY" for information on water supply costs. The assumed rates are also intended to maintain the Water Utility's core financial metrics of cash balances, reserves, and financial debt service coverage ratios. These rate increase assumptions are subject to change based on updated cost of service analyses, changes in projected wholesale water costs, and future City Council deliberations; actual rate increases may vary. Actual rate increases that are lower than assumed rate increases would result in less favorable financial metrics. Likewise, actual rate increases that are higher than assumed increases would result in more favorable financial metrics in those years. In order to achieve desired financial results, the Department may exercise discretion in reevaluating projected capital expenditures and discretionary maintenance and operation costs.

Actual retail sales revenues may vary as a result of higher or lower precipitation amounts and customer demands. The Department has ongoing quarterly budget review and reporting that assists in monitoring water demand and rate revenue. This also allows for a faster budgetary response to mitigate any negative financial impacts of the continuing drought. Interest earnings from the cash balances of substantially all funds are pooled and invested by the City Treasurer for the purpose of increasing interest

earnings through investment activities. The assumptions for interest earnings attributable to the Water Utility Fund are based on an assumed interest rate of 3% through Fiscal Year 2031.

Capacity Charges. Water capacity fees are collected for the maintenance or operation of existing water facilities, as well as future expansion, and are calculated by EDUs. Due to the passage of Assembly Bill 2536, which changes the requirement for implementing and adjusting capacity fees, no proposal to change the fees was included in the City's 2024 COS Analysis. The City anticipates increasing the fees during the forecast period, but has not included fee increases in its projections. If fees are increased during the forecast period, the City expects this would increase total revenue as set forth in its projections. The City's projections are based on the average of capacity fee revenue received historically, and are projected to average \$15.0 million during the projection period. The City projects that capacity fee revenue should not materially increase as the City's service area is well-established and future development will largely be infill projects.

Transfers To and From Reserves. Transfers to and from reserves represent the aggregate activity of contributions and use of the reserves for the Water Utility Fund. The projections include funding reserves in accordance with City policies and utilizing reserves in the Rate Stabilization Fund that are in excess of the City's policy target to reduce year to year variances in Senior Debt Service Coverage and Subordinate Debt Service Coverage and to moderate abrupt swings in customer rates from year-to-year. The City's projections include a transfer to the Rate Stabilization Fund Reserve in Fiscal Year 2026, followed by a transfer from such reserve in 2027, with additional contributions thereafter.

Maintenance and Operations. The City projects Maintenance and Operation Costs of the Water System through a process that begins with the City's budget for each Fiscal Year. The City then modifies these levels of costs to account for prior and current year trends identified after the costs set forth in the budget have been finalized. The City then develops a baseline projection that accounts for one-time changes in the current budget projections and assumes growth in key categories such as supplies, contracts, energy and personnel costs based on past growth and projected trends. Adjustments are made to the projections to add known programmatic changes into the baseline forecast, such as the full commissioning of the Pure Water Program Phase 1 in Fiscal Year 2027, increases in chemicals used in the treatment process, increases in energy rates and assumed increases in salaries and benefits for certain represented employees. The City has reached a preliminary agreement with one of the two represented employee organizations that the City believes will result in personnel costs that will equal or be less than the personnel costs set forth in Table 19; the preliminary agreement remains subject to various approvals. The City does not project new programmatic increases besides the commissioning of the Pure Water Program and dam safety projects in the next five years. This process is described in the City's "Public Utilities Department Five-Year Financial Outlook," which is released to the public as part of the City's budget process in the fall and published on the City's website. The Public Utilities Five-Year Financial Outlook is not incorporated by reference into this Official Statement.

The Water Utility's largest expense is the purchase of imported water from its wholesaler, the CWA. The City expects, on average, to purchase 134,100 AF of water each year during the projection period. This average is expected to decrease from past averages as local water is produced due to the implementation of the Pure Water Program and accounts for assumed conservation increases by the City's water customers. However, the cost for water purchases is expected to rise due to increases in the wholesale cost of water projected by the CWA. CWA prepares both a high and low level rate increase scenario as part of its long-range financial plan and the City's projection uses the median of those scenarios for its projections. This assumption may over- or under-predict future rates based on changes in CWA policy or other outside forces such as drought or need for additional capital improvements. The City expects to have sufficient capacity to pass through all CWA costs for Fiscal Year 2027 based on the 2026 Rate Case. Pass-throughs of any additional CWA costs in subsequent years will require additional action by the City Council. See "WATER SUPPLY – CWA Wholesale Water Rates" for a description of recent CWA actions that may affect future CWA costs and any corresponding amounts to be passed through by the City.

The projections of maintenance and operations expenses for Fiscal Year 2026 includes a one-time reduction in non-cash expenses, related to settlement of the Patz Litigation. This change is due to the difference in the accrued liability (nearly \$118 million) which had been recognized in the periods between Fiscal Year 2022 and Fiscal Year 2025, and the \$40 million proposed settlement, representing a decrease of \$78 million. This change does not improve Water System cash position, only Net System Revenues as defined in the MIPA.

The achievement of certain results or other expectations contained in Table 19 involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements reflected in Table 19 to be materially different from any future results, performance or achievements expressed or implied by such Table. Although, in the opinion of the City, such projections are reasonable, there can be no assurance that any or all of such projections will be realized or predictive of future results.

The Projected Debt Service costs increase during the projection period reflects the anticipated incurrence of additional Obligations to support Water System CIP for Pure Water and Baseline CIP projects. In Fiscal Year 2026 and future years, this includes the anticipated issuance of a combination of Commercial Paper Notes and future bonds, the WIFIA Loans, the State and Federal Loans, and the incurrence of any additional loans, as described herein. The City may issue up to \$450 million of water revenue bonds in Fiscal Year 2028, which will be used to pay down outstanding Commercial Paper Notes at that time and reimburse additional capital projects that were paid by cash, if capital expenses are consistent with the projections set forth in this Official Statement (see Table 11) and depending on market conditions at the time. Improvements in Net System Revenues are a result of the City replenishing cash that was spent down over the last five years and accumulating cash to prepare revenues for future capital projects and debt outside the projection window, primarily to finance costs relating to Phase 2 of the Pure Water Project and dam infrastructure. The City has historically experienced project execution at levels below its project debt, but conservatively models expenses to facilitate revenues sufficient to meet all execution rates. This paydown will restore capacity under the City's Commercial Paper Notes program, making additional interim financing available for new capital expenses. See also "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Program Financing Plan" and "– Anticipated Additional Obligations." For a discussion of the Water System CIP and certain projected costs thereof, see "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM." For other anticipated sources of funding, such as cash and grants, see Table 11.

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TABLE 19
PROJECTED NET SYSTEM REVENUES AND DEBT SERVICE COVERAGE
Fiscal Years 2026 through 2031
Projections as of April 2026
(\$ Amounts in Thousands)

DESCRIPTION	Fiscal Year 2026 Estimated ⁽¹⁾	Fiscal Year 2027 Projected	Fiscal Year 2028 Projected	Fiscal Year 2029 Projected	Fiscal Year 2030 Projected	Fiscal Year 2031 Projected
System Revenues						
Operating Revenues ⁽²⁾	\$814,595	\$939,659	\$1,071,519	\$1,190,144	\$1,319,246	\$1,421,331
Interest Income on Operating Funds	5,165	2,749	7,138	8,732	10,131	6,406
Interest Earnings on Debt Service Reserve Funds ⁽³⁾	31	31	31	31	31	31
Other Non-Operating Revenues	6,678	9,315	9,315	9,315	9,315	9,315
Capacity Charge Revenue ⁽⁴⁾	15,000	15,000	15,000	15,000	15,000	15,000
Grant Proceeds	--	--	--	--	--	--
Transfers (to)/from Rate Stabilization Reserve ⁽⁵⁾	(69,000)	39,000	(3,000)	(15,000)	(7,000)	(9,000)
Transfers (to)/from Secondary Purchase Reserve ⁽⁶⁾	(4,442)	(2,310)	--	(1,755)	(1,181)	(2,075)
Total System Revenues ⁽¹⁵⁾	<u>\$768,027</u>	<u>\$1,003,444</u>	<u>\$1,100,002</u>	<u>\$1,206,467</u>	<u>\$1,345,542</u>	<u>1,441,008</u>
Maintenance and Operation Costs						
Water Purchases ⁽⁷⁾	\$327,481	\$399,920	\$397,483	\$429,177	\$448,859	\$483,440
Water System Expenses ^{(8), (9)}	243,391	324,991	376,902	381,734	391,597	401,452
Pure Water Program Expenses ⁽¹⁰⁾	<u>23,424</u>	<u>67,402</u>	<u>78,540</u>	<u>81,404</u>	<u>84,395</u>	<u>86,920</u>
Total Maintenance and Operation Costs ⁽¹⁵⁾	\$594,296	\$792,313	\$852,925	\$892,315	\$924,851	\$971,812
Net System Revenues	\$173,731	\$211,131	\$247,077	\$314,152	\$420,691	\$469,196
Senior Debt Service Coverage						
Adjusted Net System Revenues ⁽¹¹⁾	\$173,700	\$211,100	\$247,046	\$314,121	\$420,660	\$469,165
Adjusted Senior Debt Service ^{(12), (13)}	<u>48,103</u>	<u>66,524</u>	<u>78,816</u>	<u>89,546</u>	<u>95,762</u>	<u>95,961</u>
Senior Debt Service Coverage ^{(12), (14)}	<u>3.61x</u>	<u>3.17x</u>	<u>3.13x</u>	<u>3.51x</u>	<u>4.39x</u>	<u>4.89x</u>
Aggregate Debt Service Coverage						
Net System Revenues	\$173,731	\$211,131	\$247,077	\$314,152	\$420,691	\$469,196
Senior Debt Service ⁽¹³⁾	48,134	66,555	78,847	89,577	95,793	95,992
Subordinate Debt Service ⁽¹³⁾	<u>74,978</u>	<u>79,092</u>	<u>91,493</u>	<u>96,176</u>	<u>106,591</u>	<u>120,253</u>
Aggregate Debt Service Coverage ⁽¹³⁾⁽¹⁶⁾	1.41x	1.45x	1.45x	1.69x	2.08x	2.17x

(1) These projections were comprehensively updated as part of the Department's five-year outlook in December 2025. Estimates for Fiscal Year 2026 are based on actuals through April 2026.

(2) Includes City Council approved rate increase through Fiscal Year 2027, and assumes the following rate increases not yet approved by City Council: Fiscal Year 2028, 11.5%, which consists of 3.3% CWA pass-through costs and 8.2% for Water System needs; Fiscal Year 2029, 11.0%, which consists of 5.3% CWA pass-through costs and 5.7% for Water System needs; 11.0% for Fiscal Year 2030, which is comprised of 2.6% CWA pass-through and 8.4% for Water System needs; and 5.0% for Fiscal Year 2031, which is comprised of 3.6% for CWA pass-through costs and 1.4% for Water System needs. Projected rate increases for Fiscal Years 2028 through 2031 are for assumption purposes only; any such rate increases require completion of additional COS Analyses and City Council approval. Debt service coverage in Fiscal Years 2028 through 2031 will be lower than projected if the actual approved rate increases are lower than current projections. However, the City generally expects to have the ability to manage certain expenses to keep Net System Revenues materially consistent with the projections in this table, assuming only marginally lower increases are adopted. See "-- Establishment of Water Service Charges." Increased revenue is required to support Baseline CIP projects and additional cash needed in the early stages of the City's planned dam projects and Phase 2 of the Pure Water Program, before long-term financing is secured.

(3) Includes interest earnings on reserve funds for Senior Obligations.

(4) Capacity Charge revenue is based on conservative projections on building permits.

(5) Reflects projected transfers to and from the Rate Stabilization Fund Reserve to moderate rate impacts. Transfers are primarily funded by one-time, non-recurring sources, including \$69 million in Fiscal Year 2026 associated with the Patz Litigation settlement and related liability adjustments. See "-- Water Utility Fund Reserves, Rate Stabilization Fund Reserve" for a discussion of anticipated utilization in future years. The Department has the discretion to modify this amount as needed.

(6) Reflects projected transfers to Secondary Purchase Reserve to meet reserve level requirements. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2026A BONDS - Pledge of Net System Revenues."

(7) Water purchase projections include the Department's projections for CWA rate increases. See "-- Establishment of Water Service Charges." Water purchases in 2026 assume substantial use of local water to reduce water purchases. The overall level of water purchases is assumed to be lower due to the production of water by the Pure Water Program after Fiscal Year 2027, but imported water expenditures are expected to continue to increase due to anticipated increases in CWA rates.

[Footnotes continued on next page.]

[Footnotes continued from prior page.]

- ⁽⁸⁾ Includes costs of maintenance and operations, administration, pension benefits and retiree health costs, See “– Labor Relations” below and narrative above Table 19 for information on preliminary labor agreements anticipated to start in Fiscal Year 2027. This does not include Pure Water Program costs, which are reflected below.
- ⁽⁹⁾ Fiscal Year 2026 Water System Expenses reflects an adjustment of liability from the Patz Litigation settlement. \$118.9 million that was previously recorded as a liability between Fiscal Years 2021-2024 was reversed in April 2026, and a \$40 million settlement liability was recorded in April 2026. See “LITIGATION – Patz Litigation” for a description of the litigation status. The reduction of liability will not have an impact on the Water System’s cash position.
- ⁽¹⁰⁾ Includes pre-design and planning costs for Phase 2 of the Pure Water Program and the ramp up of operating costs for Phase 1 starting in Fiscal Year 2027. Includes year-over-year operating cost increases for Phase 1 beginning with substantial completion of the project in Fiscal Year 2027.
- ⁽¹¹⁾ Adjusted Net System Revenues is Net System Revenues less earnings from investments in the Common Senior Debt Service Reserve Fund.
- ⁽¹²⁾ Adjusted Senior Debt Service is the Senior Debt Service less earnings from investments in the Common Senior Debt Service Reserve Fund.
- ⁽¹³⁾ Reflects scheduled debt service on Outstanding Obligations (including debt service on the 2016 Subordinated Bonds and the 2020B Senior Bonds, prior to the refunding of a portion of such Bonds to be effected with proceeds of the 2026A Bonds as described under the caption “PLAN OF FINANCE – Refunded Bonds”); Debt Service includes assumed debt service on additional Senior Obligations and Subordinated Obligations to be issued by the City (including the preliminary, assumed debt service for portion of the 2026A Bonds attributable to financing capital improvements and refinancing of Commercial Paper Notes as Senior Obligations; the debt service relating to the portion of the 2026A Bonds attributable to refinancing purposes remains under the debt service for the Refunded Bonds, WIFIA Loans projected debt service, estimated interest payments for Commercial Paper Notes, estimated debt service on the CWIFP loan, and estimated debt service on an additional SRF Loan the City expects to receive from the State Water Board.
- ⁽¹⁴⁾ The Senior Debt Service Coverage Ratio is expected to decrease in Fiscal Years 2027 and 2028 from Fiscal Year 2026, as a result of the addition of debt service for the new money component of the 2026A Bonds. This does not reflect the impact of the anticipated refunding of the 2016A Subordinated Bonds with proceeds of the 2026A Bonds, which are Senior Obligations.
- ⁽¹⁵⁾ Totals may not add up due to the rounding of individual components.
- ⁽¹⁶⁾ Aggregate coverage in Fiscal Years 2030-2031 are projected to be elevated due to the build-up of cash balances before initiation of construction of Phase 2 of the Pure Water Program

Source: Water Rate Model and COS Analysis, Public Utilities Department, City of San Diego.

Certain ongoing CIP and operational expenditures are rate dependent, including, particularly, the Water Utility Fund’s share of Pure Water Program expenditures. The City anticipates that additional rate capacity is necessary after Fiscal Year 2027 to fund and operate the ongoing CIP. See “– Rate Setting” for more information.

The achievement of certain results or other expectations contained in Table 19 involve known and unknown risks, uncertainties, and other factors that may cause actual results, performance, or achievements reflected in Table 19 to be materially different from any future results, performance, or achievements expressed or implied in such Table 19. Although, in the opinion of the Department, such projections are reasonable, there can be no assurance that any or all of such projections will be realized or predictive of future results. See also “INTRODUCTION – Forward-Looking Statements.”

Outstanding Indebtedness

As of June 16, 2026, prior to the refunding of the 2020B Refunded Bonds with proceeds of the 2026A Bonds as described herein (see “PLAN OF FINANCE – Refunded Bonds”), Senior Obligations consisted of \$70,806,314 principal amount of Senior SRF Loans and \$709,640,000 Outstanding Senior Bonds. As of June 16, 2026, prior to the refunding of the 2016A Refunded Bonds and the 2016B Refunded Bonds with proceeds of the 2026A Bonds as described herein (see “PLAN OF FINANCE – Refunded Bonds”), there were \$519,190,000 in Outstanding Subordinated Bonds, \$443,348 Outstanding from the Subordinated SRF Loan, \$610,000,000 Outstanding from the 2020 WIFIA Loan, \$24,397,048 Outstanding from the 2021 WIFIA Loan, \$129,540,000 in Outstanding Commercial Paper Notes that are payable from Net System Revenues on a basis junior to the Senior Obligations, including the 2026 Installment Payments. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2026A BONDS – Senior Obligations” and “– Subordinated Obligations.”

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The following table sets forth as of June 16, 2026 the Outstanding Indebtedness secured by installment payments to be made by the City from Net System Revenues.

**TABLE 20
OUTSTANDING DEBT
As of June 16, 2026**

	<u>Final Maturity</u>	<u>Outstanding Principal Amount as of June 16, 2026</u>
Senior Obligations:		
2020A Senior Bonds	August 1, 2049	\$ 195,710,000
2020B Senior Bonds ⁽¹⁾	August 1, 2032	64,440,000
2023A Senior Bonds	August 1, 2052	215,965,000
2025A Senior Bonds	August 1, 2055	233,525,000
SRF Loans:		
Miramar Water Treatment Plant	July 1, 2031	6,441,304
Alvarado Water Treatment Plant	July 1, 2031	3,866,058
Otay Water Treatment Plant	January 1, 2032	6,366,679
Harbor Drive Pipeline Replacement	January 1, 2036	5,853,560
Lindbergh Field Pipeline Replacement	January 1, 2036	1,805,090
University Ave Pipeline Replacement	January 1, 2039	17,664,029
69th Street and Mohawk Pump Station	January 1, 2050	11,851,203
Morena Pipeline ⁽²⁾	July 31, 2056	8,240,221
Alvarado 2 nd Pipeline Extension ⁽³⁾	December 30, 2058	7,437,095
Otay 2 nd Pipeline Steel Replacement Phase 3 ⁽⁴⁾	June 30, 2058	<u>1,281,075</u>
Total SRF Loans		<u>\$70,806,314</u>
Total Senior Obligations		<u>\$780,446,314</u>
Subordinated Obligations:		
2016A Subordinated Bonds ⁽¹⁾	August 1, 2045	\$ 33,170,000
2016B Subordinated Bonds ⁽¹⁾	August 1, 2039	274,030,000
2018A Subordinated Bonds	August 1, 2047	211,990,000
Lead Service Line Replacement Inventory & Investigation – SRF Loan ⁽⁵⁾	January 31, 2037	443,348
2020 WIFIA Loan (Pure Water Program Phase 1)	August 1, 2058	610,000,000
2021 WIFIA Loan (Pure Water Program Phase 1) ⁽⁶⁾	August 1, 2058	24,397,048
Commercial Paper Notes ⁽⁷⁾	Varies	<u>129,540,000</u>
Total Subordinated Obligations		<u>\$1,283,570,396</u>
Total All Obligations		<u>\$2,064,016,710</u>

⁽¹⁾ A portion to be refunded with proceeds of the 2026A Bonds.

⁽²⁾ Outstanding amount represents loan proceeds disbursed as of June 16, 2026. The maximum borrowing amount is up to \$57.7 million; \$49.4 million was undisbursed as of June 16, 2026. The maturity date and principal amount will be finalized upon completion of the project.

⁽³⁾ Outstanding amount represents loan proceeds disbursed as of June 16, 2026. The maximum borrowing amount is up to \$145.7 million; \$138.3 million was undisbursed as of June 16, 2026. The maturity date and principal amount will be finalized upon completion of the project.

⁽⁴⁾ Outstanding amount represents loan proceeds disbursed as of June 16, 2026. The maximum borrowing amount is \$45 million; \$43.7 million was undisbursed as of June 16, 2026. The maturity date and principal amount will be finalized upon completion of the project.

⁽⁵⁾ Outstanding amount represents the net principal due after \$2.3 million of principal forgiveness was applied, as of June 16, 2026. The maximum borrowing amount of this loan is \$7.8 million; \$5.0 million is undisbursed as of June 16, 2026. The maturity date and principal amount will be finalized upon completion of the project.

⁽⁶⁾ The maximum borrowing amount is \$119.5 million pursuant to the 2021 WIFIA Loan; \$95.1 million was undisbursed as of June 16, 2026.

⁽⁷⁾ A portion to be refunded with proceeds of the 2026A Bonds. The aggregate principal amount of Commercial Paper Notes outstanding at any time may not exceed \$250 million.

Source: Department of Finance, City of San Diego.

As of the date of this Official Statement, other than the SRF Loans and the WIFIA Loans, the Department has not entered into any direct bank loans or issued any direct placement debt secured or payable from amounts in the Water Utility Fund. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2026A BONDS – Senior Obligations” and “ – Subordinated Obligations.”

The City has no general obligation bonds Outstanding (for water purposes or otherwise) and has no immediate plans to issue such indebtedness. See “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan.”

Anticipated Additional Obligations

Pursuant to the Master Installment Purchase Agreement, the City may incur additional obligations, payments with respect to which will be on parity with, or subordinate to, the City’s obligation to make 2026 Installment Payments, subject to satisfaction of the conditions specified in the Master Installment Purchase Agreement. Table 11 sets forth the projected sources and uses of funds for the Water System CIP for Fiscal Years 2026 through 2031. See “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan.” The debt service of anticipated additional obligations is included in the City’s financial projections in Table 19.

The City anticipates issuing additional debt in Fiscal Years 2026 through 2031 to finance the costs of certain projects in the Water System Baseline CIP in the approximate amount of \$1.64 billion through a combination of State and Federal Loans, water revenue bonds, and Commercial Paper Notes.

Of this amount, \$1.15 billion is expected to be derived from a combination of revenue bonds and Commercial Paper Notes. As the aggregate principal amount of Commercial Paper Notes Outstanding at any time may not exceed \$250 million, the Department expects to repay Commercial Paper Notes by issuing water revenue bonds approximately every one to two years. The timing of these note and bond offerings is dependent on the project construction schedules and cash flow needs. The lien status of future water revenue bonds payable from System Revenues is yet to be determined. See “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan” for additional information.

Approximately \$493.6 million is expected to be derived from SRF Loans and a Federal Loan for which the City has either executed loan agreements or been allocated funding but pending loan agreements, as previously described under “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan”. Approximately \$231.4 million is undisbursed from three existing Senior SRF Loans totaling up to \$248.4 million, with the remaining disbursements anticipated to be received between Fiscal Years 2026 and 2031. The State Water Board’s Drinking Water SRF Loan Program has allocated funding for one transmission pipeline replacement project that is currently estimated to total \$50 million, and a loan agreement for this project is expected to be executed in late Calendar Year 2026. The \$493.6 million also includes projects associated with dam improvements that are anticipated to be financed by the CWIFP Loan, which is expected to be secured by Net System Revenues on a basis subordinate to the 2026A Bonds and other Senior Obligations and for which funding was allocated under CWIFP. The City expects to begin negotiations on the related CWIFP loan agreement in mid-Calendar Year 2026; no assurance can be made that the City and USACE will execute and deliver a CWIFP loan agreement. In addition, the City entered into a Subordinated SRF Loan in December 2024 for up to \$7.8 million to support lead service line inventory work (see “REGULATORY RISKS – Inventory of Lead Service Lines”); \$5.0 million is undisbursed as of June 16, 2026, the remaining proceeds are expected to be disbursed within the five-year projection period. Proceeds from the anticipated SRF Loans and the Federal Loan will provide funding in Fiscal Years 2026 through 2031, with interest only repayment during the construction periods for each project. Any additional SRF Loans are assumed to be on a senior lien basis, payable on parity with the Net System Revenues securing the Senior Obligations.

The City has entered into two WIFIA Loan Agreements totaling up to \$733.5 million on a drawdown basis to fund the Water System’s share of Phase 1 of the Pure Water Program. As of June 16, 2026, the City has fully drawn \$614 million from the 2020 WIFIA Loan and \$24.4 million from the 2021 WIFIA Loan.

See “SECURITY AND SOURCES OF PAYMENT FOR THE 2026A BONDS – Incurrence of Additional Obligations,” “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital

Improvement Financing Plan” and “RISK FACTORS.” There can be no assurances as to timing and availability of additional funding.

Labor Relations

As provided in the Fiscal Year 2026 Adopted Budget, there are approximately 1,048.90 full time equivalent employees of the Department (Water Branch), of which approximately 552.99 are represented by the San Diego Municipal Employees’ Association (“MEA”), and approximately 430.40 are represented by American Federation of State, County, and Municipal Employees, Local 127 (“AFSCME Local 127”) (both “Recognized Employee Organizations”). The remaining 65.51 employees are not represented by any labor organizations. On a City-wide basis, there are four other Recognized Employee Organizations that do not represent any Department (Water Branch) employees.

Collective Bargaining Agreements. The City has current collective bargaining agreements with MEA and AFSCME Local 127, which represent employees of the Department (Water Branch), that will terminate on June 30, 2026. The City Council has approved successor Memorandums of Understanding (MOU) that extends the contract term through June 30, 2029, as described below.

MEA. City Council approved the successor MOU between the City and the MEA extending the contract term through June 30, 2029. The agreement provides a series of general salary increases totaling 9.5% across the new term: a 2% increase in July 2026, a 3.5% increase in July 2027, a 2% increase in July 2028, and a final 2% increase in January 2029. Additionally, various classifications will receive equity adjustments ranging from 4% to 5% per Fiscal Year and various classifications will receive 5% to 10% add-on pays effective July 1, 2027. The agreement institutes a mandatory furlough program requiring full-time employees holding certain classifications to take 40 hours of unpaid furlough during Fiscal Years 2027 and 2028. Designated classifications that are excluded or may elect to be excluded from mandatory furlough will not receive the prorated Discretionary Leaves for the applicable fiscal year.

The agreement also introduces several modifications to benefits and add-on pays. Other significant changes include enhancements to the flexible benefits plan to provide increased credit allocations through December 2028 for employee-plus-dependent coverage tiers and for employee-only tier for employees hired on or after July 1, 2020.

The agreement modifies retirement medical benefits by eliminating the mandatory 0.25% Retiree Medical Trust contributions from both the City and employees by July 2026 and extending the retiree health reimbursement plan to employees hired on or after July 1, 2005, who are on active City payroll as of July 1, 2026, with funding to begin on July 1, 2028 (Fiscal Year 2029).

AFSCME Local 127. City Council approved the successor MOU between the City and Local 127 extending the contract term through June 30, 2029. The agreement includes a series of general wage increases totaling 9.5% over the three-year term: 2% increase in July 2026, 3.5% increase in July 2027, 2% increase in July 2028, and 2% increase in January 2029. In addition, 34 classifications will receive 5% equity adjustments effective January 1, 2029 (Fiscal Year 2029), and various classifications will receive add-on pays ranging from 5% to 10% effective July 1, 2027 (Fiscal Year 2028). The agreement also includes increases to the Flexible Benefits Plan, providing increased credit allocations through December 2028 for employee-plus-dependent coverage tiers and for the employee-only tier for employees hired on or after July 1, 2020.

To help offset fiscal impacts, the agreement establishes a mandatory furlough program requiring full-time employees to take 40 hours of unpaid furlough during Fiscal Years 2027 and 2028 (prorated), with the exception of nine classifications within the Environmental Services Department.

The agreement modifies retirement medical benefits by eliminating the mandatory 0.25% Retiree Medical Trust contributions from both the City and employees by July 2026 and extending the retiree health

reimbursement plan to employees hired on or after July 1, 2005, who are on active City payroll as of July 1, 2026, with funding to begin on July 1, 2028 (Fiscal Year 2029).

Information Technology

The Department's systems utilize two separate environments: (i) an internal employee system referred to as "sannet" that is managed by the City's Department of Information Technology (the "City Department of IT") and (ii) a distributed computer system referred to as a Supervisory Control and Data Acquisition system (the "SCADA system") used by the Department's operations and management teams to view the entire water process and perform control actions, which system is separately managed by the Department's Innovation & Technology division (the "Department IT Division").

City Department of IT Staff and Operations. Staffing for City technology services is supported by 91 City Department of Information Technology ("IT") professionals and 40 public-safety radio engineers and support staff. In addition to the City staff members, technology services are supported by contracts with major third-party contractors for application development and maintenance, enterprise computer services, workplace services, and network and voice services. The Fiscal Year 2026 Adopted Budget includes \$138.5 million to support the Department of IT and its projects.

Each year the Department of IT prepares a five-year strategic plan. The Fiscal Year 2026 through Fiscal Year 2030 IT Strategic Plan is a comprehensive plan developed to align with the City-wide Strategic Plan; modernize the City's networks, infrastructure, and applications; and integrate IT industry best practices with the delivery and contracting of technology services. This plan includes the acceleration of the transition of City applications to cloud services and enhancement of the resiliency of the City's application portfolio and securely adapting to an increasingly remote workforce. Roadmaps have been developed for each major area of service, with each roadmap containing hundreds of projects that keep the City's systems current, adhere to IT governance, target cost reductions, enhance security, improve efficiencies, accelerate mobile and cloud adoption, drive innovation, modernize services, and increase automation.

Cybersecurity. The City's Information Security Office ("ISO"), a group within the City Department of IT, adopts new technologies, policies and procedures to protect the City's systems and confidential and proprietary data of the City, its employees and members of the public. This office also provides the development, implementation and management of all Citywide information security policies, standards, procedures, and internal controls. The ISO focuses on three core components: (1) confidentiality – preventing the unauthorized access and disclosure of City information, including protecting personal privacy and proprietary information; (2) integrity – guarding against improper information modification or destruction by ensuring information non-repudiation and authenticity; and (3) availability – ensuring timely and reliable access to, and use of, City information and systems. The ISO implements holistic strategies to follow industry best practices, security frameworks, develop City-wide security policies, provide regular security training to all users and integrates best in class security tools to mitigate, prevent, deter and respond to incidents if and when they occur. Additionally, to identify potential vulnerabilities and proactively mitigate them, the City organizes regular vulnerability scanning of critical systems, annual penetration tests of the information technology environment, and regular internal testing of systems and user access controls. These tests are performed by both the ISO and independent third parties. Additionally, the ISO conducts tabletop exercises to test hypothetical cybersecurity incident response activities with various business units. During off hours, holidays, and weekends, security tools are monitored by a contracted Security Operations Center. In the event of a cyber-security incident, the ISO has a documented Incident Response Plan that is reviewed and updated at least twice annually. If additional assistance is needed, a breach response team is available pursuant to established contracts.

The City's contracted Managed Service Providers secure the IT infrastructure and provide engineering services for the City's information systems. The City has working relationships and meets regularly with security experts in federal and state governments, commercial enterprises, academic institutions and law enforcement organizations. By virtue of these relationships, the City aims to stay informed of cyber threats and communicates with proper authorities regarding cyber risks and incidents.

Public Utilities Department Innovation & Technology Division Staff and Operations. The Department's IT Division is responsible for maintaining the Water System's Supervisory Control and Data Acquisition systems for infrastructure monitoring and control, and adheres to industrial control system standards. These industrial control systems maintained by the Department do not allow for remote access. The Department maintains these systems and their security controls separate from the City's Department of IT.

The Department IT Division employs additional system security safeguards and controls pursuant to protecting the public safety interests related to clean water delivery and wastewater treatment, following definitive and published guidelines for the extra security required of industrial control systems by the National Institute of Standards and Technology Special Publication 800-82.

Climate Change Assessment and Mitigation Plans

General. California has established a comprehensive regulatory framework to reduce greenhouse gas ("GHG") emissions and increase community resilience to climate change. Assembly Bill 1279 (2022) establishes a statewide policy to achieve net zero GHG emissions as soon as possible and no later than 2045 to reduce anthropogenic emissions by 85 percent below 1990 levels by 2045. The 2022 Scoping Plan for Achieving Carbon Neutrality provides the State's roadmap for reducing emissions to these levels.

In parallel, the State has established climate adaptation and resilience requirements for local jurisdictions. Senate Bill 379 mandates that cities update their General Plan Safety Elements to include vulnerability assessments, adaptation goals and policies, and feasible implementation measures. Senate Bill 1035 requires that these updates occur at least every eight years or alongside major plan revisions. The City's Climate Resilient SD plan fulfills these requirements and will continue to be updated regularly.

Over the past decade, the City has completed a series of assessments to evaluate vulnerability to climate-related hazards such as sea level rise, coastal erosion, extreme heat, wildfire, and flooding. These include the Assembly Bill 691 ("AB 691") State Lands Sea Level Rise Vulnerability Assessment, the Sea Level Rise Vulnerability Assessment (2019), the Coastal Erosion Assessment, and the citywide Climate Change Vulnerability Assessment. These assessments identify potential risk exposure to City assets and inform the development of adaptation strategies and mitigation plans, including the City's Climate Resilient SD, Coastal Resilience Master Plan, and Climate Action Plan. The assessments and plans are described below.

Sea Level Rise Concerns. California's Fourth Climate Change Assessment (2018) projects sea level rise of about one foot by 2050 for the San Diego area, with increases of three feet or more by the year 2100, depending on the pace of climate change in the latter half of the century. In accordance with AB 691, the City assessed the impact of sea level rise to its tidal lands, which are held in public trust for the State. The AB 691 State Lands Sea Level Rise Vulnerability Assessment, completed and reported in July 2019, assesses impacts of sea level rise and coastal processes for the Calendar Years 2030, 2050, and 2100, and identifies strategies to adapt and reduce potential vulnerabilities. The assessment provides a range of cost estimates for the replacement value of resources and facilities if no mitigation or adaptation measures are implemented. Assuming that storm surge may occur alongside higher sea levels, the City reported the value of City assets at risk in the State-granted land areas ranges from \$139-\$206 million by 2030, and \$208-\$370 million by 2050.

The City also prepared a Sea Level Rise Vulnerability Assessment in 2019 and a City-wide Climate Change Vulnerability Assessment in 2020. The Sea Level Rise Vulnerability Assessment evaluated the exposure of City assets to coastal flooding and erosion related to sea level rise. These findings were incorporated into the City-wide Climate Change Vulnerability Assessment, which evaluated the exposure of City assets to additional climate change-related hazards including wildfires, extreme heat, and precipitation driven flooding. The assessment identified increasing exposure of assets from present day through the end of the century, including water assets. The assessment found water pipes, wastewater pipes and wastewater pump stations to have medium vulnerability to coastal and/or precipitation-based flooding, and a high vulnerability to coastal erosion. Water dams and wastewater pump stations were highly vulnerable to precipitation-based flooding and water pump stations had medium vulnerability to precipitation-based flooding. Dams, distribution reservoirs, water treatment plants and wastewater treatment plants all have medium vulnerability to wildfire. Water pump station, distribution reservoirs, and wastewater treatment plants all had medium vulnerability to extreme heat. Strategies to address and mitigate these risks are included in Climate Resilient SD.

Coastal Erosion Assessment. In 1993 and 2003, the City commissioned a CEA of its 13 miles of shoreline. The study assessed 71 sites and rated them low, moderate, or high risk based on geological observations and knowledge of conditions that pose the greatest threat to the public. The 2003 CEA also included recommendations for remedial measures to improve pedestrian safety, many of which have been implemented. In 2018, the City completed an update to the 2003 CEA that assigned a priority rating to consider the presence of pedestrian hazards, limitations to pedestrian access, and signs of bluff instability. The 2018 CEA site location priority rankings, along with the 2003 CEA geologically based risk ratings, can be utilized by the City to identify remedial actions. The City is inspecting and monitoring coastal assets identified in the CEA on an ongoing basis. As the City continues to plan for sea level rise and evaluate options for coastal assets, new capital improvement projects may be initiated to replace or modify existing coastal infrastructure.

Climate Resilient SD. In 2021, the City adopted Climate Resilient SD, a comprehensive climate adaptation and resilience plan that includes a suite of adaptation strategies to mitigate the risks identified in the vulnerability assessments as well as build City capacity to respond to and recover from climate change-related impacts. The plan addresses both City assets (including facilities of the Water System) as well as community resilience. Additionally, the plan met the legislative requirements of Senate Bill 379, which requires that cities and counties include a set of adaptation and resilience goals, policies, and implementation in their general plan or local hazard mitigation plan. The extent to which City buildings, equipment and other properties (including the Water System) are exposed to climate change-related risks over the next several decades is difficult to determine, as is the potential cost of risk mitigation and adaptation efforts, and any additional services. While these costs over time could be significant and could have a material adverse effect on the City's finances (including the finances of the Water System) by requiring greater expenditures to mitigate and/or adapt to the effects of climate change, the City expects these costs will be less than the costs it may incur through inaction. An implementation tracker indicating the current status of each adaptation strategy is available on the Climate Resilient SD website.

Coastal Resilience Master Plan. The City received \$1.32 million in grant funding from the National Fish and Wildlife Foundation and the California State Coastal Conservancy to develop a Coastal Resilience Master Plan. The Coastal Resilience Master Plan is an implementation action of Climate Resilient SD. This plan will identify potential nature-based solutions for locations along San Diego's coast to improve the resilience of the local coastline and communities to sea level rise while also benefiting wildlife, habitat and natural coastal resources. Development of the plan includes concept level designs for six locations, a stakeholder advisory committee, pop-up engagement events and workshops to gather public input, a pilot project design and California Environmental Quality Act environmental analysis. The plan was adopted by City Council in September, 2025 and is now in Phase 2 of work, which includes initial

engineering, additional environmental analysis, technical studies, and continued community, stakeholder and Tribal engagement.

City’s Climate Action Plan. In 2022, the City adopted an update to the Climate Action Plan (“CAP”), which was originally adopted in 2015. The updated CAP establishes a community-wide goal of net zero GHG by 2035, an accelerated trajectory for GHG reductions. In addition to reducing emissions, implementing the CAP also results in cleaner air, directs investment into communities, and improves overall quality of life. In 2023, the City completed an Implementation Plan as an accompaniment to the CAP. The Climate Action Implementation Plan has been a helpful tool to clearly define each City department’s role in CAP implementation each fiscal year and further integrate equity into climate action-related projects and initiatives. It identifies implementing City departments, high-level estimates of City implementation costs for Fiscal Years 2024 through 2028, initial Council Prioritization Scores (pursuant to Council Policy 900-22) and other details to inform the City’s annual budgeting process and routine operations with respect to climate action. A status update to the Implementation Plan was released in February 2026.

The City Planning Department also prepares annual progress reports to track progress on CAP implementation. The 2024 Annual CAP Report, released in 2025, found a 19 percent reduction in citywide GHG emissions between 2019 and 2023, the latest year for which complete data on annual emissions are available.

The CAP is organized into six strategies:

1. Decarbonizing the built environment
2. Expanding access to clean and renewable energy
3. Advancing sustainable mobility and land use
4. Supporting a circular economy and clean communities
5. Building resilient infrastructure and healthy ecosystems
6. Accelerating emerging climate action

Strategies most relevant to the Water System include tree-planting and ecosystem restoration, the efforts to absorb atmospheric carbon, as well as emissions reductions from water recycling projects within the Pure Water San Diego Program. Strategy 2 of the CAP also accounts for emissions reductions actions by San Diego Community Power (“SDCP”), a community choice aggregator launched in 2021. SDCP aims to supply 100 percent renewable electricity by 2035 and currently provides 100 percent renewable, carbon-free electricity to all City facilities through its Power100 option. SDCP’s programs, supported by a Community Needs Assessment, continue to expand access to rooftops solar, energy storage, and electric vehicle charging infrastructure.

Certain Effects on the Water System. The foregoing plans and studies reflect the formal policies that the City and the City Council have adopted, but do not represent the full scope of actions being taken by the City or the Department. For example, the Department has attempted to address certain effects of the climate change factors described above by committing to evaluating the location and design of its facilities, including the construction of such facilities further inland and away from areas most susceptible to sea-level rise as part of its current and future planning studies and capital projects. The Department has also embarked on projects, including the Pure Water Program, to address the potential shortage of water in times of extended drought and the increased potential for rainfall instead of snow (the latter being important to the availability of water during warmer seasons). The Department is also implementing projects that reduce the amount of energy used at its facilities and continues to pursue renewable generation such as photovoltaics at Department sites and properties. See “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM — Integrated Master Planning” for additional information. See also “RISK FACTORS — Water Supply and its Financial Impacts.”

Insurance and Liability Claims

General. The City has implemented a Safety and Risk Oversight Committee (“SROC”), that is chaired by the City’s Chief Financial Officer and co-chaired by the director of the Risk Management department. Operational departments and their in-house safety personnel are also committee participants. In addition to monitoring and tracking implementation of remedial measures to reduce the City’s risk of liability, the SROC identifies existing and emerging risks. The SROC implements a consistent, city-wide proactive approach to mitigating operational liability, promoting safety best practices, and distributing information on updated federal, State, and local safety regulations.

The City maintains an insurance portfolio that provides insurance coverage for claims with varying limits and self-insured retentions or deductibles. The City is self-insured for workers’ compensation program and long-term disability claims and maintains coverages with various insurance companies to manage other risks. For public liability claims between \$7.5 million and \$50 million, the City has coverage through its member participation in Public Risk Innovation, Solutions and Management (“PRISM”), a statewide joint powers authority risk pool.

Property and Flood Insurance. The City participates in the joint purchase of property insurance and flood insurance through the PRISM pool, which includes flood and earthquake coverage for certain scheduled locations, including bond financed locations of the Water System. The City’s “all risk” property insurance covers approximately \$5.4 billion of City property, and provides coverage for loss to City property under the primary policy up to \$25 million per occurrence and with access to additional excess limits. The policy is subject to a \$50,000 deductible. Additional excess limits are available as part of the City’s insurance property program through PRISM under which coverage “towers” with designated coverage limits are provided. Coverage towers are groups of properties which are diversified based on occupancy (risk-pool members) and geographical location. The City participates in four coverage towers with dedicated coverage limits of \$300 million for “All Risk” and Flood per tower. One additional rooftop limit of \$300 million for “All Risk” may be accessible per occurrence for all four towers in the aggregate. There is no sharing of limits among the City and member counties of the PRISM pool unless the City and member counties are mutually subject to losses due to the same occurrence. Limits and coverage may be adjusted periodically in response to requirements of bond financed projects, acquisitions, or response to changes in the insurance marketplace. The City can give no assurance that any future losses will be covered or that PRISM will be able to cover any such losses. Depending on availability and affordability of earthquake insurance, the City may not elect to purchase such coverage in the future, and earthquake insurance is not required by the Master Installment Purchase Agreement.

Employee Dishonesty and Faithful Performance Insurance. The City is a public agency subject to liability for the dishonest acts, and negligent acts or omissions of its officers and employees acting within the scope of their duty (“employee dishonesty” and “faithful performance”). The City participates in the joint purchase of insurance covering employee dishonesty and faithful performance through the PRISM pool.

Cyber Liability Insurance. The City maintains Cyber Liability insurance coverage for security and privacy liability claims. Coverage for website media content liability, cyber extortion and first party data protection is also afforded under this insurance program. Coverage is purchased through the PRISM pool. See “WATER SYSTEM FINANCIAL OPERATIONS – Information Technology – Cybersecurity” for information with respect to the City’s practices to protect against cyber threats.

Insurance for the Water System. Coverage under the City’s PRISM policy extends to losses arising out of the operation of the Water System, including, among other assets, treatment plants, pump stations, administration buildings, garages, warehouses, concession buildings, water tanks, and labs. There is also certain limited coverage related to dams and reservoirs. However, the City does not maintain any insurance for the pipelines of the Water System because such insurance is not available at commercially

reasonable rates. The City is not obligated under the Master Installment Purchase Agreement to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Water System.

See Note 15 “RISK MANAGEMENT” contained in the City’s ACFR for Fiscal Year 2025 which is available through EMMA and incorporated by reference in this Official Statement, for additional information on the City’s insurance coverages. See “FINANCIAL STATEMENTS” herein.

The following table sets forth the liabilities claims expenditures for liability claims of the Water System for Fiscal Years 2021 through 2025.

TABLE 21
WATER UTILITY FUND LIABILITY CLAIMS BUDGET AND EXPENDITURES
Fiscal Years 2021 through 2025

<u>Fiscal Year</u>	<u>Budget⁽¹⁾</u>	<u>Expenditures⁽²⁾⁽³⁾</u>
2021	\$1,995,600	\$2,960,246
2022	1,995,600	4,326,390
2023 ⁽⁴⁾	1,995,600	9,496,887
2024	1,995,600	3,174,266
2025 ⁽⁴⁾	1,995,600	11,832,155

- ⁽¹⁾ Budget is based on average expected expenditures on liability claims.
- ⁽²⁾ Expenditures exceeding line-item budget are paid from available Water Utility Fund balance/other operating budget.
- ⁽³⁾ Amounts do not include settlement payments related to the Patz Litigation. Accruals of liability were recorded as an Operating Expense in Fiscal Years 2021-2025 as shown in Table 16, footnote 3. See “LITIGATION – Patz Litigation.”
- ⁽⁴⁾ Liability claims expenditures in Fiscal Year 2023 are due to higher settlement payments. The increased liability claims expenditure in Fiscal Year 2025 is due to one large settlement payment.
- Sources: Public Utilities Department and Risk Management Department, City of San Diego.

Investment of Funds

General. Amounts in the funds and accounts of the Water Utility Fund are invested by the City Treasurer in the City Treasurer’s Pooled Investment Fund (the “City Pool”) described below. Approximately 2% of the City Pool is allocable to the Water Utility Fund.

City Pool. In accordance with the Charter of the City and authority granted by the City Council, the City Treasurer is responsible for investing the unexpended cash in the City Pool. Responsibility for the daily investment of funds in the City Pool is delegated to the City Treasurer’s Investment Officers. The City and certain related entities are the only participants in the City Pool; there are no other participants either voluntary or involuntary in the City Pool. The investment objectives of the City Pool are safety of principal, liquidity and return.

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The following table sets forth the investments in the City Pool as of March 31, 2026.

TABLE 22
CITY OF SAN DIEGO POOLED INVESTMENT FUND
As of March 31, 2026
(\$ Amounts in Thousands)

Investment Instrument	Book Value	Fair Value	Percent of Total⁽¹⁾
U.S. Treasury Notes	\$617,015	\$613,891	27.27%
Local Agency Investment Fund	49,974	49,974	2.21
Commercial Paper	569,310	574,063	25.16
Repurchase Agreement	21,500	21,500	0.95
Corporate Notes	666,318	667,105	29.45
Asset Backed Securities	338,414	339,791	14.96
TOTAL INVESTMENTS	\$2,262,531	\$2,266,324	100.0%

(1) Based on book value.

Source: Office of the City Treasurer, City of San Diego.

The City Pool is not invested in any structured investment vehicles or mortgage-backed securities. In addition, the City has no Outstanding swap arrangements or liquidity facilities in connection with its investment program.

A summary of the investments held by the City Pool as of June 30, 2025, a description of the City’s Investment Policy, as well as a list of investments authorized under the California Government Code and the City’s Investment Policy, are set forth in the City’s ACFR for Fiscal Year 2025 at Note 3, “Cash and Investments.”

Oversight and Reporting Requirements. The City Treasurer provides a monthly investment report, including the portfolio market valuation, to the Mayor, City Council, Chief Financial Officer, and other senior management officials. In addition to the monthly investment reports, the Department annually presents the City Treasurer’s Investment Policy to the City Treasurer’s Investment Advisory Committee, the Budget and Government Efficiency Committee, and the City Council. The City Treasurer’s Investment Advisory Committee is comprised of two City employees, currently the Chief Financial Officer and the Assistant Director of the Department of Finance, and three outside investment professionals and is charged with overseeing the review of the City Treasurer’s Investment Policy and investment practices of the City Treasurer and recommending changes thereto. Investments in the City Pool are audited annually by an independent firm of certified public accountants as part of the overall audit of the City’s financial statements.

The City’s Investments Division uses outside services to provide investment portfolio valuations, accounting, and reporting services. These services provide monthly portfolio valuation, investment performance statistics, and other portfolio reports that are distributed to the Office of the City Treasurer Accounting program and the Department of Finance for review and reconciliation.

San Diego City Employees’ Retirement System – Water Utility Fund Contribution

The City has a defined benefit pension plan (the “Pension Plan”) and various defined contribution pension plans covering substantially all of its employees. See “–Defined Benefit Plan” below. Cheiron, Inc. (“Cheiron”), the San Diego City Employees’ Retirement System (“SDCERS”) actuary, prepared the Fiscal Year 2025 Actuarial Valuation for the Pension Plan (the “2025 Actuarial Valuation”), which was approved by the SDCERS Board on March 13, 2026. The 2025 Actuarial Valuation serves as the basis for the City’s pension contribution for Fiscal Year 2027. Where indicated, such information from such valuation has been included herein.

Based on the 2025 Actuarial Valuation, the City had an Unfunded Actuarial Liability (“UAL”) in the Pension Plan of approximately \$3.46 billion and an ADC of \$563.2 million as of June 30, 2025, which is required to be paid in Fiscal Year 2027. Based on the actuarial value of assets, the Pension Plan had a funded ratio of 76.1% as of June 30, 2025.

Defined Benefit Plan. SDCERS is a public employee retirement system established in Fiscal Year 1927 by the City. SDCERS administers independent, qualified, single employer governmental defined benefit plans and trusts for the City, the San Diego Unified Port District (the “Port”) and the San Diego County Regional Airport Authority (the “Airport”). The assets of the three separate plans and trusts are pooled in the SDCERS Group Trust for investment purposes. These plans are administered by the SDCERS Board to provide retirement, disability, death and survivor benefits for its members. Amendments to the City’s benefit provisions require City Council approval and amendments to retirement benefits require a majority vote by those SDCERS members who are also eligible City employees or retirees. All approved benefit changes are codified in the City’s Municipal Code. The plans cover all eligible employees of the City, the Port, and the Airport. All City employees working half-time or greater, except those employees who elected to remain in the Supplemental Pension Savings Plan-H (“SPSP-H Plan”) (a defined contribution plan) after the unwinding of Proposition B, all sworn police officers of the City irrespective of hire date, and full-time employees of the Port are eligible for membership and are required to join SDCERS, and full-time employees of the Airport may join SDCERS.

SDCERS is considered part of the City’s financial reporting entity and is included in the City’s ACFR as a pension trust fund. See Note 12, “PENSION PLANS,” in the City’s Fiscal Year 2025 ACFR. SDCERS also prepares its own Annual Comprehensive Financial Report, the most recent of which is for Fiscal Year 2025.

The amounts and percentages set forth under this caption relating to SDCERS, including, for example, actuarial accrued liabilities and funded ratios, are based upon numerous demographic and economic assumptions, including investment return rates, inflation rates, salary increase rates, cost of living adjustments, postemployment mortality, active member mortality, and rates of retirement. Prospective purchasers of the Bonds are cautioned to review and carefully assess the reasonableness of the assumptions set forth in this Official Statement and in the documents that are cited as the sources for the information under this caption. In addition, the prospective purchasers of the 2026A Bonds are cautioned that such sources and the underlying assumptions speak as of their respective dates, and are subject to change. Prospective purchasers of the 2026A Bonds should also be aware that some of the information presented under this caption contains forward-looking statements and the actual results of the pension system may differ materially from the information presented herein.

The information disclosed herein relates solely to the City’s participation in SDCERS and not to the participation of the Airport or the Port. City employment classes participating in the City’s defined benefit plan are elected officers, general employees, and safety employees (including police, fire and lifeguard members). These classes are represented by various Recognized Employee Organizations depending on the type and nature of work performed, except for elected officials, unclassified and unrepresented employees. For information on labor relations of Department employees, see “— Labor Relations.”

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TABLE 23
CITY OF SAN DIEGO PLAN MEMBERSHIP
As of June 30, 2025

	<u>General</u>	<u>Safety</u>	<u>Total by Classification</u>
Active Members	7,994	2,699	10,693
Inactive Members	2,604	849	3,453
Retirees ⁽¹⁾	6,757	3,979	10,736
DROP Participants ⁽²⁾	450	304	754
Total Members	17,805	7,831	25,636

⁽¹⁾ Includes beneficiaries and disabled members.

⁽²⁾ Participants in the Deferred Retirement Option Plan (“DROP”) no longer accrue service credits and do not make contributions to SDCERS. They continue to work for the City and contribute 3.05% of their salary, with an employer match, into a personal DROP account. Their service retirement benefit is also deposited into their DROP account and they must retire within five years of entering DROP. Employees hired after June 30, 2005 are ineligible for DROP.

Source: SDCERS Annual Comprehensive Financial Report for Fiscal Year Ending June 30, 2025

The City is required by the Charter to make contributions to the pension system as determined by the SDCERS Board. Pension contributions are authorized and appropriated annually in accordance with the adoption of the City’s annual budget. The City’s ADC is calculated by the SDCERS’ actuary, Cheiron, and approved by the SDCERS Board. Cheiron conducts an actuarial analysis for SDCERS annually, the most recent of which is the 2025 Actuarial Valuation. The 2025 Actuarial Valuation serves as the basis for the City’s pension contribution for Fiscal Year 2027. The City’s actual annual pension contribution may differ from the ADC based on a number of factors discussed below, but the pension contribution is not expected to be less than the ADC in any Fiscal Year.

Actuarial Assumptions. The following are the principal actuarial assumptions used by Cheiron in preparing the 2025 Actuarial Valuation. The actuarial assumptions reflect recommendations approved by the SDCERS Board in September 2023 based on the 2023 Actuarial Experience Study.

1. Investment Return Rate: 6.50%, annually net of investment expenses.
2. Price Inflation: 3.00%, compounded annually.
3. Wage Inflation: 3.25%, compounded annually.
4. Administrative Expense: \$15.6 million for Fiscal Year 2027 (assuming payment at beginning of the Fiscal Year), increasing by price inflation of 3.00% annually.
5. Interest Credited to Member Contributions: 6.50%, compounded annually.
6. Cost-of-Living Adjustment: 2.00% per year, compounded.
7. Projected Salary Increases Due to Inflation: 3.25%.
8. Additional Assumptions: Additional assumptions used include cost-of-living annuity benefit, rates of termination, member refunds of contributions, rates of retirement, disability, mortality for active lives and terminated vested members, mortality for retired healthy lives, mortality for retired disabled lives, family composition, member contributions for spousal continuance, deferred member benefit, and DROP account balances.

Funding Status. According to the 2025 Actuarial Valuation, the City had a UAL of \$3.46 billion, a funded ratio based on the actuarial value of assets of 76.1%, and an ADC to SDCERS of \$563.2 million in Fiscal Year 2027. The UAL decreased by \$27.9 million over the UAL set forth in the Actuarial Valuation at June 30, 2024 (“2024 Actuarial Valuation”), which was \$3.49 billion, and the funded ratio increased by 1.4%.

The 2024 Actuarial Valuation had projected a \$131.0 million reduction in the Fiscal Year 2025 UAL. Actual results differed due to unfunded liability increases of \$187.1 million, primarily from higher-than-expected salary growth, and a \$5.2 million increase from a Proposition B Police Tier Conversion. These increases were partially offset by an actuarial investment experience gain of \$89.2 million, resulting in a net UAL decrease of \$27.9 million.

The following table sets forth the City's portion of SDCERS historical funding progress for Valuation Years 2016 through 2025. Additionally, see Note 12, "PENSION PLANS," in the City's Fiscal Year 2025 ACFR for additional information with respect to the Pension Plan. The discussion of the Pension Plan in Note 12 is based primarily on information in the 2024 Actuarial Valuation.

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TABLE 24
CITY OF SAN DIEGO
SCHEDULE OF FUNDING PROGRESS
Valuation Years 2016 through 2025
(\$ Amounts in Thousands)

Valuation Date (June 30)	Actuarial Value of Assets (A)	Market Value of Assets (B)	Actuarial Liability (C)	Funded Ratio (Actuarial) (A/C)	Funded Ratio (Market) (B/C)	Unfunded AL (Actuarial) (C - A)	AL Less Market Value of Assets (C - B)
2016	\$6,455,378	\$6,307,412	\$9,013,130	71.6%	70.0%	\$2,557,752	\$2,705,718
2017	6,808,418	7,000,220	9,565,802	71.2	73.2	2,757,384	2,565,582
2018	7,214,925	7,456,337	10,192,808	70.8	73.2	2,977,883	2,736,471
2019	7,595,073	7,779,226	10,602,166	71.6	73.4	3,007,093	2,822,941
2020	7,870,672	7,648,735	11,206,326	70.2	68.3	3,335,654	3,557,591
2021	8,526,118	9,457,379	11,478,109	74.3	82.4	2,951,990	2,020,730
2022 ⁽¹⁾	9,008,489	9,182,687	11,848,469	76.0	77.5	2,839,980	2,665,782
2023 ⁽²⁾	9,718,150	9,752,377	13,081,352	74.3	74.6	3,363,202	3,328,975
2024	10,324,624	10,405,925	13,816,772	74.7	75.3	3,492,148	3,410,847
2025	11,048,857	11,321,100	14,513,151	76.1	78.0	3,464,294	3,192,051

- (1) Following the invalidation of Proposition B, the City reopened the Pension Plan to all employees hired by the City on or after July 20, 2012. New hires who entered SDCERS after the reopening of the Pension Plan are reflected in the increase of the Actuarial Liability for the June 30, 2022 Valuation Date. Reinstated employees after July 9, 2022 are not included in the Actuarial Liability or assets for the June 30, 2022 Valuation Date.
- (2) Actuarial Liability and assets for Valuation Date of June 30, 2023 include all reinstated eligible members who were hired between July 20, 2012 and July 9, 2021 and elected to join SDCERS. The increases in the Actuarial Value of Assets and Market Value of Assets for Valuation Date June 30, 2023 are due, in part, to transfers of assets from SPSP-H Plan account balances of reinstated Proposition B-affected employees who elected to join the Pension Plan. The increases in Actuarial Liability and UAL are due to salary increases being greater than expected, the changes in assumptions described under “—Actuarial Assumptions” above, as well as the reinstatement of Proposition B-affected employees who elected to join the Pension Plan.

Sources for table: SDCERS Annual Comprehensive Financial Reports from Fiscal Years 2017 - 2025 for Valuation Dates 2016-2024. Cheiron Actuarial Valuation Report as of June 30, 2025 for Valuation Date 2025.
Sources for footnotes: Department of Finance, City of San Diego.

City and Water System Pension Contributions. The following table sets forth the City’s historical ADC and pension contributions, and the Water System’s share of payments for Fiscal Years 2021 through 2025. Preservation of Benefits (“POB”) Plan contributions are made on a monthly basis as payments are owed to beneficiaries. The City does not pay any portion of employee pension contributions.

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TABLE 25
CITY OF SAN DIEGO AND WATER UTILITY FUND
PENSION CONTRIBUTION
Fiscal Years 2021 through 2025
(\$ Amounts in Thousands, Except in Footnotes)

Fiscal Year	Pension Plan ADC (A)	POB Plan Contribution ⁽¹⁾ (B)	Total Pension Contribution ⁽²⁾ (A+B)	Water System Contribution to Pension Plan ADC (C)	Water System Operating Expenses ⁽³⁾ (D)	Water System Contribution (% of O&M) (C/D)
2021	\$365,600	\$1,562	\$367,162	\$16,893	\$554,337	3.0%
2022	414,900	1,442	416,342	19,837	579,365	3.4
2023 ⁽⁴⁾	384,300	974	422,774	19,649	570,231	3.4
2024 ⁽⁵⁾	400,500	761	448,861	24,215	608,377	4.0
2025	486,300	941	487,241	26,122	707,281	3.7

- (1) See Note 12 in the City’s ACFR for Fiscal Year 2025 for more information on the POB Plan. Pursuant to IRS guidelines, the City may not pre-fund the POB Plan, and POB Plan contributions are in addition to the Pension Plan ADC.
- (2) Comprised of the pension plan contribution and the POB Plan contribution; may not sum due to additional payments made in Fiscal Years 2023 and 2024.
- (3) Water System Operating Expenses include Maintenance and Operations Costs and administration costs and does not include annual debt service.
- (4) As part of the unwinding of Proposition B, the City made an additional contribution of \$37.5 million for unpaid normal costs associated with Fiscal Years 2022 and 2023 for Proposition B-affected employees, which brought the total City-wide contribution to \$421.8 million (before POB Plan Contribution).
- (5) As part of the unwinding of Proposition B, the City made an additional contribution of \$47.6 million for unpaid normal cost and UAL for Proposition B-affected employees, which brought the total City-wide pension contribution to \$448.9 million (including POB Plan Contribution).

Sources for table: SDCERS Fiscal Year 2021-2025 Annual Comprehensive Financial Reports for Pension Plan ADC, the City’s ACFRs for Fiscal Years 2021 - 2025 for POB Plan Contribution and Water System Operating Expenses, and Department of Finance, City of San Diego for Water System Contribution to Pension Plan ADC.
Source for footnotes: City of San Diego.

The City’s Fiscal Year 2026 Pension Plan ADC is \$533.2 million (which the City has paid), of which \$30.8 million is budgeted to be the Water Utility Fund’s contribution to the Pension Plan ADC. This contribution represents 4.2% of the Water System’s Fiscal Year 2026 operating expense budget, net of budgeted debt service, at \$733.9 million. The Fiscal Year 2027 ADC is \$563.2 million, with the Water Utility Fund’s budgeted share of the ADC at \$32.5 million.

Postemployment Healthcare Benefits – Water Utility Fund Contribution

General. The City provides retiree healthcare benefits, also known as other post-employment benefits (“OPEB”), to certain health-eligible retirees and employees who were initially hired prior to July 1, 2005. As a result of a 15-year memorandum of understanding from Fiscal Year 2012 regarding post-employment healthcare benefits (“PEHB MOU”) with the City’s recognized employee organizations, there are two retiree healthcare plans: a defined benefit OPEB plan (“DB OPEB Plan”) and a defined contribution plan (“DC Plan”). See Note 13, “OTHER POSTEMPLOYMENT BENEFITS” in the City’s ACFR for Fiscal Year 2025 for information regarding the City’s OPEB plans.

Citywide and Water Utility Fund OPEB Contributions. Pursuant to the PEHB MOU, the City’s total retiree healthcare annual contribution (“MOU Contribution”) was \$49.0 million for Fiscal Year 2025 (and was budgeted as \$48.0 million in Fiscal Year 2026, and budgeted at \$37.4 million in Fiscal Year 2027), distributed among the City’s pay-go contribution to the DB OPEB Plan (“DB OPEB Pay-go”) and its contribution to the DC Plan. The PEHB MOU also requires that certain employees contribute towards the DB OPEB Plan to fund a portion of the DB OPEB Pay-go. The terms of the PEHB MOU may be renegotiated with a two-thirds vote of the City Council. As of the date of this Official Statement, there are no discussions ongoing to renegotiate the level of funding for the MOU Contribution.

The City's annual payment for the DB OPEB Plan and the DC Plan are made on a pay-go basis. For the last five Fiscal Years, the Water Utility Fund retiree health contribution has been less than \$5 million annually, which has represented less than 1% of the Water Utility Fund's maintenance and operation expenses. The Water Utility Fund's share of the Net OPEB Liability is \$31.9 million as of June 30, 2024, which is the most recent valuation. For information regarding the City's Net OPEB Liability and OPEB plans, see Note 13, "OTHER POSTEMPLOYMENT BENEFITS," in the City's Fiscal Year 2025 ACFR.

REGULATORY RISKS

General

The descriptions under this section are not a comprehensive list of all water and water-related regulatory matters. Drinking water that is delivered to customers is subject to numerous regulations enforced by multiple governmental entities, including the federal, state and regional entities including the EPA, State Water Board and California Regional Water Quality Control Board. The transfer, treatment, storage and discharge of water are subject to additional regulations, including under the Federal Clean Water Act through NPDES permits issued by the State Water Board and the Porter Cologne Act under the California Water Code. Additionally, various other permits and licenses are required for operation of the water treatment plants, water impounding system, water quality lab and distribution system and address issues such as surface water treatment, disinfection and disinfection byproducts rules, regulations governing groundwater to address waterborne disease and microbial contamination, and rules on the monitoring, reporting and treatment requirements of public water systems associated with lead and copper. The City believes that it is currently in substantial compliance with all federal and State regulations applicable to drinking water and operates and maintains its water treatment transmission and distribution facilities in material compliance with permit requirements.

Compliance Order of the California Department of Public Health/DDW

The Water System is subject to a Compliance Order (as amended to date, the "DDW Compliance Order") issued by the Division of Drinking Water ("DDW," the successor to the California Department of Public Health), which is the State regulatory agency responsible for ensuring that water systems meet the federal regulations, as well as additional or stricter State regulations. To address certain deficiencies in the future reliability of various components of the Water System, the DDW Compliance Order, issued in 1997, required the Department to complete eight pump stations, 10 reservoirs/standpipes, nine treatment-related projects and four pipelines and award 10 miles of distribution (small diameter) cast iron water main replacement per Fiscal Year until all small diameter cast iron water mains within the Water System have been replaced. Except the pipeline small diameter water main replacement pipelines, all of the required projects were completed in Calendar Year 2012. The awarding of contracts for distribution pipelines is ongoing. The Department is meeting all other ongoing requirements of the DDW Compliance Order, including the provision to the DDW of quarterly progress reports.

The costs for bidding, constructing and completing the required work fluctuates depending on variables such as changes in the cost of materials and labor. The estimated DDW Compliance Order project costs for Fiscal Years 2026-2031 total approximately \$16.2 million. The Department anticipates financing such costs with existing net assets, present and future revenues, and financing proceeds secured by Net System Revenues.

Inventory of Lead Service Lines

California Health and Safety Code Section 116885 required the City to submit the results of an inventory of lead user service lines to the State Water Board by July 1, 2018. User service lines include pipes, tubing, and fittings connecting the water main (distribution) lines to an individual water meter or service connection. The City completed the initial inventory of user service lines in accordance with

applicable law and submitted reporting in May 2018. The City identified approximately 281,000 service lines; of which 192,507 service lines and 15,863 fittings were of unknown material. Under State law, the City was required to provide to the State Water Board by July 1, 2020 a timeline for replacement of both service lines that are known to contain lead and service lines that are of an unknown material. The City prepared a plan with the DDW in May 2019 to identify the material used in those service lines that were categorized as unknown. Using Standard Drawings, Specifications, Capital Improvement Project Bid Package and Design Guidelines, the material type of 140,000 service lines were identified as of May 2019. Additional research and data including as-built drawings, maps, water service permit records and field check verifications have been used to further identify service line material type. To date, only one service line was identified as being made of lead, and the service line was immediately replaced by City construction forces on the day it was discovered. In March 2020, the City completed the identification of material type for all remaining service lines, and no other lead service lines were found to be present in the City's system.

Under the revised federal Lead and Copper Rule Revisions ("LCRR"), all water systems are required to prepare a complete inventory of lead service lines, including both public and private segments. The City entered into a Subordinated SRF Loan in December 2024 for up to \$7.8 million to support this inventory work, with an updated final inventory submission due to the Division of Financial Assistance. The City anticipates a completion date of January 31, 2027 for the required inventory.

The current scope includes visual inspections within meter boxes, data verification using as-built drawings and service records, and submission of a final inventory. If any private-segment lead service lines are discovered, the City will prepare an application to the State Water Board to obtain financing support for Lead Service Line Replacement.

Dam Licensing and Safety Issues

Among the Water System's facilities are nine dams and two water tanks that are subject to the jurisdiction of the California Department of Water Resources' Division of Safety of Dams ("DSOD"), which has various inspection and approval authority relative to operation of and improvements to dams. Among the authority granted to DSOD is the power to impose water level restrictions on dams for safety reasons, which may restrict reservoir capacity. These water level restrictions apply to Hodges Dam (most recently restricted in 2023), Morena Dam (restricted in 2021), Murray Dam (restricted in 2023), and El Capitan Dam (restricted in 2015). Hodges Dam and Murray Dam are multiple-arch concrete dams, El Capitan Dam is a hydraulic-fill rock embankment dam, and Morena Dam is a rock-filled structure with an impervious concrete face. The City maintains a self-imposed water level restriction of 126.5 feet at Morena Dam.

Hodges Dam was downgraded from "Fair" to "Poor" condition in September 2019 by DSOD, due to dam safety deficiencies. The water level restriction is a requirement from DSOD, providing a mitigation measure to ensure dam safety of Hodges Dam. The maximum water level was restricted from an elevation of 315 feet down to an elevation of 295 feet. Following the completion of additional analysis and further progress on dam repairs, DSOD issued a letter on February 2, 2023 restricting the water level to an elevation of 280 feet and further downgraded the Hodges Dam condition from "Poor" to "Unsatisfactory" until the time the City can rehabilitate or replace the dam. In February 13, 2023, DSOD issued a letter approving a reduction in the visual inspection frequency from daily to weekly with a condition that the City must continue to perform inspections after any large storm event that raises the reservoir level above elevation 280 feet or after a seismic event.

In addition, the California Office of Emergency Services has imposed requirements for the review and approval of inundation maps for dams, critical appurtenant structures, and enhanced dam inspection practices. As a result, the City completed a detailed condition assessment of Hodges Dam and is continuing detailed assessments for Lower Otay, Barrett, Morena, and El Capitan Dams, which are each classified as

“extremely high” hazard dam appurtenant structures due to potential downstream impacts to life and property. These dams are approximately 80 to over 100 years old and are anticipated to need significant repairs.

The City has completed 65 condition assessments and 10 near-term repair projects, and currently has 13 additional near-term repair projects in design and four in planning. Over the next five years, the City plans to complete comprehensive condition assessments of all 13 DSOD regulated facilities to establish baselines and identify immediate and long-term needs as part of a dam safety strategic plan.

Based on the initial assessment of the City’s dams’ condition to date, it is estimated that over \$3 billion of improvements could be needed over the next several decades to ensure dam safety and performance. Dam safety projects expected to occur during Fiscal Years 2026 through 2031 are reflected in Table 10; however, the majority of anticipated improvements are expected to occur beyond this projection period. These estimated dollar amounts (including the potential aggregate costs of the improvements) are limited by the amount of detail provided in these initial assessments and will be refined as more comprehensive condition assessments are completed. The current estimate represents an increase from the City’s prior estimate and stems from the greater understanding of the conditions of the City’s existing dams, as well as the increased costs associated with dam rehabilitation projects. The City has secured grant funding for five City-owned dams through the Federal Emergency Management Agency (“FEMA”) National Dam Safety Program and is collaborating with DSOD to proactively maintain safe infrastructure for residents and industries within dam inundation zones. The City remains committed to pursuing funding opportunities each year of the grant program to support rehabilitation efforts for eligible dams. The various dams within the Water System’s facilities and related regulatory and safety matters attendant thereto are an area of continuing investigation by the City. The City continues to evaluate the scope of improvements needed and the timing, costs, and available funding sources for the improvements.

RISK FACTORS

Investment in the 2026A Bonds involves risks that may not be appropriate for certain investors. The following is a discussion of certain risk factors that should be considered, in addition to other matters set forth herein, in evaluating the 2026A Bonds for investment. The ability to pay principal of and interest on the 2026A Bonds depends primarily upon the receipt by the Department of revenues from the Water System. Some of the events which could prevent the Department from receiving a sufficient amount of revenues to enable it to pay the principal of and interest on the 2026A Bonds are summarized below. The information set forth below does not purport to be an exhaustive listing of the risks and other considerations that may be relevant to an investment in the 2026A Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

Limited Obligations

The obligation of the City to pay the 2026 Installment Payments securing the 2026A 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 System Revenues payable on a basis that is on parity with the right of payment by the City of its Outstanding Senior Obligations under the Master Installment Purchase Agreement. The obligation of the City under the 2026 Supplement to make the 2026 Installment Payments does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

No assurance can be made that Net System Revenues, estimated or otherwise, will be realized by the City in amounts sufficient to pay the 2026 Installment Payments. Among other matters, drought and other natural or man-made disasters, general and local economic conditions, and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Net System Revenues realized by the City. In addition, the realization of future Net System

Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide water to its customers, and the ability of the City to meet its covenant to fix, prescribe, and collect rates and charges for the Water Service in amounts sufficient to timely pay the 2026 Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of or interest on the 2026A Bonds. The City has covenanted in the Master Installment Purchase Agreement to fix, prescribe, and collect rates and charges for the Water Service which will be at least sufficient to yield the greater of (i) Net System Revenues sufficient to pay during each Fiscal Year all Obligations payable in such Fiscal Year, or (ii) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service for such Fiscal Year. See "WATER SYSTEM FINANCIAL OPERATIONS— Establishment of Water Service Charges."

The 2026A Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues pledged therefor and amounts on deposit in the Bonds Payment Fund established under the Indenture. Funds for the payment of the principal of and the interest on the 2026A Bonds are derived solely from the 2026 Installment Payments. The Authority has no other source of revenues from which to pay debt service on the 2026A Bonds. The Authority has no taxing power.

Water System Expenses, Collections, and Future Rates

The City expects that in the future financial demands on the Water System will increase due to population growth, regulatory requirements, and utility costs. Increases in expenses could adversely affect the Water System's financial condition and require a significant increase in rates or charges in order to pay for maintenance, operation and capital expenditures related to the Water System, including those anticipated under the Pure Water Program, and to pay the debt service on account of any Obligation including, without limitation, the 2026 Installment Payments securing the 2026A Bonds.

Additionally, water system rate increases could reduce water use, which in turn could reduce flows (and revenues) to the City's Water System and may impact the City's ability to make the 2026 Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2026A Bonds as and when due.

Future Suspensions and Moratoriums on Utility Shut-Offs

Beginning in March 2018, the City suspended water and wastewater shutoffs due to a high volume of billing-related issues. This suspension is expected to continue into Fiscal Year 2027 as the City finalizes its implementation plan for the phased resumption of shutoffs. The City has made substantial progress resolving the billing issues, leading to more accurate and timely billing for customers. The City is currently updating its water shutoff policy and related procedures to ensure compliance with the requirements of California Senate Bill 998 ("SB 998"). Initial implementation efforts will focus on customer outreach and support, including expanded payment plan options, alternative payment arrangements, and the establishment of a formal bill dispute resolution process to assist customers in maintaining service and resolving outstanding balances. These efforts, along with strengthened customer communication strategies, reflect prudent financial management and support a responsible and sustainable approach to reinstating shutoffs. While the City is actively working to create and adopt procedures compliant with SB 998, the timing of reinstatement of shutoffs remains uncertain. See "WATER SYSTEM FINANCIAL OPERATIONS — Accounts Receivable," herein.

No assurance can be made that Net System Revenues will not be materially adversely effected by the existence of suspensions and moratoriums on water and wastewater shut-offs, nor can there be any assurance that City and the State may not establish new moratoriums that could affect Net System Revenues in the future.

Water System CIP

The Water System CIP is a large component of the costs of the Water System. The components of the Water System CIP described in this Official Statement are based upon preliminary estimates by the Department, as are projected schedules for the completion of project components, plans and designs, construction costs, and funding sources. Because the projection period included in this Official Statement extends to Fiscal Year 2031, the projected Water System CIP does not include the projected costs of certain large projects outside the projection period, the undertaking of which will affect Net System Revenues.

The City has seen supply chain disruptions and higher than historical inflation levels that have affected the schedule of capital projects and the estimated cost for several of the City's capital projects, including the Pure Water Program projects. These changes have increased the variability of project costs and timing of expenditures, which impacts the estimates used in this Official Statement. If these supply chain and inflationary pressures continue over the medium to long term, the City will have to adjust its assumptions moving forward. Actual results of the Water System CIP and the projects undertaken thereunder are subject to adjustment and may vary, and costs may be higher or lower than such estimates. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM — Capital Improvement Projects" and Table 10 under that heading.

The largest single portion of the Water System CIP, in terms of cost and scope, is the Pure Water Program. Completion of the Pure Water Program includes certain assumptions (which the Department considers to be reasonable) and Department goals to pursue all options in order to obtain regulatory certainty that the Pure Water Program will suffice to offset the approximately \$2 billion requirement to move up from chemically enhanced primary treatment to the secondary treatment standard required to be in full compliance with the Clean Water Act as applied to the City's Wastewater System. If the costs of the Pure Water Program exceed the Department's original estimates, or if there are delays or unforeseen obstacles or the additional capacity generated by the Pure Water Program does not result in the currently projected increase in revenues or decrease in expenditures, additional capital contributions may be necessary in order to pay for the total costs of the Pure Water Program. The exact amount of any such additional capital contributions will depend upon, among other things, (a) the actual costs of Phase 1 and Phase 2 of the Pure Water Program incurred to date, where costs and funding are different than anticipated, (b) any unanticipated additional costs of the Pure Water Program needed to complete the Pure Water Program, (c) approval of a rate case to address future capital program costs in Fiscal Year 2026 and later Fiscal Years, and (d) whether the terms of any bonds, loans or grants differ from those assumed by the Department. As with each component of the Water System CIP, the achievement of projected results, completion, and other expectations involves known and unknown risks, uncertainties, and other factors that may hinder the Department's ability to meet the Water System CIP schedule set forth herein. Cost increases and outside funding availability are evaluated against several factors, including but not limited to: how the Department looks at the scope of its entire CIP, the risk and reward associated with each capital project, its capital allocation and Pay-Go/debt mix, the rates it develops for considerations for the City Council approval and the implementation of the final rate levels approved. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM — Pure Water Program" for additional information on the Pure Water Program.

The estimated costs of and projected schedule and sources of funding for the Water System CIP are described above in "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM — Capital Improvement Projects." These costs, schedule and sources of funding are subject to a number of uncertainties. Capital project budgets and financing plans are updated by the Department annually and have increased materially from time to time.

The ability of the Department to complete and finance capital projects may be adversely affected by various factors including: estimating variations; design and engineering variations; changes to the scope, scheduling or phasing of the projects; delays in contract awards and/or as a result of the acts or omissions

of third-parties; material scarcity and/or labor shortages; unforeseen site conditions; adverse weather conditions, earthquakes or other casualty events; contractor or other counterparty defaults; labor disputes; unanticipated levels of inflation; inability of vendors or contractors to obtain or maintain financing; environmental issues; bidding conditions through the Department's procurement process; litigation; and capital markets conditions. No assurance can be made that the existing or future projects will not cost more than the current budget or future budgets for such projects. Additionally, conditions to State and federal grants may also result in an increase to the estimated costs of projects, such as the requirement to use materials produced in the United States, which could increase costs. Schedule delays or cost increases could result in the need to issue additional Obligations and/or incur other permitted debt, the expenditure of additional Department funds and the diversion of financial and other resources to such projects. As a result, actual results could differ and have, in the past, differed materially from previous forecasts.

In addition, certain funding sources are assumed to be available for the Department's projects, including the Water System CIP. The Department's financing plan for the Water System CIP contains assumptions as to the projected amount of additional Obligations, SRF Loans and other funding sources for the Water System CIP. The relative amount of these funding sources directly affects the projected debt service and debt service coverage set forth in this Official Statement. The availability, timing, and terms of these State and Federal Loans are subject to various uncertainties, including changes in federal budgetary priorities, agency staffing levels, executive orders, regulatory policy, and the administration of federal lending programs. Federal infrastructure lending programs such as the CWIFP, the WIFIA program administered by the EPA, and the federal capitalization grants that support the SRF loans are each dependent on federal appropriations, administrative capacity, and the policy priorities of the executive branch. Changes in the current or any future administration's fiscal policies, including potential reductions in federal appropriations for water infrastructure programs, reorganization or reduction of federal agency staffing, delays in the processing or approval of loan applications, or the imposition of new conditions on federal funding, could delay or reduce the availability of anticipated State and Federal Loans or increase the costs associated with securing such financing. No assurances can be given that such funding will, in fact, be available, or that the Department will not change its plan of finance described in this Official Statement. If such funding sources are not available or the Department changes its plan of finance, the Department may need to expend additional Department funds, eliminate or scale down projects, divert financial and other resources to such projects or incur additional indebtedness, possibly including issuing additional Obligations, to finance such projects. Such changes could result in actual results, including but not limited to debt service coverage, differing materially from the forecasts in this Official Statement.

Further, the Department's ability to finance the Water System CIP also depends upon the orderly function of the capital markets, which have experienced substantial disruptions. Future market disruptions may negatively impact the timing and ability of issuers of municipal debt, such as the Department, to access short-term or long-term funding, as well as the cost thereof. No assurance can be given that this source of funding will actually be available in the amounts or at the times desired by the Department.

The Water System CIP involves replacement, upgrading and increasing capacity of existing facilities. Though none are anticipated, environmental changes could adversely affect the completion of the Water System CIP within the contemplated budget or current timeline.

Water System Demand

There can be no assurance that the local demand for the services provided by the Water System will be maintained at levels described in this Official Statement. Because of circumstances, including changes in demographics or land use within the boundaries of the City and new water purification programs which may reduce the need for water services, it is possible that the demand for water services may decline over the term of the 2026A Bonds. Additionally, Water System rate increases could reduce water use, which in turn could reduce flows (and revenues) to the Water System. A significant decline in demand might create a situation in which the City could not increase rates sufficiently to offset the decrease in subscribers

or usage. This would reduce the City’s ability to make the 2026 Installment Payments, which could in turn adversely impact the Authority’s ability to make payments of the principal of and interest on the 2026A Bonds as and when due.

Rate-Setting Process Under Proposition 218

Proposition 218, which added Articles XIIC and XIID to the State 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 be challenged by initiative action authorized under Proposition 218. In the event that future proposed rate increases cannot be imposed as a result of majority protest or initiative, the City might thereafter be unable to generate Net System Revenues in the amounts required by the 2026 Supplement to pay the 2026 Installment Payments, which could in turn adversely impact the Authority’s ability to make payments of the principal of and interest on the 2026A Bonds. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIC” and – Article XIID.”

Notwithstanding the foregoing, the City has covenanted to fix, prescribe, and collect rates and charges for Water Service at a level at least sufficient to meet its debt requirements for Senior Bonds, as set forth under “SECURITY AND SOURCES OF PAYMENT FOR THE 2026A BONDS – Rate Covenant,” and to use its best efforts to effect Water Service rate increases in compliance with Proposition 218. The current water rates approved by the City Council have been imposed in compliance with Proposition 218. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIC” and “– Article XIID.”

See also “LITIGATION — *Patz Litigation.*”

Statutory and Regulatory Compliance

The Water System is subject to a variety of federal and State statutory and regulatory requirements. Laws and regulations governing treatment and delivery of water are enacted and promulgated by federal, state and local government agencies. Compliance with these laws and regulations is and will continue to be costly and, as more stringent standards are developed to ensure safe drinking water standards and the provision of water for other purposes, such costs will likely increase.

The City is aware of discharges of Perfluorooctanoic acid and Perfluorooctanesulfonic acid, which are fluorinated organic chemicals that are part of a family of synthetic compounds referred to as per- and polyfluoroalkyl substances (“PFAS”), within the Water System’s limits. PFAS are water and lipid resistant substances that were previously used in a variety of manufacturing processes and industrial applications. On September 6, 2022, the EPA has issued a proposed rule that designates PFAS as hazardous under the Comprehensive Environmental Response, Compensation, and Liability Act and on March 14, 2023, issued a proposed National Primary Drinking Water Regulation for six PFAS. In addition, the State Water Board is conducting a phased approach for investigating the existence of PFAS and the State has increased notification and response levels for PFAS in drinking waters. The City Attorney’s Office has taken the lead on litigation over PFAS manufacturers on behalf of the people of San Diego. The goal is to stop the discharge of these chemicals and to cover costs anticipated for monitoring and mitigating these discharges in the future, which costs impact the Water System and Wastewater System, as well as the Stormwater Department. The Department projects in its 2025 UWMP that only 100 AF of water (or less than 0.01% of all water usage) will be available per year from ground water, which indicates the likely limited impact of contamination on the Water System.

The City’s failure to comply with applicable laws and regulations could result in significant fines and penalties. Such claims are payable from assets of the Water System or from other legally available sources. In addition to claims by private parties, changes in the scope and standards for public agency water systems such as that operated by the Department may also lead to administrative orders issued by federal

or State regulators. Future compliance with such orders can also impose substantial additional costs on the Water Utility Fund. No assurance can be given that the cost of compliance with such laws, regulations, and orders would not adversely affect the ability of the Water System to generate Net System Revenues sufficient to pay the debt service on account of any Obligation on parties with the 2026 Installment Payments including, without limitation, the 2026 Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2026A Bonds. See "REGULATORY RISKS."

Water Supply and its Financial Impacts

General. The Department's water supply, which currently consists of approximately 80-90% imported water, and the cost thereof are affected by many factors, including but not limited to annual snowpack and rainfall, population growth, water use, groundwater basin quality and recharge trends, federal and State environmental rules and regulations, environmental restoration commitments, water quality, climate change, and area of origin issues. Sustained drought conditions or continued low water levels could adversely affect the Department's water supply, impact operational expenses of the Water System and demand for water services from the Water System. Drought conditions are especially impactful on the City, which has a limited local water supply and relies to a large degree on imported water. Additionally, any natural disaster or other physical calamity, including acts of terrorism, earthquake, earth movements, floods, extreme weather or gradual climate change, may have the effect of reducing water availability, quality and/or distribution capabilities of the Department, impair the financial stability of the Department, affect infrastructure and other public improvements and private improvements and the continued habitability and enjoyment of such private improvements. Further, among other factors affecting demand, water use is affected by economic conditions. Economic recession and its associated impacts such as job losses, income losses, and housing foreclosures or vacancies affect aggregate levels of water use and the City's water sales. Among other matters, water supply and demand, general and southern California economic conditions and changes in law and government regulations could adversely affect the amount of operating revenues that the Department receives. See "WATER SUPPLY."

Reliance on Water Purchased from CWA. The City relies on water purchased from CWA to meet its current water supply requirements. According to CWA, CWA currently acquires the majority of its water from three main sources: (i) desalinated water, (ii) independent water purchases and (iii) MWD. According to MWD, MWD obtains its water from the Colorado River through the United States Bureau of Reclamation and from northern California via the SWP, through the California DWR. If the City's reliance on water purchased from CWA and/or CWA's reliance on MWD increases, the City's expenses with respect to purchased water increases. Additionally, any material reductions in the amount of water available to be purchased from CWA and/or by CWA from MWD could adversely affect the operations and finances of the Water System. In the near-term, the City expects to continue to rely on water purchased from CWA to meet its current water supply requirements. See "WATER SUPPLY."

Drought Risks. The ability of the Water System to operate effectively can be affected by the water supply available to the City, which is situated in an arid and semi-desert environment. If the water supply decreases significantly, whether by operation of mandatory supply restrictions, prohibitively high water costs or otherwise, Water System sales will diminish and Net System Revenues available to pay the 2026 Installment Payments may be adversely affected. CWA, the primary supplier of water to the City, and MWD, a significant supplier of water to CWA, have each indicated that each has plans and manages reserve supplies to account for normal occurrences of drought conditions. See "WATER SUPPLY."

The State has developed a long-term strategy to increase the State's water supply by expanding reservoir storage and the amount of water recycling done throughout the State. This long-term plan is in addition to the short-term goal of reducing statewide water usage, which has been incorporated in the Department's projections. Future droughts could result in mandatorily enforced conservation measures and

other mitigations that could have a material adverse impact on Department revenues available to pay the debt service on the Outstanding Obligations, including the 2026A Bonds.

Potential Impact of Climate Change and Natural Disasters to the Water System

Climate Change. Climate change is expected to, among other things, increase the frequency and severity of extreme weather events and cause rising sea levels and substantial flooding. The Water System can be threatened by increased flooding risks, sinkholes, decreased flows, power outages, service disruptions, and other changes in subsurface conditions that are caused by the fluctuating climate extremes between wet and dry weather events. Though the City’s Climate Resilient SD plan provides a framework for future action to mitigate risks and minimize exposure to climate change-related hazards, the extent to which City buildings, utilities, equipment and other properties are exposed to climate change-related risks over the next several decades is difficult to determine, as is the potential cost of mitigation and adaptation efforts, and any additional services. See “WATER SYSTEM FINANCIAL OPERATIONS – Climate Change Assessment and Mitigation Plan.” To address these risks, the City will monitor and seek to mitigate them over time, which may materially increase the Water System CIP. To the extent that these climate change risks materialize over time, Water System CIP projects are likely to require measures that ensure that the Water System remains resilient to climate change. In addition, climate change can cause operational disruptions which can impact the collection of Net System Revenues.

Earthquakes. The geographic area in which the City is located is subject to unpredictable seismic activity. Southern California is characterized by a number of geotechnical conditions that represent potential safety hazards, including expansive soils and areas of potential liquefaction and landslide. Since 1984, earthquake activity in San Diego County has doubled over that of the preceding 50 years. A major earthquake could cause widespread destruction and significant loss of life in a populated area such as the City. The San Andreas, San Jacinto, Elsinore, and Rose Canyon fault zones are all capable of producing earthquakes that could cause damage in the San Diego area. The Rose Canyon Fault Zone runs through the heart of the San Diego metropolitan area and could present a major seismic hazard to the region.

In March 2020, the Earthquake Engineering Research Institute San Diego Chapter released a report entitled “San Diego Earthquake Planning Scenario: Magnitude 6.9 on the Rose Canyon Fault Zone.” The planning scenario examined the potential impacts and consequences of a probable 6.9 earthquake occurring on the Rose Canyon fault zone. The scenario report concluded that the San Diego Region could suffer severe damage to its buildings and lifeline infrastructure with devastating consequences to the communities and economy following a major Rose Canyon fault zone earthquake. The City did not contribute to the report nor verify the findings in the report. The report indicates that models show San Diego County facing an 18% probability of a magnitude 6.7 or larger earthquake occurring in the next 30-year period on a fault either within the County or just offshore.

Under the above-referenced earthquake model, major water storage infrastructure, including local dams, reservoirs, and aqueducts, are expected to remain in service because of recent seismic retrofits and their locations away from the anticipated fault rupture. The Murray and Sweetwater Main dams have the potential to experience damage from the scenario earthquake. The earthquake model considers it highly unlikely these dams will fail due to moderate peak ground acceleration anticipated at those sites, though these dams have an “extremely high” downstream hazard rating because of their potential for causing flooding and casualties. The major water supply and distribution lines that deliver water to coastal communities from La Jolla to Imperial Beach are at high risk, as they cross the surface rupture and liquefaction zones. Major supply pipeline ruptures along the fault are expected to leave the coastal communities without water for an extended period of time. Further, it is estimated that thousands of leaks and breaks will occur in smaller water distribution pipes because of ground shaking and liquefaction, not accounting for surface rupture.

Water conveyance and distribution facilities maintained by the Department, the Department of Water Resources, MWD and CWA are all subject to the risk of earthquakes and other natural disasters which could interrupt deliveries to the Water System, and subsequently Wastewater flows. Earthquakes or other natural disasters could interrupt operation of the Water and Sewer Systems, or could cause a material increase in costs for repairs and thereby interrupt the ability of the City to realize Net System Revenues sufficient to pay the 2026 Installment Payments securing the payment of principal of and interest on the 2026A Bonds.

Wildfire. Facilities within the Water System generally consist of pipelines and connections, flow control facilities, and pumping stations, which are not typically vulnerable to damage by wildfires. The above-ground facilities within the Water System are designed to be tolerant to damage by wildfires through the use of fire-resistant material where possible, such as concrete and masonry blocks. In addition, the Department works closely with the City's Fire Department to ensure that proper vegetative clearances are maintained in and around the properties and facilities of the Water System. The Department monitors wildfires that may threaten the facilities of the Water System and dispatches operations and maintenance crews as necessary to ensure that all above-ground facilities remain safe and operational. Further, during fires, the Department works closely with the City's Fire Department and law enforcement officers to monitor and protect the facilities of the Water System to ensure continuous operation, which operation may nonetheless be affected by the interruption or unavailability of other services (such as electricity) during a fire.

Wildfires within the territory of the Water System may also give rise to lawsuits against the City and the Department based on, among other claims, the doctrine of inverse condemnation. The doctrine of inverse condemnation is a "takings clause" cause of action under the State and federal constitutions that entitles property owners to just compensation if their private property is damaged by a public use. California courts have imposed liability on public agencies in legal actions brought by private property holders for damages, where the inherent risks in the public agency's infrastructure, as deliberately designed, constructed or maintained, are determined to be a substantial cause of damage to the property. Any such lawsuits may also be based on various tort claims, including negligence and vicarious liability, negligence per se, dangerous condition of public property, trespass, private nuisance, public nuisance, negligent infliction of emotional distress, and interference with prospective economic advantage. No assurance can be given that any wildfire affecting property owners within the service area of the Water System will not adversely affect the Department.

On March 24, 2025, the City received the State Fire Marshal's recommended fire hazard severity zones map for areas within the City's jurisdictional boundaries. City Council adopted the State Fire Marshal's recommendations on fire hazard severity zones, designated additional areas as very high fire hazard severity zones based on substantial evidence and advice from the City's Fire-Rescue Department, and made various amendments to the City's Municipal Code in connection therewith. The Department does not expect these updates to have a material impact to its operations or costs.

Specific Environmental Rules Affecting the Water System. Various federal and state rules and regulations and court decisions have affected and will continue to affect the amount of water available to the Department. See "REGULATORY RISKS" for a discussion of some of the rules, regulations and court decisions that limit the amount of water available to the Department. Additionally, recent federal and state court decisions and environmental regulations have severely restricted the amount of water that may be delivered by Metropolitan and thereby to CWA to the Department from the Bay-Delta. Operational constraints in the Bay-Delta likely will continue until a long-term solution to the problems in the Bay-Delta is identified and implemented. In addition to the Bay-Delta restrictions, the U.S. Department of the Interior and Bureau of Reclamation have also indicated future restrictions may be proposed in the Colorado River Basin, which is the largest supplier to Metropolitan, CWA and therefore the Department. The Department cannot predict if future federal and state rules and regulations will be enacted or if future court decisions

will be decided that further restrict water deliveries to the Department and what affect such reduced water deliveries may have on the operations and finances of the Water System.

Above-Normal Precipitation. Just as below-normal precipitation can negatively affect the revenues of the Water System, above-normal precipitation also can negatively affect the revenues of the Water System. Historically, in years where the City receives above-normal levels of precipitation, customers purchase comparatively less water than in years with normal levels of precipitation, which can lead to reduced Water System revenues.

Security of the Water System. Military conflicts, cyberattacks and terrorist activities may adversely impact the operations and finances of the Water System. While the Department plans and prepares for emergency situations, maintains incident response protocols to maintain the quality and service of water, has made use of and may continue to pursue additional use of Homeland Security grants to enhance security of various facilities throughout the Water System, and has established the Emergency Operating Reserve, and the suppliers of Department water have indicated that they have also taken actions to increase the security of water, 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 Water System or that costs of security measures will not be greater than presently anticipated. Further, damage to certain components of the Water System could require the City to increase expenditures for repairs to the Water System significantly enough to adversely impact the City's ability to make the 2026 Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2026A Bonds. See "WATER SYSTEM FINANCIAL OPERATIONS – Water Utility Fund Reserves."

Utility Costs. Power outages may cause difficulties in receiving an adequate water supply and thus increase the cost of water. 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. Also, the Department cannot guarantee that prices for electricity or gas will not increase, which could adversely affect the Water System's financial condition. The Water Utility's gas and electricity costs were \$9.0 million in Fiscal Year 2025. The Department also cannot guarantee that additional increases in water rates charged by CWA, the City's wholesale provider, or other charges imposed by CWA or MWD will not be proposed or enacted. Costs for electric power required for operating the pumping systems of CWA, and MWD for CRA and the SWP, are a substantial part of their respective expenses. Such increases in water rates and such other charges as well as increases in electricity and gas costs are eligible to be "passed through" to the City's water customers as increased water rates in accordance with the City's Municipal Code. Such "pass-through" rate increases are subject to Proposition 218 notice requirements. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIC" and "– Article XIID."

Acceleration; Limitations on Remedies

The Indenture provides that, upon and during the continuance of an Event of Default thereunder, the Trustee may, subject to certain conditions, declare the principal of all Senior Bonds then Outstanding and the interest accrued thereon to be due and payable immediately. Pursuant to the Master Installment Purchase Agreement, in the event of a declaration of acceleration by the Corporation after an Event of Default under the Master Installment Purchase Agreement, all Net System Revenues (as defined herein) received thereafter shall be applied to payment of principal of and interest on Senior Obligations prior to payment of any Subordinated Obligations.

Under the Master Installment Purchase Agreement and the Collateral Agency Agreement with respect to the WIFIA Loans, which are Subordinated Obligations, the Collateral Agent (rather than the Corporation) has the right, pursuant to the Master Installment Purchase Agreement, the Collateral Agency Agreement or any other Issuing Instrument, among others, to accelerate or otherwise declare such

Subordinated Obligations immediately due and payable, subject to certain conditions precedent and only after all Senior Obligations have been paid in full. In addition, the State may accelerate payment of the existing SRF Loans, which are Senior Obligations and Subordinated Obligations, in the event of a termination of the respective SRF Loan agreement upon violation by the City of any material provision of such SRF Loan agreement after such violation has been called to the attention of the City and after a failure of the City to bring itself into compliance within a reasonable time. For the Commercial Paper Notes program, the CP Bank (as defined earlier) may accelerate unpaid Outstanding principal amounts as a remedy upon an Event of Default under the Reimbursement Agreements. Pursuant to the Master Installment Purchase Agreement as supplemented by the Collateral Agency Agreement, the acceleration of Subordinated Obligations may only occur after all Senior Obligations have been paid in full. Pursuant to the Indenture, so long as any Senior Bonds remain Outstanding under the Indenture, no Owners of Subordinated Bonds shall have the right to declare an Event of Default, to declare any Subordinated Bonds immediately due and payable or to direct the Trustee or waive any Event of Default. The foregoing notwithstanding, the remedy of acceleration is subject to the limitations on legal remedies against public entities in the State, including a limitation on enforcement obligations against funds needed to serve the public welfare and interest. Also, any remedies available to the Owners of the 2026A 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.

Further, enforceability of the rights and remedies of the Owners of the 2026A Bonds, and the obligations incurred by the City, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, receivership, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles that may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose, and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the 2026A Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights. The opinions to be delivered by Bond Counsel, concurrently with the issuance of the 2026A Bonds, that the 2026A Bonds constitute valid and binding limited obligations of the City and the Indenture constitutes a valid and binding obligation of the City will be subject to such limitations and the various other legal opinions to be delivered concurrently with the issuance of the 2026A Bonds will be similarly qualified. See "APPENDIX B – FORM OF APPROVING OPINION OF BOND COUNSEL."

If the City fails to comply with its covenants under the 2026 Supplement to pay the 2026 Installment Payments, there can be no assurance of the availability of remedies adequate to protect the interests of the holders of Senior Bonds.

Changes in Law and Application Thereof

The water industry is heavily regulated and there are a significant number of governmental agencies and legislative bodies that have the ability to directly or indirectly affect the Department financially and operationally.

From time to time, governmental agencies, executives and legislative bodies, have proposed, issued or enacted and may continue to propose, issue and enact legislation, rules, orders and other laws, rules and guidance that have the effect of law, particularly in with respect to clean water regulation. The proposal, issuance or enactment of such legislation, rules, orders and other laws, rules and guidance that have the

effect of law may have a material effect on the water industry and the Department. Moreover, while enforcement of potential executive orders, laws or regulations could impose additional financial burdens upon the water industry, the Department or the City, as of the date of this Official Statement, insufficient information is available regarding potential governmental action to estimate the magnitude, if any, of such potential impacts.

Additionally, from time to time, the President of the United States, the United States Congress and/or State legislatures have proposed and could propose in the future, legislation that, if enacted, could cause interest on the 2026A 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. Clarifications of the Internal Revenue Code of 1986, as amended (the “Code”), or court decisions may also cause interest on the 2026A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation. The introduction or enactment of any such legislative proposals or any clarification of the Code or court decisions may also affect the market price for, or marketability of, the 2026A Bonds, or could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. Prospective purchasers of the 2026A Bonds should consult their own tax advisors regarding any such pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Uncertainties of Projections, Forecasts and Assumptions

Compliance with certain covenants contained in the Indenture is based upon assumptions and projections including, but not limited to, those described under “WATER SYSTEM FINANCIAL OPERATIONS – Financial Projections and Modeling Assumptions.” 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. See also “INTRODUCTION – Forward-Looking Statements.”

Absence of Market for the 2026A Bonds

There can be no guarantee that there will ever be a secondary market for purchase or sale of the 2026A Bonds or, if a secondary market exists, that the 2026A Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Loss of Tax Exemption on 2026A Bonds

As discussed under the caption “TAX MATTERS,” interest on the 2026A Bonds could become included in gross income for purposes of federal income taxation, retroactive to the date the 2026A Bonds were issued, because of future acts or omissions of the City or the Authority in violation of their respective covenants in the Indenture and the Master Installment Purchase Agreement.

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 changes may include (but are not limited to) fluctuations in business production, consumer prices, or financial markets, unemployment rates, technological

advancements, shortages or surpluses in natural resources or energy supplies, changes in law (including the enforcement thereof), changes in federal or state funding priorities (including the award of any new federal or state loans, including the CWIFP Loan), social unrest (including governmental response thereto), fluctuations in the crime rate, political conflict, acts of war or terrorism, the escalation of existing hostilities, environmental damage, and natural disasters.

Global Health Emergencies

A pandemic, epidemic or outbreak of an infectious disease can have significant adverse health and financial impacts on global and local economies. Future pandemics like COVID-19 and other widespread public health emergencies may arise from time-to-time and can impact broader economic conditions in the affected region. Reduced economic activity and its associated impacts, including as a result of the outbreak of infectious disease, such as job losses, income losses, business closures and housing foreclosures or vacancies, and any prolonged recession that may occur, could have a variety of adverse effects on the City and in the region. Further, moratoriums on utility shut-offs and suspensions of late payment penalties can impact System Revenues. Economic conditions affect aggregate levels of water and wastewater use and may reduce demands in the region and System Revenues. A protracted disruption in the manufacturing or construction industry may affect supply chains or delay construction schedules for, or the implementation of, the Water System CIP projects, and may increase the costs of such projects or program or the Water System's operations. A sustained deterioration in global stock market values may impact the market value of assets held to fund the City's pension and other post-employment benefit plans, which could result in future increases in required plan contributions. The City and the Authority cannot predict whether another national or localized outbreak of highly contagious or epidemic disease in the future could negatively impact the Water System's operations and finances and/or the economy of the regions it serves.

Cybersecurity

The City relies on a complex technology environment to conduct its operations. As a recipient and provider of personal, private, and sensitive information, the City and its departments and offices face multiple cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computers and other sensitive digital networks and systems.

The City actively manages its networks and systems to ensure that City systems are properly secured and protected, however, no assurances can be given that the City's security and operational control measures will be successful in guarding against any and each cyber threat and attack. See "WATER SYSTEM FINANCIAL OPERATIONS – Information Technology – Cybersecurity" for information on the City's practices relating to cyberthreats. The results of any attack on the City's computer and information technology systems could impact its operations and damage the City's digital networks and systems, and the costs of remedying any such damage could be substantial. The City, like many other large public and private entities, has been the target of cybersecurity threats. Each threat event was addressed in accordance with the City's then-applicable protocol. No assurances can be given that the City's security and operational control measures will be successful in guarding against any and each cyber threat and attack. The results of any attack on the City's computer and information technology systems, including those supporting the Water System, could impact its operations and damage the City's digital networks and systems, and the costs of remedying any such damage could be substantial. To date, the City has not experienced any cyberattacks that have resulted in major operational disruptions or financial consequences.

The City currently maintains insurance coverage with respect to certain information security and privacy liability claims. See "WATER SYSTEM FINANCIAL OPERATIONS —Insurance and Liability Claims." The increased severity of cybersecurity claims, driven by high ransom demands, has affected the cybersecurity insurance market and has made insurance coverage more expensive and difficult to obtain.

In the event the City's current coverage limits are reduced or the City declines to obtain insurance coverage relating to cybersecurity, the City's financial burden may increase if it experiences a cyberattack.

CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES

Article XIII A

Article XIII A of the State Constitution provides that the maximum *ad valorem* tax on real property cannot exceed 1% of the "full cash value," which 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 appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment," subject to exceptions for certain circumstances of transfer or reconstruction and except with respect to certain voter approved debt. The "full cash value" is subject to annual adjustment to reflect increases, not to exceed 2% per year, or decreases in the consumer price index or comparable local data, or to reflect reduction in property value caused by damage, destruction or other factors.

Article XIII A requires a vote of two-thirds of the qualified electorate to impose special taxes, while generally precluding the imposition of any additional *ad valorem*, sales or transaction tax on real property. As amended, Article XIII A exempts from the 1% tax limitation any taxes above that level required to pay debt service on certain voter-approved general obligation bonds for the acquisition or improvement of real property. In addition, Article XIII A requires the approval of two-thirds of all members of the State Legislature to change any State laws resulting in increased tax revenues.

Under California law, any fee that exceeds the reasonable cost of providing the service for which the fee is charged is a "special tax," which under Article XIII A must be authorized by a two-thirds vote of the electorate. Under Article XIII D, fees and charges for water, sewer, and refuse collection services are subject to majority protest, but are not subject to the two-third vote requirement of Article XIII A. The reasonable cost of providing water services has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, the California courts have determined to date that fees such as capacity fees will not be special taxes if they approximate the reasonable cost of constructing the water or wastewater capital improvements contemplated by the local agency imposing the fee. See "WATER SYSTEM FINANCIAL OPERATIONS – Revenues."

Article XIII B

Article XIII B of the California Constitution limits the annual appropriations of proceeds of taxes by State and local government entities to the amount of appropriations of the entity for the prior fiscal year, as adjusted for changes in the cost of living, changes in population, and changes in services rendered by the entity. User fees and charges are considered proceeds of taxes only to the extent they exceed the reasonable costs incurred by a governmental entity in supplying the goods and services for which such fees and charges are imposed.

To the extent that assessments, fees, and charges collected by the City are used to pay the costs of maintaining and operating the Water System and payments due on the Senior Bonds and the Subordinated Bonds, and including the funding of the Reserve Fund established for the Senior Bonds to the applicable Reserve Fund Requirement, should it exist pursuant to such Supplemental Indenture, and the Common Subordinated Bonds Reserve Fund with respect to the 2012A Subordinated Bonds to the Common Subordinated Bonds Reserve Requirement, and the funding of the debt service reserve fund established for certain SRF Loans to their required levels, the City believes as of the date hereof that such moneys should not be subject to the annual appropriations limit of Article XIII B.

Article XIIC

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the “Right to Vote on Taxes Act” (“Proposition 218”). Proposition 218 added Articles XIIC and XIID to the California Constitution and contained a number of interrelated provisions affecting the ability of local governments, including the City, to levy and collect both existing and future taxes, assessments, fees, and charges.

Section 1 of Article XIIC requires majority voter approval for the imposition, extension, or increase of general taxes and Section 2 thereof requires two-thirds voter approval for the imposition, extension, or increase of special taxes. These voter approval requirements of Article XIIC reduce the flexibility of the City to raise revenues by the levy of general or special taxes and, given such voter approval requirements, no assurance can be given that the City will be able to enact, impose, extend, or increase any such taxes in the future to meet increased expenditure requirements. The City has not enacted, imposed, extended, or increased any tax since the effective date of Proposition 218.

Section 3 of Article XIIC expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees, and charges, regardless of the date such taxes, assessments, fees, or charges were imposed. Section 3 expands the initiative power to include reducing or repealing assessments, fees, and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Article XIIC to fees imposed after November 6, 1996, the effective date of Proposition 218, and absent other legal authority could result in the reduction in any existing taxes, assessments, or fees and charges imposed prior to November 6, 1996.

“Fees” and “charges” are not expressly defined in Article XIIC or in SB 919, the Proposition 218 Omnibus Implementation Act enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with Article XIIC and Article XIID (“SB 919”). Such terms are, however, defined in Article XIID, discussed below. On July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Virjil (Kelley)* (the “*Bighorn Decision*”) that charges for ongoing water delivery are property-related fees and charges within the meaning of Article XIID and are also fees or charges within the meaning of Section 3 of Article XIIC. The California Supreme Court held that such water service charges may, therefore, be reduced or repealed through a local voter initiative pursuant to Section 3 of Article XIIC.

In the *Bighorn Decision*, the Supreme Court stated that nothing in Section 3 of Article XIIC authorizes initiative measures that impose voter-approval requirements for future increases in fees or charges for water delivery. The Supreme Court stated that water providers may determine rates and charges upon proper action of the governing body and that the governing body may increase a charge that was not affected by a prior initiative or impose an entirely new charge.

The Supreme Court further stated in the *Bighorn Decision* that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water and wastewater service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, SB 919 provides that the initiative power provided for in Proposition 218 “shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after November 5, 1996 (the date of adoption of Proposition 218), assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights” protected by the United States Constitution. No assurance can be given that the voters of the City will not, in the future, approve initiatives that repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City’s Water Service fees and charges, which are the source of Net System Revenues

to make Installment Payments, including the 2026 Installment Payments and, in turn, payments of the principal of and interest on the 2026A Bonds, and other Outstanding Obligations.

Notwithstanding the fact that water service charges may be subject to reduction or repeal by voter initiative undertaken pursuant to Section 3 of Article XIIC, the City has covenanted to levy and charge rates that meet the requirements of the Master Installment Purchase Agreement in accordance with applicable law.

Article XIID

Article XIID defines a “fee” or “charge” as any levy other than an *ad valorem* tax, special tax, or assessment, imposed upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service. A “property-related service” is defined as “a public service having a direct relationship to a property ownership.” As discussed above, in the Bighorn Decision, the California Supreme Court held that a public water agency’s charges for ongoing water delivery are fees and charges within the meaning of Article XIID. Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, the local government’s ability to increase such fee or charge may be limited by a majority protest.

The City’s water service charges have two components, a base fee based on meter size and a commodity charge based on the volume of water consumed. The City has ratified prior increases in its water rates and charges, and believes it has complied with the applicable and material notice and protest procedures of Article XIID for its current water rates and charges. As of the date of this Official Statement, except as described in this Official Statement, there has not been and there is no pending material litigation challenging any of the City’s water fees and charges approved since the effective date of Proposition 218. See “LITIGATION – *Patz Litigation*.” While the City Attorney currently believes, based upon the judicial precedent in place during the period of these prior rate increases, that a reviewing court could reasonably uphold the validity of those increases, neither the City nor the City Attorney can provide any assurances as to the outcome of a challenge to the prior increases in the City’s water rates and charges that were not approved in accordance with the notice and hearing requirements of Article XIID if one were brought.

In addition, Article XIID also includes a number of limitations applicable to existing, new, or increased fees and charges, including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service; (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel; and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

Article XIID establishes procedural requirements for the imposition of assessments, which are defined as any charge upon real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements for assessments under Article XIID include conducting a public hearing and mailed protest procedure, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel. To provide guidance to City staff regarding the conduct of Proposition 218 “property-related fee” protest proceedings, the City Council adopted Resolution R-2007-655 in January 2007 establishing additional procedures for submitting protests against proposed increases to water rates, including the provision of notice of a proposed change in water fees to all owners of record on each identified parcel and

all water customers of the City as reflected in the billing records of the City at the time the notice is given, and additional procedures for the tabulation of protests against proposed increases to water rates, including guidelines for determining when a valid protest has been submitted.

The City and the City Attorney believe that as of the date of this Official Statement that current water fees and charges that are subject to Proposition 218 materially comply with the provisions thereof. Should it become necessary to increase the water fees and charges above current levels, the City would be required to comply with the requirements of Article XIID in connection with such proposed increase. Until recently, the City had not had a substantive legal challenge to water rate increases implemented by the City pursuant to Proposition 218 or otherwise. A complaint alleging charges in excess of costs of service, among other things, was filed against the City and other local agencies in December 2015. As of the date of this Official Statement and under existing standards as of such date, the City and the City Attorney believe that rates and charges may be established at levels that are expected to permit deposits to a Rate Stabilization Fund Reserve or maintenance of uncommitted cash reserves. See “WATER SYSTEM FINANCIAL OPERATIONS – Financial Projections and Modeling Assumptions.” The City and the City Attorney believe that current water capacity fees are not subject to Proposition 218.

The interpretation and application of Proposition 218 will ultimately be determined by the courts or through implementing legislation with respect to a number of the matters described above, and it is not possible at this time to predict with certainty the outcome of such determination or the nature or scope of any such legislation.

Proposition 26

Proposition 26, a State ballot initiative aimed at restricting regulatory fees and charges, was approved by the California voters on November 2, 2010. Proposition 26 broadens the definition of “tax” in Article XIIC of the California Constitution to include levies, charges and exactions imposed by local governments, except for charges imposed for benefits or privileges or for services or products granted to the payor (and not provided to those not charged) that do not exceed their reasonable cost; regulatory fees that do not exceed the cost of regulation; fees for the use of local governmental property; fines and penalties imposed for violations of law; real property development fees; and assessments and property-related fees imposed under Article XIID of the California Constitution. California local taxes are subject to approval by two-thirds of the voters voting on the ballot measure for authorization. Proposition 26 applies to charges imposed or increased by local governments after the date of its approval. The City believes that Proposition 26 does not apply to its water rates and charges because such fees and charges are within various exceptions to Proposition 26.

Initiative, Referendum and Charter Amendments

Under the State Constitution, the voters of the State have the ability to initiate legislation and require a public vote on legislation passed by the State Legislature through the powers of initiative and referendum, respectively. For example, Article XIII A, Article XIII B and Articles XIIC and XIID and Proposition 26 were adopted pursuant to the State’s constitutional initiative process. Under the City Charter, the voters of the City can restrict or revise the powers of the City through the approval of a charter amendment. From time to time, other initiative measures could be adopted or legislative measures could be approved by the Legislature, which may place limitations on the ability of the City to increase revenues or to increase appropriations. Such measures may further affect the City’s ability to collect taxes, assessments or fees and charges, which could have an effect on the Department’s revenues. The City is unable to predict whether any such initiatives or charter amendments might be submitted to or approved by the voters, the nature of such initiatives or charter amendments, or their potential impact on the City or the Water Utility Fund. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Initiative, Referendum and Charter Amendments.”

TAX MATTERS

Opinion of Bond Counsel. In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2026A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”) and (ii) interest on the 2026A Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code, however, interest on the 2026A Bonds is included in the “adjusted financial statement income” of certain corporations that are subject to the alternative minimum tax under Section 55 of the Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the 2026A Bonds, and Bond Counsel has assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2026A Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the 2026A Bonds is exempt from personal income taxes imposed by the State of California.

Bond Counsel expresses no opinion as to any other federal, state or local tax consequences arising with respect to the 2026A Bonds, or the ownership or disposition thereof, except as stated above. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, any fact or circumstance that may thereafter come to its attention, any change in law or interpretation thereof that may thereafter occur, or for any other reason. Bond Counsel expresses no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the 2026A Bonds.

Certain Ongoing Federal Tax Requirements and Covenants. The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the 2026A Bonds in order that interest on the 2026A Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the 2026A Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the 2026A Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the 2026A Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences. The following is a brief discussion of certain collateral federal income tax matters with respect to the 2026A Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a 2026A Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the 2026A Bonds.

Prospective owners of the 2026A Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from

gross income for federal income tax purposes. Interest on the 2026A Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount. “Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity (a bond with the same maturity date, interest rate, and credit terms) means the first price at which at least 10% of such maturity was sold to the public, *i.e.*, a purchaser who is not, directly or indirectly, a signatory to a written contract to participate in the initial sale of the 2026A Bonds. In general, the issue price for each maturity of Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Bonds having OID (a “2026A Discount Bond”), OID that has accrued and is properly allocable to the owners of the 2026A Discount Bonds under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the 2026A Bonds.

In general, under Section 1288 of the Code, OID on a 2026A Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that 2026A Discount Bond. An owner’s adjusted basis in a 2026A Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a 2026A Discount Bond even though there will not be a corresponding cash payment.

Owners of 2026A Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of 2026A Discount Bonds.

Bond Premium. In general, if an owner acquires a 2026A Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the 2026A Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that bond (a “2026A Premium Bond”). In general, under Section 171 of the Code, an owner of a 2026A Premium Bond must amortize the 2026A Bond premium over the remaining term of the 2026A Premium Bond, based on the owner’s yield over the remaining term of the 2026A Premium Bond determined based on constant yield principles (in certain cases involving a 2026A Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a 2026A Premium Bond must amortize the 2026A Bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the 2026A Bond premium allocable to that period. If the 2026A Bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a 2026A Premium Bond may realize a taxable gain upon disposition of the 2026A Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any 2026A Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of 2026A Premium Bonds.

Information Reporting and Backup Withholding. Information reporting requirements apply to interest paid on tax-exempt obligations, including the 2026A Bonds. In general, such requirements are

satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the 2026A Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous. Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the 2026A Bonds under federal or state law or otherwise prevent beneficial owners of the 2026A Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the 2026A Bonds.

Prospective purchasers of the 2026A Bonds should consult their own tax advisors regarding the foregoing matters.

CONTINUING DISCLOSURE

Pursuant to the Continuing Disclosure Certificates of the City (the “Disclosure Certificate”), the City has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board in the manner prescribed by the Securities and Exchange Commission certain annual financial information and operating data and notice of certain Notice Events (as described in the Continuing Disclosure Certificate). The form of the Disclosure Certificate is attached hereto as “APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE.” The annual report to be filed by the City is to be filed not later than April 10 after the end of the City’s Fiscal Year (which currently ends June 30), commencing with the report for the fiscal year ending June 30, 2026, and is to include audited financial statements of the City. The City’s covenants in the Continuing Disclosure Certificates have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934 (the “Rule”). A failure by the City to comply with any of the covenants therein is not an event of default under the Indenture or the Master Installment Purchase Agreement.

The City has established an issuer’s page on EMMA with respect to the Water Revenue Bonds and Water Utility Bank Loans which includes disclosure of direct borrowings for the Water System. The City’s issuer page can be accessed at the following Internet address:

<https://emma.msrb.org/IssuerHomePage/Issuer?id=0DE785B24DBD675DE053151E0A0AE7C0&type=M>

Neither the issuer page nor any information on the issuer page is made a part of this Official Statement, nor is it incorporated by reference herein and should not be relied upon in making an investment decision with respect to the 2026A Bonds.

LITIGATION

General. As of the date of this Official Statement, there is no litigation pending against the City, the Corporation or the Authority or, to the knowledge of its respective executive officers, threatened,

seeking to restrain or enjoin the issuance, sale, execution, or delivery of the 2026A Bonds or in any way contesting or affecting the validity of the 2026A Bonds or the authorizations or any proceedings of the City, the Corporation or the Authority taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the 2026A Bonds or the use of the proceeds of the 2026A Bonds.

There are no pending lawsuits that, in the opinion of the City Attorney, challenge the validity of the 2026A Bonds, the corporate existence of the City, the Corporation or the Authority, or the title of the executive officers thereof to their respective offices. In connection with this review, attention has been given to not only litigation pending against the City, but also litigation pending against the Department. At any given time, including the present, there are certain other claims and lawsuits against the City and the Department that arise in the normal course of operations of the Water System. Such matters could, if determined adversely to the City, affect expenditures by the City, and in some cases, the Water Utility Fund. In the view of the City's management and the Office of the City Attorney, there is no litigation, present or pending, which will individually or in the aggregate materially impair the Authority's ability to service its indebtedness or which will have a material adverse effect on the operations of the Water System, subject to the possible exception of the matter described below.

Patz Litigation. In July 2015, the City was named in a putative class action alleging that the City's tiered water rates for single-family residential water service customers violated Article XIII D of the California Constitution (Proposition 218), *Patz v. City of San Diego* (formerly *Coziahr v. Otay Water District*, and herein referred to as the "*Patz Litigation*"). See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIII D." The City contended that its water rates are strictly based on cost of service principles and compliant with Proposition 218.

On September 13, 2021, the Court ruled in favor of plaintiffs on the Proposition 218 claim. The Court ruled that the water rates for the higher tiers are not sufficiently tied to the City's cost of providing water at the level of consumption represented by users in the higher tiers and therefore the City's tiered water rate structure violates Proposition 218.

On March 22, 2022, the trial court held the Phase 2 remedies proceeding. Following the remedies proceeding, on March 30, 2022, the Court entered judgment awarding the class a refund totaling \$79,541,880 for the time period from August 14, 2014 through March 31, 2022. The Court then awarded the class \$643,750 for each month that the City continues to use the tiered rate structure going forward. The City continues to use a tiered rate structure. Under California statute, the trial court may grant the City permission to pay any final judgment amount over ten years. Further, the City will be able to recover any final judgment amount it pays from ratepayers through increased rates, if necessary. The City recorded \$118.9 million as an expense to the Water Utility Fund in the Fiscal Years 2021 through 2025 financial statements (\$39.9 million in Fiscal Year 2021, \$48.8 million in Fiscal Year 2022, \$13.3 million in Fiscal Year 2023, \$10.3 million in Fiscal Year 2024, and \$6.6 million in Fiscal Year 2025) to reflect the accrual of the contingent settlement liability. This amount represents the total estimated settlement amount plus the monthly charge accrued through the end of Fiscal Year 2024 that the City continued to use its tiered rate structure. See Table 16, footnote 3, for additional information.

The City appealed the judgment on April 1, 2022 and the plaintiffs subsequently filed a cross-appeal arguing that the trial court should have calculated the refund amount using a different methodology, resulting in a higher refund award of greater than \$107 million. On July 30, 2025, the Court of Appeal denied both the City's appeal and the plaintiffs' cross-appeal and released its decision affirming the March 30, 2022 judgment of the trial court, remanding the case to the trial court with the direction to amend the judgment to allow the City to satisfy the refund award. The City appealed the ruling to the California Supreme Court, which declined to hear the case. The case was brought back to the district court to apply Government Code § 53758.5, which was passed after the original judgment and clarifies that agencies are

to "credit the amount of the fee or charge attributable to the violation against the amount of the revenues required to provide the property-related service".

On March 24, 2026, the City and plaintiffs preliminarily accepted the mediator's proposal to settle the litigation, to which the City Council also tentatively agreed in closed session on May 20, 2026. Details of the proposal are currently being drafted for approval by City Council in open session and for consideration by the district court. The monetary value of the settlement is \$40 million, which the City expects to pay out no earlier than in Fiscal Year 2027. Because the City has been recognizing the non-cash liability on its financial statements since Fiscal Year 2021, this settlement will result in a one-time increase to Net System Revenues for Fiscal Year 2026 as the liability is reduced from \$118.9 million to \$40 million, a \$78.9 million net decrease in the liability (the equivalent of a one-time accounting gain for the related Fiscal Year). The payment of the settlement will not impact Net System Revenues in Fiscal Year 2027, but will decrease available Water System cash. The City expects to bring forward a unitary rate proposal (meaning all customers pay the same amount for each unit of water) for consideration by the City Council in October 2026, with proposed rates effective January 2027. The City is expected to take actions to address the cash impact of the settlement payment during this rate making process.

CERTAIN LEGAL MATTERS

The validity of the 2026A Bonds and certain other legal matters are subject to the approval of legality by Heather Ferbert, City Attorney of the City, and by Hawkins Delafield & Wood LLP, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX B hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Authority by Hawkins Delafield & Wood LLP, for the Authority the City by Heather Ferbert, City Attorney, and by Orrick, Herrington & Sutcliffe LLP as counsel to the Underwriters. In connection with the issuance of the 2026A Bonds, Hawkins Delafield & Wood LLP is serving as Disclosure Counsel to the Authority.

RATINGS

Fitch Ratings ("Fitch") and Moody's Investors Service ("Moody's") have assigned their ratings of "AA-," and "Aa3," respectively, to the 2026A Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, 33 Whitehall Street, New York, New York 10004; and Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. 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 ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2026A Bonds. Neither the City nor the Authority undertakes any obligation to oppose any downward revision, suspension or withdrawal.

UNDERWRITING

The 2026A Bonds are being purchased by RBC Capital Markets, LLC, on behalf of itself and the other underwriters identified on the cover page of this Official Statement (collectively, the "Underwriters"). The Underwriters have agreed to purchase the 2026A Bonds from the City and the Authority at an aggregate purchase price of \$_____ (consisting of the aggregate principal amount of the 2026A Bonds of \$_____, plus an original issue premium of \$_____ and less underwriters' discount of \$_____, pursuant to the terms of the Bond Purchase Agreement, among the City, the Authority and

the Underwriters (the “Bond Purchase Agreement”). The Bond Purchase Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent and that the Underwriters will be obligated to purchase all of the 2026A Bonds offered under the Bond Purchase Agreement if any of the 2026A Bonds offered thereunder are purchased.

The following paragraphs have been provided by the related Underwriters for inclusion in this Official Statement:

RBC Capital Markets, LLC (“RBCCM”), an underwriter of the 2026A Bonds, has entered into a distribution arrangement with its affiliate RBC Securities, Inc. (RBC Securities) (formerly known as City National Securities, Inc.). As part of this arrangement, RBCCM may distribute municipal securities to investors through the financial advisor network of RBC Securities. As part of this arrangement, RBCCM may compensate RBC Securities for its selling efforts with respect to the 2026A Bonds.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the issuer and to persons and entities with relationships with the issuer, for which they received or will receive customary fees and expenses. RBCCM is currently serving as a dealer of the Authority’s Subordinated Water Revenue Commercial Paper Notes, Series A.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the issuer (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the issuer. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

MUNICIPAL ADVISOR

Public Resources Advisory Group has acted as Municipal Advisor to the City in conjunction with the issuance of the 2026A Bonds. The Municipal Advisor has assisted the City with various matters related to the planning, structuring, pricing, issuance and delivery of the 2026A Bonds. The Municipal Advisor will receive compensation contingent upon the sale and delivery of the 2026A Bonds.

The Municipal Advisor has not been engaged, nor has it undertaken, to audit, authenticate or otherwise independently verify the information set forth in the Official Statement, or any other information related to the City with respect to the accuracy, completeness or fairness of disclosure of such information. The Municipal Advisor makes no guaranty, warranty, or other representation respecting the accuracy or completeness of this Official Statement or any other matter related to this Official Statement. The Municipal Advisor is an independent municipal advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the 2026A Bonds, Causey Public Finance, LLC, 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 Federal Securities and the interest thereon to pay the principal of, and premium, if any, and interest on, the Commercial Paper Notes and the Refunded Bonds on their respective payment and redemption dates. The scope of the verification will be based solely on information and assumptions provided to the Verification Agent by the Underwriters. The Verification Agent will express no opinion on the assumptions provided to it by the Underwriters, nor as to the exemption from taxation of the interest on the 2026A Bonds.

FINANCIAL STATEMENTS

The City prepares audited financial statements annually in conformity with generally accepted accounting principles for governmental entities. The City's most recent financial statements, for the Fiscal Year ended June 30, 2025, were audited by Crowe LLP (the "Independent Auditor"), independent certified public accountant, as stated in its report. The City's basic financial statements contained in the City's ACFR include the financial statements of the Water Utility Fund.

The City's ACFR for Fiscal Year 2025, which includes the City's audited basic financial statements as of and for the fiscal year ended June 30, 2025, is available through EMMA at <https://emma.msrb.org/P11904044-P11454505-P11901864.pdf>, the contents of which are incorporated by reference in this Official Statement and shall be deemed to be a part hereof.

The Independent Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Independent Auditor also has not performed any procedures relating to this official statement or memorandum. The City did not request the consent of the Independent Auditor to append the City's financial statements to this Official Statement.

MISCELLANEOUS

This Official Statement has been duly approved, executed and delivered by the Authority and the City.

There are appended to this Official Statement a summary of certain provisions of the principal and legal documents, the proposed form of opinion of Bond Counsel, and a general description of the City and a description of the Book-Entry Only System. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

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This Official Statement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or holders of any of the 2026A Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the financial condition, results of operations, or any other affairs of the City, the Authority, or the Corporation since the date hereof.

PUBLIC FACILITIES FINANCING
AUTHORITY OF THE CITY OF SAN DIEGO

By: _____
Rolando Charvel
Treasurer

THE CITY OF SAN DIEGO

By: _____
Rolando Charvel
Chief Financial Officer

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APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

This Appendix A contains only a brief summary of certain of the terms of the documents identified herein and a full review should be made of the entire Official Statement, including the cover page and the Appendices. References to, and summaries of, provisions of the documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All statements contained in this Appendix A are qualified in their entirety by reference to the entire Official Statement and the complete provisions of the documents referenced.

INDENTURE

In addition to certain information contained in the forepart of this Official Statement, the following is a summary of certain provisions of the Indenture. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Indenture.

DEFINITIONS

Acquisition Fund

The term “Acquisition Fund” means the fund by that name established under the Indenture.

Additional Bonds

The term “Additional Bonds” means, collectively, Additional Senior Bonds and Additional Subordinated Bonds.

Additional Senior Bonds

The term “Additional Senior Bonds” means those Bonds authorized and issued under the Indenture on a parity with the 2026A Bonds, the 2025A Bonds, the 2023A Bonds, the 2020A Bonds and the 2020B Bonds* in accordance with “Execution and Delivery of Additional Bonds” of the Indenture.

Additional Subordinated Bonds

The term “Additional Subordinated Bonds” means those Bonds authorized and issued Under the Indenture on a parity with the 2016A Bonds*, the 2016B Bonds* and the 2018A Bonds in accordance with “Execution and Delivery of Additional Bonds” of the Indenture.

Agreement

The term “Agreement” means the Master Installment Purchase Agreement, dated as of August 1, 2002, as amended and supplemented.

Authority

The term “Authority” means the Public Facilities Financing Authority of The City of San Diego, a California joint exercise of powers entity.

Authorized City Representative

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

* Preliminary, subject to change. See “PLAN OF FINANCE” in the forepart of this Official Statement.

Authorized Denominations

The term “Authorized Denominations” means, with respect to the Bonds, \$5,000 and any integral multiple thereof and with respect to any Additional Bonds, the authorized denominations specified in a Supplemental Indenture related to such Additional Bonds.

Authorized Representative

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

Beneficial Owners

The term “Beneficial Owners” means those individuals, partnerships, corporations or other entities for whom the Participants have caused the Depository to hold Book-Entry Bonds.

Board

The term “Board” means the Board of Commissioners of the Authority.

Bond or Bonds

The terms “Bond or “Bonds” means any of the bonds issued under the Indenture by the Authority including any Additional bonds.

2016A Bonds

The term “2016A Bonds” means the Authority’s Subordinated Water Revenue Bonds, Series 2016A (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund), issued under the Indenture.

2016B Bonds

The term “2016B Bonds” means the Authority’s Subordinated Water Revenue Bonds, Refunding Series 2016B (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund), issued under the Indenture.

2018A Bonds

The term “2018A Bonds” means the Authority’s Subordinated Water Revenue Bonds, Series 2018A (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund), issued under the Indenture.

2020A Bonds

The term “2020A Bonds” means the Authority’s Senior Water Revenue Bonds, Series 2020A (Payable Solely from Installment Payments Secured by Net System Revenues of the Water Utility Fund), issued under the Indenture.

2020B Bonds

The term “2020B Bonds” means the Authority’s Senior Water Revenue Bonds, Refunding Series 2020B (Payable Solely from Installment Payments Secured by Net System Revenues of the Water Utility Fund), issued under the Indenture.

2023A Bonds

The term “2023A Bonds” means the Authority’s Senior Water Revenue Bonds, Series 2023A (Payable Solely from Installment Payments Secured by Net System Revenues of the Water Utility Fund), issued under the Indenture.

2025A Bonds

The term “2025A Bonds” means the Authority’s Senior Water Revenue Bonds, Series 2025A (Payable Solely from Installment Payments Secured by Net System Revenues of the Water Utility Fund), issued under the Indenture.

Bond Counsel

The term “Bond Counsel” means a firm of attorneys that are nationally recognized as experts in the laws governing and relating to municipal finance.

Book-Entry Bonds

The term “Book-Entry Bonds” means Bonds executed and delivered under the book-entry system described in “Book-Entry System” of the Indenture.

Book-Entry Commercial Paper Notes

The term “Book-Entry Commercial Paper Notes” means Commercial Paper Notes evidenced by a Master Note under a book-entry system as described under “ – *Book-Entry-Only System for Commercial Paper Notes*” below.

Business Day

The term “Business Day” means a day of the year which is not a Saturday or Sunday, or a day on which banking institutions located in California are required or authorized to remain closed, or on which the New York Stock Exchange is closed. If the date for making any payment or the last date for performance of any act or the exercising of any right, as described in the Indenture, is prohibited from being a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in the Indenture, and, unless otherwise specifically provided in the Indenture, no interest is required to accrue for the period from and after such nominal date.

Certificate of the City

The term “Certificate of the City” means an instrument in writing signed by the Chief Financial Officer, the Chief Operating Officer or any of their respective designees.

Charter

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

City

The term “City” means the City of San Diego, a municipal corporation and a charter city duly organized and existing under the Charter and the Constitution of the State.

Closing Date

The term “Closing Date” means any date upon which a Series of Bonds is purchased.

Code

The term “Code” means the Internal Revenue Code of 1986, as amended, and the regulations thereunder, and any successor laws or regulations.

Commercial Paper Notes

The term “Commercial Paper Notes” means the Public Facilities Financing Authority of the City of San Diego Subordinated Water Revenue Commercial Paper Notes (Payable Solely from Subordinated

Installment Payments Secured by the Net System Revenues of the Water Utility Fund) issued from time to time under the Fifth Supplement.

Commercial Paper Notes Acquisition Account

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

Commercial Paper Notes Business Day

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

Commercial Paper Notes Closing Date

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

Commercial Paper Notes Components

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

Commercial Paper Notes Costs of Issuance Account

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

Commercial Paper Notes Subordinated Installment Payments

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

Commercial Paper Notes Tax Certificate

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

Common Senior Bonds Reserve Fund

The term “Common Senior Bonds Reserve Fund” means the fund by that name established as described under the Indenture.

Common Senior Reserve Fund Bonds

The term “Common Senior Reserve Fund Bonds” means Senior Bonds secured by the Common Senior Bonds Reserve Fund.

Common Senior Reserve Fund Bonds Maximum Annual Debt Service

The term “Common Senior Reserve Fund Bond Maximum Annual Debt Service” means, the maximum amount of principal and interest becoming due on the Common Senior Reserve Fund Bonds in the then-current or any future Fiscal Year, calculated by the Authority or by an Independent Certified Public Accountant in accordance with the definition of Common Senior Reserve Fund Bonds Maximum Annual Debt Service and provided to the Trustee. For purposes of calculating Common Senior Reserve Fund Bonds

Maximum Annual Debt Service, the following assumptions is required to be used to calculate the principal and interest becoming due in any Fiscal Year:

(i) in determining the principal amount due in each Fiscal Year, payments is required to (except to the extent a different subsection of the definition of Common Senior Reserve Fund Bond Maximum Annual Debt Service applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including the amount of any Common Senior Reserve Fund Bonds which are or have the characteristics of commercial paper and which are not intended at the time of issuance to be retired from the sale of a corresponding amount of Common Senior Reserve Fund Bonds, and including any scheduled mandatory redemption or prepayment of Common Senior Reserve Fund Bonds on the basis of accreted value due upon such redemption or prepayment, and for such purposes, the redemption payment or prepayment is required to be deemed a principal payment; provided, however, that with respect to Common Senior Reserve Fund Bonds which are or have the characteristics of commercial paper and which are intended at the time of issuance to be retired from the sale of a corresponding amount of other Obligations, which other Obligations would not constitute Balloon Indebtedness, each maturity of the Common Senior Reserve Fund Bonds is required to be treated as if it were to be amortized in substantially equal installments of principal and interest over a term of 30 years, commencing in the year of such stated maturity; in determining the interest due in each Fiscal Year, interest payable at a fixed rate is required to (except to the extent subsection (A)(ii) or (iii) of this definition applies) be assumed to be made at such fixed rate and on the required payment dates;

(ii) if all or any portion or portions of an Outstanding Series of Common Senior Reserve Fund Bonds constitute Balloon Indebtedness or if all or any portion or portions of a Series of Common Senior Reserve Fund Bonds or such payments then proposed to be issued would constitute Balloon Indebtedness, then, for purposes of determining Common Senior Reserve Fund Bonds Maximum Annual Debt Service, each maturity which constitutes Balloon Indebtedness is required to be treated as if it were to be amortized in substantially equal annual installments of principal and interest over a term of 30 years, commencing in the year the stated maturity of such Balloon Indebtedness occurs, the interest rate used for such computation is required to be determined as described in subsection (iv) or (v) of the definition of Common Senior Reserve Fund Bond Maximum Annual Debt Service, as appropriate, and all payments of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness is required to be treated as described in subsection (i) of the definition of Common Senior Reserve Fund Bond Maximum Annual Debt Service;

(iii) if any Outstanding Series of Common Senior Reserve Fund Bonds constitutes Tender Indebtedness or if Common Senior Reserve Fund Bonds proposed to be issued would constitute Tender Indebtedness, then for purposes of determining Common Senior Reserve Fund Bonds Maximum Annual Debt Service, Tender Indebtedness is required to be treated as if the principal amount of such Common Senior Reserve Fund Bonds were to be amortized in accordance with the amortization schedule set forth in the Supplemental Indenture for such Tender Indebtedness or in the standby purchase or liquidity facility established with respect to such Tender Indebtedness, or if no such amortization schedule is set forth in the Supplemental Indenture, then such Tender Indebtedness is required to be deemed to be amortized in substantially equal annual installments of principal and interest over a term of 30 years commencing in the year in which such Series is first subject to tender, the interest rate used for such computation is required to be determined as described in subsection (iv) or (v) of the definition of Common Senior Reserve Fund Bond Maximum Annual Debt Service, as appropriate;

(iv) if any Outstanding Series of Common Senior Reserve Fund Bonds constitutes Variable Rate Indebtedness, the interest rate on such Obligations is required to be assumed to be

110% of the daily average interest rate on such Common Senior Reserve Fund Bonds during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Common Senior Reserve Fund Bonds is required to have been Outstanding;

(v) if Common Senior Reserve Fund Bonds proposed to be issued will be Variable Rate Indebtedness, then such Common Senior Reserve Fund Bonds is required to be assumed to bear interest at 80% of the average Revenue Bond Index during the calendar quarter preceding the calendar quarter in which the calculation is made, or if that index is no longer published, another similar index selected by the City, or if the City fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity, or if there are no such Treasury bonds having such maturities, 100% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States ranked by assets; and

(vi) if moneys or Permitted Investments have been deposited by the City into a separate fund or account or are otherwise held by the City or by a fiduciary to be used to pay principal of and/or interest on specified Common Senior Reserve Fund Bonds, then the principal and/or interest to be paid from such moneys, Permitted Investments or from the earnings on the Permitted Investments is required to be disregarded and not included in calculating Maximum Annual Debt Service.

Common Senior Bonds Reserve Requirement

The term “Common Senior Bonds Reserve Requirement” means, as of any date of computation by the Authority, an amount equal to the least of (i) ten percent (10%) of the proceeds (within the meaning of Section 148 of the Code) of the Common Senior Bond Reserve Fund Bonds; (ii) 125% of average annual debt service on the Outstanding Common Senior Reserve Fund Bonds; or (iii) Common Senior Reserve Fund Bonds Maximum Annual Debt Service; provided, however, that, if, upon issuance of a Series of Senior Bonds secured by the Common Senior Reserve Fund, such amount would require moneys to be credited to the Common Senior Reserve Fund from the proceeds of such Series of Senior Bonds in an amount in excess of the maximum amount permitted under the Code, the Common Senior Bonds Reserve Requirement is required to mean an amount equal to the sum of the Common Senior Bonds Reserve Requirement immediately preceding issuance of such Senior Bonds and the maximum amount permitted under the Code to be deposited therein from the proceeds of such Senior Bonds, as certified by the Authority. Upon early redemption of any Senior Bonds secured by the Common Senior Bonds Reserve Fund, the Authority, at the request of the City, may request the Trustee to recalculate and reduce the Common Senior Bonds Reserve Requirement, whereupon any excess in the Common Senior Bonds Reserve Fund over and above the Common Senior Bonds Reserve Requirement is required to be transferred to the Senior Bonds Payment Fund.

Common Subordinated Bonds Reserve Fund

The term “Common Subordinated Bonds Reserve Fund” means the fund by that name established as described under the Indenture.

Common Subordinated Reserve Fund Bonds

The term “Common Subordinated Reserve Fund Bonds” means Subordinated Bonds secured by the Common Subordinated Bonds Reserve Fund.

Common Subordinated Bonds Reserve Requirement

The term “Common Subordinated Bonds Reserve Requirement” means, as of any date of computation by the Authority, an amount equal to the least of (i) ten percent (10%) of the proceeds (within the meaning of Section 148 of the Code) of the Common Subordinated Bond Reserve Fund Bonds; (ii) 125% of average annual debt service on the Outstanding Common Subordinated Reserve Fund Bonds; or

(iii) Common Subordinated Reserve Fund Bonds Maximum Annual Debt Service; provided, however, that, if, upon issuance of a Series of Subordinated Bonds secured by the Common Subordinated Reserve Fund, such amount would require moneys to be credited to the Common Subordinated Reserve Fund from the proceeds of such Series of Subordinated Bonds in an amount in excess of the maximum amount permitted under the Code, the Common Subordinated Bonds Reserve Requirement is required to mean an amount equal to the sum of the Common Subordinated Bonds Reserve Requirement immediately preceding issuance of such Subordinated Bonds and the maximum amount permitted under the Code to be deposited therein from the proceeds of such Subordinated Bonds, as certified by the Authority. Upon early redemption of any Subordinated Bonds secured by the Common Subordinated Bonds Reserve Fund, the Authority, at the request of the City, may request the Trustee to recalculate and reduce the Common Subordinated Bonds Reserve Requirement, whereupon any excess in the Common Subordinated Bonds Reserve Fund over and above the Common Subordinated Bonds Reserve Requirement is required to be transferred to the Subordinated Bonds Payment Fund.

Components; Refunded Components

The term “Components” means components of the Project for which the City makes Installment Payments or Subordinated Installment Payments as described under any Supplement. The term “Refunded Components” means, a percentage of each of the Components being refunded with the proceeds of the sale of a subsequent issuance of bonds.

Comptroller

The term “Comptroller” means the Comptroller of the City.

Corporate Trust Office of the Trustee

The term “Corporate Trust Office of the Trustee” means the corporate trust office of the Trustee at the address set forth in the Indenture, or such other or additional offices as may be specified to the Authority by the Trustee in writing.

Corporation

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

Costs of Issuance

The term “Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City, the Corporation or the Authority relating to the issuance, sale and delivery of any Bonds under the Indenture, including but not limited to, costs of preparation and reproduction of documents; fees and expenses of the Feasibility Consultant; fees and expenses of the Authority (including its counsel); expenses of City, Authority and Corporation staff; fees of the City’s Financial Advisor; initial fees, expenses and charges of the Trustee (including its counsel); Rating Agency fees; Underwriters’ discount; legal fees and charges of Bond Counsel, Disclosure Counsel, Underwriters’ counsel, and the City Attorney; and any other cost, charge or fee in connection with the issuance and delivery of the Bonds.

Costs of Issuance Account

The term “Costs of Issuance Account” means the account by that name established under the Indenture.

Dealer

The term “Dealer” means each dealer appointed as described under “– *Dealers; Dealer Agreements*” below, or any additional dealer or any successor entity or entities to the Indenture which may be appointed as a Dealer under the Indenture by the Authority.

Dealer Agreement

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

Depository

The term “Depository” means the securities depository acting as Depository as described under to “– Book-Entry System”.

Draw; Drawn; Drawable

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

DTC

The term “DTC” means The Depository Trust Company and its successors.

Event of Default

The term “Event of Default” has the meaning as described in “– *Limitation on Rights and Remedies of Holders of Subordinated Bonds*” below.

Feasibility Consultant

The term “Feasibility Consultant” means the consultant who, or whose firm, provides services to the City respecting the future ability of Project components being acquired, installed or constructed with proceeds of sale of the Bonds to generate sufficient Net System Revenues to permit the City to incur Additional Obligations, as set forth in “– *Additional Obligations*” of the Agreement.

Federal Securities

The term “Federal Securities” means the following securities:

- (1) United States Treasury Bills, bonds, and notes for which the full faith and credit of the United States are pledged for payment of principal and interest;
- (2) Direct senior obligations issued by the following agencies of the United States Government: the Federal Farm Credit Bank System, the Federal Home Loan Bank System, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Tennessee Valley Authority;
- (3) Mortgage Backed Securities (except stripped mortgage securities) issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association; and
- (4) United States Treasury Obligations, State and Local Government Series.

Fifth Supplement

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

Fiscal Year

The term “Fiscal Year” means the fiscal year of the Authority which, as of the date of the Indenture, is the period from July 1 to and including the following June 30.

Fitch

The term “Fitch” means Fitch Ratings and its successors, and if such company is required to for any reason no longer perform the functions of a securities rating agency, “Fitch” is required to be deemed to refer to any nationally recognized securities rating agency designated by the Authority and the City.

Indenture

The term “Indenture” means the Indenture, dated as of January 1, 2009, between the Authority and the Trustee, as originally executed and as it may from time to time be amended or supplemented by all Supplemental Indentures executed pursuant to the provisions of the Indenture.

Interest Account

The term “Interest Account” means the account by that name established under the Indenture.

Interest Payment Date

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

Installment Payments

The term “Installment Payments” means Installment Payments that are Parity Obligations (as defined in the Agreement), scheduled to be paid by the City under and as described under any Supplement that has been assigned to the Trustee (as assignee of the Authority) to secure any Bonds.

Issuing and Paying Agency Agreement

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

Issuing and Paying Agent

The term “Issuing and Paying Agent” means U.S. Bank Trust Company, National Association, as successor in interest to U.S. Bank Trust Company, National Association, or any other institution, appointed by the Authority pursuant to the Indenture, to serve as Issuing and Paying Agent in accordance with the Issuing and Paying Agency Agreement, or any successor to the Indenture as described under the Indenture and the Issuing and Paying Agency Agreement.

Letter of Representations

The term “Letter of Representations” means the letter of the Authority delivered to and accepted by the Depository on or prior to the delivery of any Book-Entry Bonds setting forth the basis on which the Depository serves as depository for such Book-Entry Bonds, as originally executed or as it may be supplemented or revised or replaced by a letter to a substitute Depository.

Master Note

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

Moody’s

The term “Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, and its successors, and if such corporation must for any reason no longer

perform the functions of a securities rating agency, “Moody’s” must be deemed to refer to any other nationally recognized securities rating agency designated by the Authority and the City.

Nominee

The term “Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time as described under to “– Book Entry System”.

Outstanding

The term “Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of “Proceedings by Trustee” described hereunder) all Bonds theretofore or thereupon executed by the Authority and authenticated and delivered by the Trustee pursuant to the terms of the Indenture, except:

- (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (2) Bonds paid or deemed to have been paid within the meaning of “Discharge of Bonds” as described below;
- (3) Bonds beneficially owned by the City or the Authority; and
- (4) Bonds in lieu of or in substitution for which other Bonds have been executed by the Authority and authenticated and delivered as described under the terms of the Indenture.

Owner

The term “Owner” means any Person is the registered owner of any Outstanding Bond, as shown on the registration books required to be maintained by the Trustee as described under “– *Bond Registration Books*” below.

Parity Obligations

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

Participants

The term “Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Book-Entry Bonds as securities depository.

Payment Fund

The term “Payment Fund” means the fund by that name established under the Indenture.

Permitted Investments

The term “Permitted Investments” means any of the following which, at the time of investment, are legal investments under the laws of the State for the moneys proposed to be invested in the Indenture:

- (1) Federal Securities;
- (2) The following listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:
 - (A) Federal Home Loan Mortgage Corporation (FHLMC) senior debt obligations and Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts);
 - (B) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system-wide bonds and notes;

- (C) Federal Home Loan Banks (FHL Banks) consolidated debt obligations;
 - (D) Federal National Mortgage Association (FNMA) senior debt obligations and mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts);
 - (E) The senior debt obligations of Resolution Funding Corporation (RFCO), Financing Corporation (FICO) and Tennessee Valley Authority (TVA);
- (3) Obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing, that are rated, at the time of purchase, in the highest Rating Category by two Rating Agencies;
- (4) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank. Investments under this subdivision is required to be rated “AA” or better by a Rating Agency;
- (5) Bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are rated, at the time of purchase, “A1/P1/F1” by two Rating Agencies or, if the term of such indebtedness is longer than one year, rated in the highest Rating Category by two Rating Agencies;
- (6) Taxable commercial paper or tax-exempt commercial paper with a maturity of not more than 270 days, which are rated, at the time of purchase, “A1/P1/F1” by two Rating Agencies;
- (7) Deposit accounts or certificates of deposit, whether negotiable or non-negotiable, issued by a state or national bank (including the Trustee) or a state or federal savings and loan association or a state-licensed branch of a foreign bank; provided, however, that such certificates of deposit or deposit accounts is required to be either (A) continuously insured by the Federal Deposit Insurance Corporation; or (B) have maturities of not more than 365 days (including certificates of deposit) and are issued by any state or national bank or a state or federal savings and loan association, the short-term obligations of which are rated, at the time of purchase, in the highest short term rating by two Rating Agencies;
- (8) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, which bank has short-term obligations outstanding which are rated, at the time of purchase, by two Rating Agencies in the highest short-term Rating Category, and which bankers acceptances mature not later than 365 days from the date of purchase;
- (9) Any repurchase agreement: (A) with (i) any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee), or a state-licensed branch of a foreign bank, having a minimum permanent capital of one hundred million dollars (\$100,000,000) and having short-term debt which is rated, at the time of the purchase, by two Rating Agencies in one of the three highest short-term Rating Categories; or (ii) any government bond dealer reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York; and (B) which agreement is secured by any one or more of the securities and obligations described in clause (1) or (2) of this definition and having maturities equal to or less than 5 years from the date of delivery, which is required to have a market value (valued at least monthly) not less than 102% of the principal amount of such investment and is required to be placed with the Trustee or other fiduciary, as custodian for the Trustee, by the bank, trust company, national banking association or bond dealer executing such repurchase agreement. The entity executing each such repurchase agreement required to be so secured is required to furnish the Trustee with an undertaking satisfactory to the Trustee that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least

monthly) will be an amount equal to 102% the principal amount of such repurchase agreement, and the Trustee is required to be entitled to rely on each such undertaking;

(10) Any cash sweep or similar account arrangement of or available to the Trustee, the investments of which are limited to investments described in clauses (1), (2), (3) and (9) of this definition and any money market fund, the entire investments of which are limited to investments described in clauses (1), (2), (3) and (9) of this definition and which money market fund is rated, at the time of purchase, by at least one Rating Agency in the highest Rating Category;

(11) Any guaranteed investment contract, including forward delivery agreements (“FDAs”) and forward purchase agreements (“FPAs”), with a financial institution or insurance company which has (or which is unconditionally guaranteed by a legal entity which has), at the date of execution of the contracts and agreements, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims-paying ability which is rated, at the time of purchase, by two Rating Agencies in one of two highest long-term Rating Categories. Only Permitted Investments described in clause (1) and (2) of this definition and having maturities equal to or less than 30 years from their date of delivery will be considered eligible for any collateralization/delivery purposes for guaranteed investment contracts, FDAs or FPAs;

(12) Certificates, notes, warrants, bonds or other evidence of indebtedness of the State or of any political subdivision or public agency thereof which are rated, at the time of purchase, by two Rating Agencies in the highest short-term Rating Category or within one of the three highest long-term Rating Categories, but excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date;

(13) For amounts less than \$250,000, interest-bearing demand or time deposits (including certificates of deposit) in a nationally or state-chartered bank, or a state or federal savings and loan association in the State, fully insured by the Federal Deposit Insurance Corporation, including the Trustee or any their affiliates;

(14) Investments in Constant Net Asset Value taxable money market funds or portfolios restricted to obligations with an average maturity of one year or less and which funds or portfolios are: (A) rated, at the time of purchase, by two Rating Agencies in one of the two highest Rating Categories; or (B) have or are portfolios guaranteed as to payment of principal and interest by the full faith and credit of the United States of America;

(15) Investments in the City Treasurer’s pooled investment fund;

(16) Shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (1) through (13) of this definition and which companies are: (A) rated, at the time of purchase, by two Rating Agencies in the highest Rating Category; or (B) have an investment advisor registered with the Securities and Exchange Commission with not less than five years’ experience investing in such securities and obligations and with assets under management in excess of five hundred million dollars (\$500,000,000);

(17) Shares in a California common law trust established as described under Title 1, Division 7, Chapter 5 of the Government Code of the State which consists exclusively of investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the Government Code of the State, as it may be amended; and

(18) Any other investment, with confirmation (or other action, satisfactory to the City) from each rating agency that has a current rating on the Bonds at the time of their initial purchase, that its rating on the Bonds will not be lowered or withdrawn as a result of such investment.

Person

The term “Person” means any legal entity or natural person, as the context may require.

Pre-Refunded Municipals

The term “Pre-Refunded Municipals” means 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.

Principal Account

The term “Principal Account” means the account of that name established under the Indenture.

Principal Payment Date

The term “Principal Payment Date” means each August 1.

Project

The term “Project” means the acquisition, construction, installation and improvements to the Water System described in the Agreement and as modified with respect to Components in conformance with the Agreement.

Project Costs

The term “Project Costs” means the costs of the Project disbursed from time to time by the Comptroller from the Acquisition Fund as described under “– *Use of Moneys in Costs of Issuance Account and Acquisition Fund*” below.

Purchase Price

The term “Purchase Price” means the principal amount plus interest owed by the City under the terms of the Agreement as described in the Agreement and as specified in a Supplement.

Rating Agency

The term “Rating Agency” means Fitch, Moody’s or S&P.

Rebate Fund

The term “Rebate Fund” means the fund by that name created under the Indenture and any other accounts thereunder.

Record Date

The term “Record Date” means the fifteenth day of the calendar month immediately preceding an Interest Payment Date, whether or not such day is a Business Day.

Redemption Account

The term “Redemption Account” means the account by that name established under the Indenture.

Requisition

The term “Requisition” means a requisition form, substantially in the form as required under the Indenture, by which the City is required to withdraw moneys from the Acquisition Fund or the Costs of Issuance Account.

Reserve Fund

The term “Reserve Fund” means the Senior Bonds Reserve Fund as defined in the Indenture.

Reserve Requirement;

The term “Reserve Requirement” means, as of any date of calculation, the least of (i) ten percent (10%) of the proceeds (within the meaning of section 148 of the Code) of the Bonds; (ii) 125% of average

annual debt service on the then-Outstanding Bonds; or (iii) the Maximum Annual Debt Service for that and any subsequent year. Upon early redemption of any of the Bonds, the Authority, at the request of the City, may request the Trustee to recalculate and reduce any Reserve Requirement, whereupon any excess in the Reserve Fund over and above such Reserve Requirement is required to be transferred to the Payment Fund.

Revenues

The term “Revenues” means all Installment Payments received by or due to be paid to the Corporation, and the interest, and the interest or profits from the investment of money in any account or fund (other than the Subordinated Bonds Payment Fund, the Subordinated Bonds Reserve Fund and the Rebate Fund) as described under “– *Investment of Moneys in Funds and Accounts*” below.

S&P

The term “S&P” means Standard & Poor’s Ratings Group, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, and its successors, and if such corporation must for any reason no longer perform the functions of a securities rating agency, “S&P” must be deemed to refer to any other nationally recognized securities rating agency designated by the Authority and the City.

Securities Depository

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

Senior Bonds

The term “Senior Bonds” means any Bonds secured by pledge of Revenues on a parity with such Bonds.

Senior Bonds Reserve Fund

The term “Senior Bonds Reserve Fund” means the fund by that name established under the Indenture.

Separate Senior Bonds Reserve Fund

The term “Separate Senior Bonds Reserve Fund” means a reserve fund, if any, created as described under a Supplemental Indenture for a Series of Senior Bonds that is not part of the Common Senior Bonds Reserve Fund.

Separate Senior Bonds Reserve Requirement

The term “Separate Senior Bonds Reserve Requirement” means the requirement set forth in the Supplemental Indenture establishing a Separate Senior Bonds Reserve Fund.

Separate Subordinated Bonds Reserve Fund

The term “Separate Subordinated Bonds Reserve Fund” means a reserve fund, if any, created as described under a Supplemental Indenture for a Series of Subordinated Bonds that is not part of the Common Subordinated Bonds Reserve Fund.

Separate Subordinated Bonds Reserve Requirement

The term “Separate Subordinated Bonds Reserve Requirement” means the requirement set forth in the Supplemental Indenture establishing a Separate Subordinated Bonds Reserve Fund.

State

The term “State” means the State of California.

Subordinated Bonds

The term “Subordinated Bonds” means any Bonds secured by a pledge of Subordinated Revenues on a parity with such Bonds.

Subordinated Bonds Interest Account

The term “Subordinated Bonds Interest Account” means the account by that name established under the Indenture.

Subordinated Bonds Payment Fund

The term “Subordinated Bonds Payment Fund” means the fund by that name established under the Indenture.

Subordinated Bonds Principal Account

The term “Subordinated Bonds Principal Account” means the account of that name established under the Indenture.

Subordinated Bonds Redemption Account

The term “Subordinated Bonds Redemption Account” means the account by that name established under the Indenture.

Subordinated Bonds Reserve Fund

The term “Subordinated Bonds Reserve Fund” means the fund by that name established under the Indenture.

Subordinated Credit Provider

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

Subordinated Credit Support Instrument

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

Subordinated Installment Payments

The term “Subordinated Installment Payments” means Installment Payments that are Subordinated Obligations (as defined in the Agreement), scheduled to be paid by the City under and as described under any Supplement that has been assigned to the Trustee (as assignee of the Authority) to secure any Subordinated Bonds or Notes.

Supplement

The term “Supplement” means a supplement providing for the payment of specific Installment Payments as the Purchase Price for Components of the Project, executed and delivered by the City and the Corporation.

Supplemental Indenture

The term “Supplemental Indenture” means any indenture supplemental to the Indenture or amendatory of the Indenture duly executed and delivered by the Authority and the Trustee as authorized hereunder.

Surety Bond

The term “Surety Bond” means a reserve surety bond, insurance policy, letter of credit or other similar instrument providing, by its terms, a stated amount as a credit towards or in satisfaction of all or part of the Reserve Requirement, which is required to be held by the Trustee in trust, pursuant, to the Indenture.

Tax Certificate

The term “Tax Certificate” means the Tax Exemption Certificate delivered with respect to Tax-Exempt Bonds on their Closing Date.

Tax Code

The term “Tax Code” means the Internal Revenue Code of 1986, as amended, and the Regulations promulgated by the Internal Revenue Service pursuant to the Internal Revenue Code of 1986.

Tax-Exempt Bonds

The term “Tax-Exempt Bonds” means those Bonds which, by their terms, bear interest that is excluded from gross income for federal income tax purposes, as described under the Tax Code.

Termination Date

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

Treasurer

The term “Treasurer” means the Office of the City Treasurer of the City of San Diego.

Trustee

The term “Trustee” means Wells Fargo Bank, a national banking association existing under and by virtue of the laws of the United States, or any other bank or trust company which may be substituted in its place as provided under the Indenture.

Water System

The term “Water System” means any and all facilities, properties, improvements and works at any time owned, controlled or operated by the City as part of the public utility system of the City for water purposes, for the development, obtaining, conservation, production, storage, treatment, transmission, furnishing and distribution of water and its other commodities or byproducts for public and private use (whether located within or outside the City), and any related or incidental operations designated by the City as part of the Water System, including reclaimed and re-purified water.

Written Request of the Authority

The term “Written Request of the Authority” means an instrument in writing signed by the Chair, the Vice Chair, or the Secretary of the Authority, or by any other officer or Commissioner of the Board duly authorized by the Authority for that purpose.

Written Request of the City

The term “Written Request of the City” means an instrument in writing signed by the Chief Operating Officer, the Chief Financial Officer or any of their respective designees, or by any other official of the applicable administrative departments of the City duly authorized by the City for that purpose.

2017 Commercial Paper Supplement

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

EQUAL SECURITY

In consideration of the acceptance of the Bonds by the Owners of the Bonds, the Indenture is deemed to be and constitutes a contract between the Authority and the Trustee for the benefit of the Owners from time to time of all Bonds authorized, executed, issued and delivered under the Indenture and then Outstanding to secure the full and final payment of the interest on and principal of and redemption premiums, if any, on all Bonds which may from time to time be authorized, executed, issued and delivered under the Indenture, subject to the agreements, conditions, covenants and provisions contained in the Indenture; and all agreements and covenants set forth in the Indenture to be performed by or on behalf of the Authority is required to, except to the extent the rights and obligations of the Owners of Senior Bonds and the rights and obligations of Subordinated Bonds is required to differ, as described in the Indenture, be for the equal and proportionate benefit, protection and security of all Owners of the Bonds without distinction, preference or priority as to security or otherwise of any Bonds over any other Bonds by reason of the number or date of the Bonds or the time of authorization, sale, execution, issuance or delivery of the Bonds, or for any cause whatsoever, except as expressly provided in the Indenture.

ISSUANCE, REGISTRATION AND TRANSFER OF BONDS

Transfer and Payment of Bonds.

Any Bond may, in accordance with its terms, be transferred in the books required to be kept as described under the provisions described under “– *Bond Registration Books*” below, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender, at the Corporate Trust Office of the Trustee, of such Bond for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee. Whenever any Bond or Bonds is required to be surrendered for transfer, the Authority is required to execute and the Trustee is required to authenticate and deliver a new Bond or Bonds of a like aggregate principal amount of the same maturity and series. The Trustee must require the payment by the Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer as a condition precedent to the exercise of such privilege.

The Authority and the Trustee may deem and treat the Owner of any Bond as the absolute owner of such Bond for the purpose of receiving payment of such Bond and for all other purposes, whether such Bond is overdue or not, and neither the Authority nor the Trustee must be affected by any notice or knowledge to the contrary; and payment of the interest on and principal of and redemption premium, if any, on such Bond must be made only to such Owner, which payments must be valid and effectual to satisfy and discharge liability on such Bond to the extent of the sum or sums so paid.

The Trustee is prohibited from being required to register the transfer of any Bond (i) during the period commencing on the day five Business Days before the date on which Bonds are to be selected for redemption and ending on such date of selection, or (ii) which has been selected for redemption in whole or in part.

Exchange of Bonds.

The Bonds may be exchanged at the Corporate Trust Office of the Trustee for a like aggregate principal amount of Bonds of the same maturity and series of other Authorized Denominations. The Trustee must require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange as a condition precedent to the exercise of such privilege.

The Trustee is prohibited from being required to register the exchange of any Bond (1) during any period commencing with the close of business on the 15th day next preceding any Interest Payment Date and ending on such Interest Payment Date; (ii) during the period commencing 15 days before the mailing of any notice of redemption and ending on the day of such mailing; or (iii) that has been selected for redemption in whole or in part.

Bond Registration Books.

The Trustee is required to keep at its office sufficient books for the registration of the Bonds which is required to at all times be open to inspection by the Authority during normal business hours with reasonable prior notice, and upon presentation for such purpose the Trustee is required to, under such reasonable regulations as it may prescribe and register the Bonds in such books as described in the Indenture.

Mutilated, Destroyed, Stolen or Lost Bonds.

If any Bond must become mutilated, then the Trustee, at the expense of the Owner of the Bond, is required to thereupon authenticate and deliver a new Bond in exchange and substitution for the Bond so mutilated, but only upon surrender, at the Corporate Trust Office of the Trustee, of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee is required to be cancelled by the Trustee and delivered to, or upon the order of, the Authority.

If any Bond is required to be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee must be given, then the Trustee, at the expense of the Owner, is required to thereupon authenticate and deliver a new Bond of like maturity and Authorized Denomination in lieu of and in substitution for the Bond so lost, destroyed or stolen.

The Trustee may require payment of a reasonable sum for each new Bond issued as described under “– *Mutilated, Destroyed, Stolen or Lost Bonds*” and as described in this Section, and of the expenses that may be incurred by the Authority and the Trustee. Any Bond issued under the provisions described under “– *Mutilated, Destroyed, Stolen or Lost Bonds*” in lieu of any Bond alleged to be lost, destroyed or stolen is required to be equally and proportionately entitled to the benefits of the Indenture with all other Bonds secured by the Indenture. Neither the Authority nor the Trustee must be required to treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be issued under the Indenture or for the purpose of determining any percentage of Bonds Outstanding under the Indenture, but both the original and replacement Bond is required to be treated as one and the same.

Validity of Bonds.

From and after the applicable Closing Date, the findings and determinations of the Authority respecting the Bonds must be conclusive evidence of the existence of the facts so found and determined in any action or proceeding in any court in which the validity of the Bonds is required to be required: (a) to see to the existence of any fact; or (b) to the performance of any condition; or (c) to the taking of any proceeding required prior to such issuance; or (d) to the application of the proceeds of sale of the Bonds. The validity of the issuance of the Bonds is prohibited from depending on or be affected in any way by the proceedings taken by the Authority or the City for the financing of the Project or by any contracts entered into by the City or its agents on behalf of the City or the Authority in connection therewith, and is prohibited

from depending on the completion of the acquisition or installation of the Project or on the performance by any person, firm or authority of his or its obligation with respect to the Indenture. The recital contained in the Bonds that the same are issued as described under the Indenture must be conclusive evidence of their validity and of the regularity of their issuance, and the validity of all Bonds must be incontestable from and after their date of issuance. The Bonds is required to be deemed to be issued, within the meaning of the Indenture, whenever the Bonds is required to have been delivered to the Underwriters and the proceeds of sale of the Bonds received.

Book-Entry System.

Prior to the execution and delivery of the Bonds executed and delivered under the Indenture, the Authority may provide that such must be initially executed and delivered as Book-Entry Bonds, and in such event, the Bonds are required to be in the form of a single fully registered Bond for each maturity. Upon initial execution and delivery, the ownership of each such Bond is required to be registered in the bond register in the name of the Nominee, as nominee of the Depository. Payment of principal or interest for any Book-Entry Bonds registered in the name of the Nominee must be made on the payment date by wire transfer of New York clearing house or equivalent next day funds or by wire transfer of same day funds to the account of the Nominee. Such payments must be made to the Nominee at the address which is, on the regular Record Date or special record date, as the case may be, shown for the Nominee in the bond register of the Trustee.

With respect to Book-Entry Bonds, the City, the Authority and the Trustee must have no duty, responsibility or obligation to any Participant, or to any person on behalf of which such a Participant holds an interest in such Book-Entry Bonds or to the Beneficial Owners of such Book-Entry Bonds. Without limiting the immediately preceding sentence, the City, the Authority and the Trustee must have no responsibility or obligation with respect to: (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in Book-Entry Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the bond register, of any notice with respect to Book-Entry Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in Book-Entry Bonds to be redeemed in the event the Authority redeems the Bonds in part; (iv) the payment to any Participant or any other person, other than an Owner as shown in the bond register, of any amount with respect to principal of or interest on Book-Entry Bonds; or (v) any consent given or other action taken by the Depository as Owner.

The City, the Authority and the Trustee may treat and consider the person in whose name each Book-Entry Bond is registered in the bond register as the absolute Owner of such Book-Entry Bond for the purpose of payment of principal and interest with respect to such Bond, for the purpose of selecting any Bonds, or portions of the Bonds to be redeemed, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of obtaining any consent or other action to be taken by Owners and for all other purposes whatsoever and the City, the Authority and the Trustee is prohibited from being affected by any notice to the contrary.

In the event of a redemption necessitating a reduction in aggregate principal amount of Bonds Outstanding, or a redemption of part of the Bonds Outstanding, the Depository, in its discretion, (i) may request the Trustee to execute and deliver a new Bond, or (ii) if DTC is the sole Owner of the Bonds, is required to make an appropriate notation on the Bond indicating the date and amounts of such reduction in principal except in the case of final maturity, in which case the Bond must be presented to the Trustee prior to payment.

The Trustee is required to pay all principal, premium, if any, and interest on the Bonds only to or “upon the order of (as that term is used in the Uniform Commercial Code as adopted in the State of California) the respective Owner, as shown in the bond register, or his respective attorney duly authorized in writing, and all such payments must be valid and effective to fully satisfy and discharge the City’s obligations with respect to payment of principal, premium, if any, and interest on the Bonds to the extent

of the sum or sums so paid. No person other than an Owner, as shown in the bond register, is required to receive a Bond evidencing the obligation to make payments of principal, premium, if any, and interest on the Bonds. Upon delivery by the Depository to the Owner, the Trustee, the Authority and the City of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, such new nominee is required to become the Nominee under the Indenture for all purposes, and upon receipt of such a notice, the Authority must deliver a copy of the same to the Trustee.

To qualify the Book-Entry Bonds for the Depository's book-entry system, the Authority must, if necessary, execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations is prohibited from, in any way, imposing upon the Authority, the City or the Trustee any obligation whatsoever with respect to persons having interests in such Book-Entry Bonds other than the Owners, as shown on the bond register of the Trustee. Such Letter of Representations may provide the time, form, content, and manner of transmission, of notices to the Depository. In addition to the execution and delivery of a Letter of Representations by the Trustee, the Authority and the Trustee are required to take such other actions, not inconsistent with the Indenture, as are reasonably necessary to qualify Book-Entry Bonds for the Depository's book-entry program.

Notwithstanding any other provision of the Indenture to the contrary, so long as any Book-Entry Bond is registered in the name of DTC, or its nominee, all payments with respect to principal, premium, if any, and interest on such Bond and all notices with respect to such Bonds must be made and given, respectively, as described in the Letter of Representations or as otherwise instructed by the Depository.

In connection with any notice or other communication to be provided to Owners as described under the Indenture by the Authority or the Trustee, at the direction of the Authority, with respect to any consent or other action to be taken by the Owners, the Authority or the Trustee, as the case may be, is required to establish a record date for such consent or other action and give the Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible. Notice to the Depository must be given only when DTC is the sole Owner of the Bonds.

Procedure for Issuance of Bonds.

The Authority may, at any time, execute the Bonds for issuance under the Indenture and deliver them to the Trustee, and thereupon the Bonds must be authenticated and delivered by the Trustee to the Underwriters upon the Written Request of the Authority and receipt of payment therefor from the Underwriters.

Form of Bonds.

The Bonds and the authentication and registration endorsement and assignment to appear is required to be substantially in the form set forth in the Indenture.

Execution and Delivery of Additional Bonds.

The Trustee is required to, upon Written Request of the Authority, by a supplement to the Indenture, establish one or more other series of Bonds secured by the pledge made under the Indenture equally and ratably with any Senior Bonds previously issued and delivered (if such Bonds are to be Senior Bonds) or equally and ratably with any Subordinated Bonds (if such Bonds are to be Subordinated Bonds), in such principal amount that will be determined by the Authority, but only upon compliance with the provisions of the Indenture, the requirements of the Agreement applicable to the incurrence of Parity Obligations (if such Bonds are to be Senior Bonds) or Subordinated Obligations (if such Bonds are Subordinated Bonds) and any additional requirements set forth in the applicable Supplemental Indenture, which are made conditions precedent to the execution and delivery of Additional Bonds:

- (a) No Event of Default must have occurred and be then continuing;
- (b) The Supplemental Indenture providing for the execution and delivery of such Additional Bonds is required to specify the purposes for which such Additional Bonds are then proposed to be

delivered, which must be one or more of the following: (i) to provide moneys needed to provide for Project Costs by depositing into the Acquisition Fund the proceeds of such Additional Bonds to be so applied; (ii) to provide for the payment or redemption of Bonds then Outstanding under the Indenture, by depositing with the Trustee moneys and/or investments required for such purpose under the defeasance provisions set forth in the Indenture; or (iii) to provide moneys needed to refund or refinance all or part of any other current or future obligations of the City with respect to the funding of the Water System. Such Supplemental Indenture may, but is prohibited from being required to, provide for the payment of expenses incidental to such purposes, including the Costs of Issuance of such Additional Bonds, capitalized interest with respect to the Indenture for any period authorized under the Code (in the case of Tax-Exempt Bonds) and, in the case of any Additional Bonds intended to provide for the payment or redemption of existing Bonds, or other Obligations of the City, expenses incident to calling, redeeming, paying or otherwise discharging the Obligations to be paid with the proceeds of the Additional Bonds;

(c) The Supplemental Indenture providing for the execution and delivery of such Additional Bonds is required to state whether such Additional Bonds is required to be Senior Bonds or Subordinated Bonds.

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

(e) If such Additional Bonds are Senior Bonds, the Authority is required to deliver or cause to be delivered to the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount (or a Surety Bond in an amount) sufficient to increase the balance in the Reserve Fund to the Reserve Fund Requirement;

(f) If such Additional Bonds are Common Subordinated Reserve Fund Bonds, the Authority is required to deliver or cause to be delivered by the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount sufficient to increase the balance of the Common Subordinated Bonds Reserve Fund to the Common Subordinated Bonds Reserve Fund Requirement.

(g) If such Additional Bonds are Subordinated Bonds to be secured by a Separate Subordinated Bonds Reserve Fund, the Authority is required to deliver or cause to be delivered by the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount (or a Surety Bond in an amount) sufficient to increase the balance in such Separate Subordinated Bonds Reserve Fund to the Separate Subordinated Bonds Reserve Fund for such Series of Subordinated Bonds

(h) The Additional Bonds must be payable as to principal on August 1 and as to interest on February 1 and August 1 of each year during their term, except that the first interest payment due with respect thereto may be for a period of not longer than twelve (12) months;

(i) Fixed serial maturities or mandatory sinking account payments, or any combination thereof, must be established in amounts sufficient to provide for the retirement of all of the Additional Bonds of such Series on or before their respective maturity dates;

(j) The aggregate principal amount of Bonds and Additional Bonds executed and delivered under the Indenture is prohibited from exceeding any limitation imposed by law or by any Supplemental Indenture; and

(k) The Trustee must be the Trustee for the Additional Bonds.

Nothing in the Indenture may limit in any way the power and authority of the Authority to incur other obligations payable from other lawful sources.

Proceedings for Execution and Delivery of Additional Bonds.

Whenever the Authority is required to determine to file its Written Request with the Trustee for the execution and delivery of Additional Bonds, the Authority is required to authorize the execution and delivery of a Supplemental Indenture, specifying the aggregate principal amount and describing the forms of Bonds and providing the terms, conditions, distinctive designation, denominations, date, maturity date or dates, interest rate or rates (or the manner of determining same), Interest Payments and payment dates, redemption provisions and place or places of payment of principal or redemption price, if any, and interest represented by such Additional Bonds not inconsistent with the terms of the Indenture.

Before any series of Additional Bonds may be executed and delivered by the Trustee, the Authority is required to file the following documents with the Trustee:

- (a) An executed copy of the applicable Supplemental Indenture;
- (b) A statement of the Authority to the effect that the requirements of the Indenture have been met;
- (c) In the case of a Series of Additional Bonds delivered for the purpose described under subsection (b) of “– *Discharge of Bonds*” below, irrevocable instructions to the Trustee to give notice as described in “– *Redemption of Bonds*” of redemption of all Bonds to be redeemed in connection therewith; and
- (d) An opinion or opinions of Bond Counsel, to the effect that the execution and delivery of the Additional Bonds, the supplement to the Indenture and related supplements or amendments have been duly authorized by the Authority and meet the requirements described under “– *Execution and Delivery of Additional Bonds*” above and “– *Proceedings for Execution and Delivery of Additional Bonds*” above; and that the execution and delivery of such Additional Bonds will not, in and of themselves, cause the interest on the Tax-Exempt Bonds to become included within the gross income for purposes of federal income taxation.

ESTABLISHMENT OF FUNDS; DEPOSIT AND APPLICATION OF PROCEEDS

Reserve Fund.

(a) Within the Reserve Fund, the Trustee is required to establish and maintain a Common Senior Bonds Reserve Fund (the “Common Senior Bonds Reserve Fund”) and is required to establish and maintain any Separate Senior Bonds Reserve Fund required by a Supplemental Indenture to be established and maintained. The Reserve Fund and, within the Reserve Fund, the Common Senior Bonds Reserve Fund and each separate Senior Bonds Reserve Fund are each a separate fund held in trust by the Trustee. An amount equal to the Common Senior Bond Reserve Requirement must be maintained in or credited to the Common Senior Bonds Reserve Fund and amounts equal to each Separate Senior Bonds Reserve Requirement must be maintained in or credited to such Separate Senior Bonds Reserve Fund at all times, subject to the provisions described in subsection (e) of “– *Reserve Fund*” and as described in this Section, and any deficiency in the Indenture must be replenished from the first available Revenues on deposit in the Senior Bonds Payment Fund as described under subsection (e) of “– *Reserve Fund*” and as described in this Section.

(b) Moneys in or available from the Reserve Fund is required to be used solely for the purpose of paying the principal of and interest on the Senior Bonds, including the redemption price of the Senior Bonds coming due and payable by operation of mandatory sinking fund redemption, in the event that the moneys in the Senior Bonds Payment Fund are insufficient therefor. If and during such time as a Surety Bond is in effect for a Series of Senior Bonds secured by a Separate Senior Reserve Fund, not less than two Business Days prior to each Interest Payment Date, the Trustee is required to ascertain the necessity for a draw upon the Surety Bond and, if the draw is necessary, is required to provide notice thereof to the provider of the Surety Bond in accordance with the terms of the Surety Bond at least two Business Days prior to

each Interest Payment Date. In the event that the amount on deposit in the Senior Bonds Payment Fund on any date is insufficient to enable the Trustee to pay in full the aggregate amount of principal of and interest on such Series of Senior Bonds secured by a Separate Senior Reserve Fund coming due and payable by operation of mandatory sinking fund redemption, the Trustee is required to withdraw the amount of such insufficiency from the applicable Separate Senior Bonds Reserve Fund or make a draw upon the applicable Surety Bond in the amount of such insufficiency and transfer such amount to the Senior Bonds Payment Fund. Amounts on deposit in the Reserve Fund is prohibited from being applied to the payment of Subordinated Bonds.

(c) In the event that the amount on deposit in the Common Senior Bonds Reserve Fund or a Separate Senior Bonds Reserve Fund exceeds the Common Senior Bonds Reserve Requirement or applicable Separate Senior Bonds Reserve Fund Requirement on the fifteenth (15th) calendar day of the month preceding any Interest Payment Date, the amount of such excess is required to be withdrawn therefrom by the Trustee and transferred to (a) the Rebate Fund, to the extent required under “– *Rebate Fund*” of the Indenture, or (b) the Senior Bonds Payment Fund. In any case where a fund in a Separate Senior Bonds Reserve Fund is funded with a combination of cash and a Surety Bond, any such withdrawal of excess is required to be effected through a withdrawal of cash not a reduction in the amount of the Surety Bond. The remaining balance in any fund in the Senior Bonds Reserve Fund may be applied at the direction of the Authority, to the payment of the final maturing principal payments of Senior Bonds secured by such fund.

(d) The Authority may replace all or a portion of a Separate Senior Bonds Reserve Fund Requirement, originally funded with cash, with one or more Surety Bonds. Upon deposit of any Surety Bond with the Trustee, the Trustee is required to transfer to an Acquisition Fund under the Indenture from amounts in the related Separate Senior Bonds Reserve Fund an amount equal to the principal of the Surety Bond, which principal is required to comprise the Separate Senior Bonds Reserve Fund, as applicable, under the Indenture, or make other transfers in accordance with a Written Direction of the City.

In any case where a fund in a Separate Senior Bonds Reserve Fund is funded with a combination of cash and a Surety Bond, the Trustee is required to deplete all cash balances before drawing on the related Surety Bond. With regard to replenishment, any available moneys provided by the City must be used first to reinstate the related Surety Bond and second, to replenish the cash in the related Separate Senior Bonds Reserve Fund as described in “– *Reserve Fund*” above. In the event the Surety Bond is drawn upon, the City is required to make payment of interest on amounts advanced under the Surety Bond after making any payments as described under “– *Maintenance of Accounts for Use of Money in the Subordinated Bonds Payment Fund*” below.

In the event the Surety Bond is scheduled to lapse or expire, the Trustee is required to draw upon such Surety Bond prior to its lapsing or expiring in the full amount of such Surety Bond, make deposits from available Revenues on deposit in the Senior Bonds Payment Fund to the Separate Senior Bonds Reserve Fund, as applicable, to increase the amount on deposit in the Indenture to the Separate Senior Bonds Reserve Fund Requirement, as applicable or substitute such Surety Bond with a Surety Bond that satisfies the requirements of the “– *Reserve Fund*” as described above.

(e) In the event that the amount on deposit in the Common Senior Bonds Reserve Fund or Separate Senior Bonds Reserve Fund at any time falls below the Common Senior Bonds Reserve Requirement or Separate Senior Bonds Reserve Fund Requirement, as applicable, or in the event of a draw on the Surety Bond deposited in the Indenture, the Trustee is required to promptly notify the City and the Authority of such fact and the Trustee is required to promptly (A)(i) withdraw the amount of such insufficiency from available Revenues on deposit in the Senior Bonds Payment Fund, and (ii) transfer such amount to the Common Senior Bonds Reserve Fund or applicable Separate Senior Bonds Reserve Fund or (B) withdraw an amount necessary to repay such drawing on the Surety Bond and related expenses. Repayment of draws, expenses and accrued interest (collectively, “Policy Costs”) is required to commence

in the first month following each draw, and each such monthly payment is required to be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

(f) Notwithstanding any other provision in the Indenture, amounts in deposit in the Common Senior Bonds Reserve Fund is required to secure and must be used solely for the purpose of paying the principal of and interest on Common Senior Reserve Fund Bonds and amounts on deposit in a Separate Senior Bonds Reserve Fund is required to secure and must be used solely for the purpose of paying the principal of and interest on Senior Bonds specified in the Supplemental Indenture as secured by such Separate Senior Bonds Reserve Fund.

(g) In any case where any Common Senior Reserve Fund or Separate Senior Bonds Reserve Fund is funded in whole or in part with a Surety Bond, the Authority acknowledges that the rating on such Surety Bond may change after the date such Surety Bond is purchased or issued. In no event must the City or the Authority be required to replace such Surety Bond initially delivered under the Indenture with a similar instrument or with cash.

Subordinated Bonds Reserve Fund.

(a) The Subordinated Bonds Reserve Fund and, within the Subordinated Bonds Reserve Fund, the Common Subordinated Bonds Reserve Fund and each separate Subordinated Bonds Reserve Fund are each a separate fund held in trust by the Trustee. An amount equal to the Common Subordinated Bond Reserve Requirement must be maintained in or credited to the Common Subordinated Bonds Reserve Fund and amounts equal to each Separate Subordinated Bonds Reserve Requirement must be maintained in or credited to such Separate Subordinated Bonds Reserve Fund at all times, subject to the provisions of subsection (e) of “– *Subordinated Bonds Reserve Fund*”, and any deficiency in the Indenture must be replenished from the first available Subordinated Revenues as described under (e) of “– *Subordinated Bonds Reserve Fund*”.

(b) Moneys in or available from the Subordinated Bonds Reserve Fund must be used solely for the purpose of paying the principal of and interest on the Subordinated Bonds, including the redemption price of the Subordinated Bonds coming due and payable by operation of mandatory sinking fund redemption, in the event that the moneys in the Subordinated Bonds Payment Fund are insufficient therefor. If and during such time as a Surety Bond is in effect for a Series of Subordinated Bonds secured by a Separate Subordinated Reserve Fund, not less than two Business Days prior to each Interest Payment Date, the Trustee is required to ascertain the necessity for a draw upon the Surety Bond and, if the draw is necessary, is required to provide notice thereof to the provider of the Surety Bond in accordance with the terms of the Surety Bond at least two Business Days prior to each Interest Payment Date. In the event that the amount on deposit in the Subordinated Bonds Payment Fund on any date is insufficient to enable the Trustee to pay in full the aggregate amount of principal of and interest on such Series of Subordinated Bonds secured by a Separate Subordinated Reserve Fund coming due and payable by operation of mandatory sinking fund redemption, the Trustee is required to withdraw the amount of such insufficiency from the applicable Separate Subordinated Bonds Reserve Fund or make a draw upon the applicable Surety Bond in the amount of such insufficiency and transfer such amount to the Subordinated Bonds Payment Fund. Amounts on deposit in the Subordinated Bonds Reserve Fund is prohibited from being applied to the payment of Senior Bonds.

(c) In the event that the amount on deposit in the Common Subordinated Bonds Reserve Fund or a Separate Subordinated Bonds Reserve Fund exceeds the Common Subordinated Bonds Reserve Requirement or applicable Separate Subordinated Bonds Reserve Fund Requirement on the fifteenth (15th) calendar day of the month preceding any Interest Payment Date, the amount of such excess must be withdrawn therefrom by the Trustee and transferred to (a) the Rebate Fund, to the extent required as described under “– *Rebate Fund*” below, or (b) the Subordinated Bonds Payment Fund. In any case where a fund in a Separate Subordinated Bonds Reserve Fund is funded with a combination of cash and a Surety Bond, any such withdrawal of excess must be effected through a withdrawal of cash not a reduction in the

amount of the Surety Bond. The remaining balance in any fund in the Subordinated Bonds Reserve Fund may be applied at the direction of the Authority, to the payment of the final maturing principal payments of Subordinated Bonds secured by such fund.

(d) The Authority may replace all or a portion of a Separate Subordinated Bonds Reserve Fund Requirement, originally funded with cash, with one or more Surety Bonds. Upon deposit of any Surety Bond with the Trustee, the Trustee is required to transfer to the Acquisition Fund from amounts in the related Separate Subordinated Bonds Reserve Fund an amount equal to the principal of the Surety Bond, which principal is required to comprise the Separate Subordinated Bonds Reserve Fund, as applicable, under the Indenture, or make other transfers in accordance with a Written Direction of the City.

In any case where a fund in a Separate Subordinated Bonds Reserve Fund is funded with a combination of cash and a Surety Bond, the Trustee is required to deplete all cash balances before drawing on the related Surety Bond. With regard to replenishment, any available moneys provided by the City must be used first to reinstate the related Surety Bond and second, to replenish the cash in the related Separate Subordinated Bonds Reserve Fund in accordance with subsection (e) of “– *Subordinated Bonds Reserve Fund*” above. In the event the Surety Bond is drawn upon, the City is required to make payment of interest on amounts advanced under the Surety Bond after making any payments as described under “– *Maintenance of Accounts for Use of Money in the Subordinated Bonds Payment Fund*” below.

In the event the Surety Bond is scheduled to lapse or expire, the Trustee is required to draw upon such Surety Bond prior to its lapsing or expiring in the full amount of such Surety Bond, make deposits from available Subordinated Revenues to the Separate Subordinated Bonds Reserve Fund, as applicable, to increase the amount on deposit in the Indenture to the Separate Subordinated Bonds Reserve Fund Requirement, as applicable or substitute such Surety Bond with a Surety Bond that satisfies the requirements as described under “– *Subordinated Bonds Reserve Fund*” above.

The Authority acknowledges that the rating on any Surety Bond obtained or provided under the Indenture may change after the date such Surety Bond is purchased or issued. Within twelve (12) months after the date that the Authority obtains actual knowledge that any Surety Bond is no longer rated at least “Aa3” or “AA-” by any Rating Agency, the Authority is required to either (i) deposit into the related Separate Subordinated Bonds Reserve Fund, as applicable, money in an amount equal to the stated or principal amount of such Surety Bond or (ii) obtain a substitute Surety Bond that satisfies the provisions of the Indenture.

(e) In the event that the amount on deposit in the Common Subordinated Bonds Reserve Fund or Separate Subordinated Bonds Reserve Fund at any time falls below the Common Subordinated Bonds Reserve Requirement or Separate Subordinated Bonds Reserve Fund Requirement, as applicable, or in the event of a draw on the Surety Bond deposited in the Indenture, the Trustee is required to promptly notify the City and the Authority of such fact and the Trustee is required to promptly (A)(i) withdraw the amount of such insufficiency from available Subordinated Revenues on deposit in the Subordinated Bonds Payment Fund, and (ii) transfer such amount to the Common Subordinated Bonds Reserve Fund or applicable Separate Subordinated Bonds Reserve Fund or (B) withdraw an amount necessary to repay such drawing on the Surety Bond and related expenses. Repayment of draws, expenses and accrued interest (collectively, “Policy Costs”) is required to commence in the first month following each draw, and each such monthly payment must be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

(f) Notwithstanding any other provision in the Indenture, amounts in deposit in the Common Subordinated Bonds Reserve Fund is required to secure and must be used solely for the purpose of paying the principal of and interest on Common Subordinated Reserve Fund Bonds and amounts on deposit in a Separate Subordinated Bonds Reserve Fund is required to secure and must be used solely for the purpose of paying the principal of and interest on Subordinated Bonds specified in the Supplemental Indenture as secured by such Separate Subordinated Bonds Reserve Fund.

(g) In any case where any Separate Subordinated Bonds Reserve Fund is funded in whole or in part with a Surety Bond, and notwithstanding subsection (d) of “– *Subordinated Bonds Reserve Fund*” as described above, the Authority acknowledges that the rating on such Surety Bond may change after the date such Surety Bond is purchased or issued. In no event must the City or the Authority be required to replace such Surety Bond initially delivered under the Indenture with a similar instrument or with cash.

REVENUES

Pledge of Revenues.

All Revenues and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Subordinated Bonds Payment Fund, the Subordinated Bonds Reserve Fund and the Rebate Fund created as described under “– *Rebate Fund*” below) are irrevocably pledged to the payment of the interest on and principal of the Senior Bonds as described in the Indenture, and the Revenues is prohibited from being used for any other purpose while any of the Senior Bonds remain Outstanding; provided, that out of the Revenues there may be allocated such sums for such purposes as described under “– *Maintenance of Accounts for Use of Money in the Payment Fund*” below.

To secure the pledge of the Revenues contained in “– *Pledge of Revenues*” of the Indenture, the Authority transfers, conveys and assigns to the Trustee, for the benefit of the Owners, all of the Authority’s rights under any Supplement, including the right to receive Installment Payments from the City, the right to receive any proceeds of insurance maintained thereunder or any condemnation award rendered with respect to the Refunded Components and the right to exercise any remedies provided in the Indenture in the event of a default by the City thereunder. The Trustee accepts said assignment for the benefit of the Owners subject to the provisions of the Indenture.

The Trustee must be entitled to and is required to receive all of the Installment Payments, and any Installment Payments collected or received by the Authority must be deemed to be held, and to have been collected or received, by the Authority as agent of the Trustee and must forthwith be paid by the Authority to the Trustee.

Receipt and Deposit of Revenues in the Payment Fund.

To carry out and effectuate the pledge contained in the Indenture, the Authority agrees and covenants that all Revenues when and as received is required to be received in trust under the Indenture for the benefit of the Owners and must be deposited when and as received in the Payment Fund. All Revenues must be accounted for through and held in trust in the Payment Fund, and the Authority is required to have no beneficial right or interest in any of the Revenues except only as described in the Indenture. All Revenues, whether received by the Authority in trust or deposited with the Trustee as described in the Indenture, is required to nevertheless be allocated, applied and disbursed solely to the purposes and uses as described under “– *Revenues*” and must be accounted for separately and apart from all other accounts, funds, money or other assets of the Authority.

Maintenance of Accounts for Use of Money in the Payment Fund.

(a) Subject to “– *Duties, Immunities and Liabilities of Trustee,*” in the Indenture, all money in the Payment Fund must be deposited by the Trustee in the following respective special accounts within the Payment Fund (each of which is created and each of which the Trustee covenants and agrees to maintain) in the following order of priority:

- (i) Interest Account,
- (ii) Principal Account, and
- (iii) Redemption Account.

All money in each of such Accounts must be held in trust by the Trustee and must be applied, used and withdrawn only for the purposes described under this section titled “– *Maintenance of Accounts for Use of Money in the Payment Fund*”.

(b) On or before each Interest Payment Date, the Trustee is required to transfer from the Payment Fund and deposit in the Interest Account that amount of money that, together with any money contained in the Interest Account, equals the aggregate amount of interest becoming due and payable on all Outstanding Senior Bonds on such Interest Payment Date. No deposit need be made in the Interest Account if the amount contained in the Interest Account equals at least the aggregate amount of interest becoming due and payable on all Outstanding Senior Bonds on such Interest Payment Date. All money in the Interest Account must be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Senior Bonds as it is required to become due and payable (including accrued interest on any Senior Bonds redeemed prior to maturity).

(c) On or before each Principal Payment Date, the Trustee is required to transfer from the Payment Fund and deposit in the Principal Account that amount of money that, together with any money contained in the Principal Account, equals the aggregate principal becoming due and payable on all Outstanding Senior Bonds. No deposit need be made in the Principal Account if the amount contained in the Indenture is at least equal to the aggregate amount of principal become due and payable on Outstanding Senior Bonds. All money in the Principal Account must be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Senior Bonds as it is required to become due and payable

(d) In addition to the above accounts, the Trustee is required to establish and maintain within the Payment Fund a special account designated the “Redemption Account.” All money in the Redemption Account must be held in trust by the Trustee and must be applied, used, and withdrawn either to redeem the Senior Bonds or for the purposes as described under this Section titled “– *Maintenance of Accounts for Use of Money in the Payment Fund*”. Any moneys that, as described under the Agreement and the related provisions of any Supplements, are to be used to redeem Senior Bonds must be deposited by the Trustee in the Redemption Account. The Trustee is required to, on the scheduled redemption date, withdraw from the Redemption Account and pay the Owners entitled to the Indenture an amount equal to the redemption price of the Senior Bonds to be redeemed on such date.

(e) Any delinquent Installment Payments pledged to the Senior Bonds must be applied first to the Interest Account for the immediate payment of interest payments past due and the to the Principal Account for immediate payment of principal payments past due on any Senior Bond. Any remaining money representing delinquent Installment Payments pledged to Senior Bonds must be deposited in the Payment Fund to be applied in the manner provided in the Indenture.

Investment of Moneys in Funds and Accounts.

Moneys in the Acquisition Fund must be accounted for by the Comptroller and invested by the Treasurer in any legally permitted investment, including but not limited to the pooled investment fund of the City. In the absence of a Written Request of the City, the Trustee may invest moneys in the funds and accounts held by the Trustee in Permitted Investments described in clause (10) of the definition of Permitted Investments. The obligations in which moneys in the said funds and accounts are invested is required to mature prior to the date on which such moneys are estimated to be required to be paid out under the Indenture. For purposes of determining the amount of deposit in any fund or account held under the Indenture, all investments credited to such fund or account must be valued at the lesser of market value or the cost of the deposit. The Trustee is required to semiannually, on the first (1st) calendar day of the month preceding the Interest Payment dates, and at such times as the Authority is required to deem appropriate, value the investments in the funds and accounts under the Indenture on the basis of the lesser of market value or the cost based on accepted industry standards from accepted industry providers. Except as otherwise described under this Section of the summary, Permitted Investments representing an investment

of moneys attributable to any fund or account under the Indenture and all investment profits or losses must be deemed at all times to be a part of said fund or account.

Pledge of Subordinated Revenues.

All Subordinated Revenues and amounts on deposit in the Subordinated Bonds Payment Fund and the Subordinated Bonds Reserve Fund are irrevocably pledged to the payment of the interest on and principal of the Subordinated Bonds but only as described in the Indenture, and the Subordinated Revenues is prohibited from being used for any other purpose while any of the Subordinated Bonds remain Outstanding; provided, that out of the Subordinated Revenues there may be allocated such sums for such purposes as described under “– *Maintenance of Accounts for Use of Money in the Subordinated Bonds Payment Fund*” above.

The Trustee must be entitled to and is required to receive all of the Subordinated Installment Payments pledged to secure any Subordinated Bond, and any such Subordinated Installment Payments collected or received by the Authority must be deemed to be such held, and to have been collected or received, by the Authority as agent of the Trustee and must forthwith be paid by the Authority to the Trustee.

Receipt and Deposit of Revenues in the Subordinated Bonds Payment Fund.

To carry out and effectuate the pledge contained in the Indenture, the Authority agrees and covenants that all Subordinated Revenues when and as received must be received in trust under the Indenture for the benefit of the Owners and must be deposited when and as received in the Subordinated Bonds Payment Fund. All Subordinated Revenues must be accounted for through and held in trust in the Subordinated Bonds Payment Fund, and the Authority is required to have no beneficial right or interest in any of the Subordinated Revenues except only as described in the Indenture. All Subordinated Revenues, whether received by the Authority in trust or deposited with the Trustee as described in the Indenture, is required to nevertheless be allocated, applied and disbursed solely to the purposes and uses described under “– *Revenues*”, and must be accounted for separately and apart from all other accounts, funds, money or other assets of the Authority.

Maintenance of Accounts for Use of Money in the Subordinated Bonds Payment Fund.

(a) As described under “– *Duties, Immunities and Liabilities of Trustee,*” all money in the Subordinated Bonds Payment Fund must be deposited by the Trustee in the following respective special accounts within the Subordinated Bonds Payment Fund (each of which is created and each of which the Trustee covenants and agrees to maintain) in the following order of priority:

- (i) Subordinated Bonds Interest Account,
- (ii) Subordinated Bonds Principal Account, and
- (iii) Subordinated Bonds Redemption Account.

All money in each of such Accounts must be held in trust by the Trustee and must be applied, used and withdrawn only for the purposes described under this Section, “– *Maintenance of Accounts for Use of Money in the Subordinated Bonds Payment Fund*”.

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

provided that the Authority may direct the Trustee to maintain amounts in the Subordinated Bonds Interest Account following payment of all amounts required to be paid under the Indenture to be used for payments on Commercial Paper Notes on future Interest Payment Dates, and in such instance, such additional amount is prohibited from being included as amounts available to pay interest becoming due and payable on Outstanding Subordinated Bonds. All money in the Subordinated Bonds Interest Account must be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Subordinated Bonds as it must become due and payable (including accrued interest on any Subordinated Bonds redeemed prior to maturity).

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

(d) In addition to the above accounts, the Trustee is required to establish and maintain within the Subordinated Bonds Payment Fund a special account designated the “Subordinated Bonds Redemption Account.” All money in the Subordinated Bonds Redemption Account must be held in trust by the Trustee and must be applied, used, and withdrawn to redeem Subordinated Bonds for the purposes authorized and described in “– *Maintenance of Accounts for Use of Money in the Subordinated Bonds Payment Fund*” above. Any moneys that, as described under the Agreement and the related provisions of any Supplements, are to be used to redeem Subordinated Bonds must be deposited by the Trustee in the Redemption Account. The Trustee is required to, on the scheduled redemption date, withdraw from the Subordinated Bonds Redemption Account and pay the Owners entitled to the Indenture an amount equal to the redemption price of the Subordinated Bonds to be redeemed on such date.

(e) Any delinquent Subordinated Installment Payments pledged to the Subordinated Bonds must be applied first to the Subordinated Bonds Interest Account for the immediate payment of interest payments past due and to the Subordinated Bonds Principal Account for immediate payment of principal payments past due on any Subordinated Bond. Any remaining money representing delinquent Subordinated Installment Payments pledged to Subordinated Bonds must be deposited in the Subordinated Bonds Payment Fund to be applied in the manner provided in the Indenture.

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

COVENANTS OF THE AUTHORITY

Punctual Payment and Performance.

The Authority is required to punctually pay the interest and the principal to become due on every Bond issued under the Indenture in strict conformity with the terms of the Indenture and of the Bonds, and is required to faithfully observe and perform all the agreements and covenants contained in the Indenture and in the Bonds.

Rebate Fund.

The Trustee is required to and does by the Indenture establish a special fund designated as the “Rebate Fund” and is required to maintain such accounts within the Rebate Fund as it is instructed by the Authority as necessary in order to comply with the applicable Tax Certificate (which is incorporated in the Indenture by reference). The Trustee is required to deposit moneys in the Rebate Fund made available by the Authority and/or the City as described under a Written Request of the City. All money at any time deposited in the Rebate Fund is required to be governed by the Indenture and the Tax Certificate and must be held by the Trustee in trust, to the extent required to satisfy the amount required to be rebated to the United States under the Code, and none of the City, the Corporation, Authority, the Trustee nor the Owners is required to have any rights in or claims to such money. The Trustee is required to make information regarding the investments under the Indenture available to the City, is required to invest the Rebate Fund in Permitted Investments as described under a Written Request of the City that is in conformity with the restrictions set forth in the Tax Certificate and is required to deposit income from such Permitted Investments immediately upon receipt of the income into the Rebate Fund. The Trustee agrees to comply with all Written Requests of the City given in accordance with the Tax Certificate.

The City and the Authority is required to make or cause to be made the rebate computations respecting all Outstanding Bonds in accordance with the Tax Certificate, as required by the Code, and is required to provide to the Trustee written evidence that the computation of the rebate requirement has been made along with a letter from an independent certified public accountant or arbitrage consultant verifying the accuracy of such calculations. Upon a Written Request of the City, the Trustee is required to make deposits into the Rebate Fund from deposits by the City so that the balance of the amount on deposit must be equal to the rebate requirement. The Trustee must have no obligation to rebate any amounts required to be rebated as described under the Indenture, other than from moneys held in the Rebate Fund or from other moneys provided to it by the City on behalf of itself or the Authority. Records of the actions as described by “- *Rebate Fund*” above, and must be retained by the Trustee, the City and the Authority until the date which is six (6) years after the date on which the Bonds are no longer Outstanding.

Not later than sixty (60) days after the end of the fifth Bond Year as defined in the Tax Certificate and every five (5) years thereafter, the Trustee, upon receipt of a Written Request of the City, is required to pay to the United States part or all of the amounts in the Rebate Fund, as so directed. Each must be accompanied by a statement summarizing the determination of the amount to be paid to the United States, as provided by the City. In addition, if the City so directs, then the Trustee is required to deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed by the Written Request of the City. Any amounts remaining in the Rebate Fund following the final payment of the rebate requirement must be paid to the City. Money, including investment earnings, is prohibited from being transferred from the Rebate Fund except as described under “*Rebate Fund*” above.

The Trustee is required to have no obligation to rebate any amounts required to be rebated as described under the Indenture, other than from moneys held in the funds and accounts created under the Indenture or from other moneys provided to it by the City on behalf of itself or the Authority.

The Trustee is required to invest all amounts held in the Rebate Fund in Permitted Investments as directed by a Written Request of the City, which directions must be subject to the restrictions set forth in

the Tax Certificate. Money, including investment earnings, is prohibited from being transferred from the Rebate Fund except as described in paragraphs (f) and (g) of “– *Rebate Fund*” above.

Upon receipt of a Written Request of the City, the Trustee is required to 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, then the Trustee is required to deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or fund as directed by the Written Request of the City.

After payment and satisfaction of any rebate requirement applicable to the Bonds (or if provisions for payment and satisfaction have been made for the Bonds, that are acceptable to the Trustee), any funds remaining in the Rebate Fund must be withdrawn by the Trustee and remitted to the City.

Notwithstanding any other provision of the Indenture, the obligation to remit the rebate requirement to the United States and to comply with all other requirements as described under “– *Rebate Fund*” above, and the Tax Certificate is required to survive the defeasance or payment in full of the Tax-Exempt Bonds.

The Authority is prohibited from using or permitting any proceeds of the Tax-Exempt Bonds or any funds of the Authority, directly or indirectly, to acquire any securities or obligations, and is prohibited from taking or permitting to be taken any other action or actions, that would cause any Tax-Exempt Bonds to be an “arbitrage bond” within the meaning of the Code or “federally guaranteed” within the meaning of Section 149(b) of the Code and any applicable regulations promulgated from time to time thereunder and under Section 103(c) of the Code. The Authority is required to observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. The Authority is required to comply with all requirements of Sections 148 and 149(b) of the Code to the extent applicable to the Tax-Exempt Bonds.

The Authority specifically covenants to comply with the provisions and procedures of the Tax Certificate.

The Authority is prohibited from using or permitting the use of any proceeds of the Bonds or any funds of the Authority, directly or indirectly, in any manner, and is prohibited from taking or omitting to take any action that would cause any Tax-Exempt Bonds to be treated as an obligation not described in Section 103(a) of the Code.

Notwithstanding any provisions of “– *Rebate Fund*” in the Indenture, if the Authority and the City is required to provide to the Trustee an opinion of Bond Counsel to the effect that any specified action required under “Rebate Fund” in the Indenture is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest with respect to the Tax-Exempt Bonds, the Trustee, the Authority and the City may conclusively rely on such opinion in complying with the requirements described under “– *Rebate Fund*” above and, notwithstanding covenants as described under “– *Amendment of Indenture*” below, which are required to be deemed to be modified to that extent.

Eminent Domain.

If the whole of the Components or so much as to render the remainder unusable for the purposes for which it was used or intended to be used by the City is required to be taken under the power of eminent domain, the term of the Agreement is required to cease as of the day that possession is required to be so taken. In such case, the Authority is required to take or cause to be taken such action as is reasonably necessary to obtain compensation at least equal to the value of the Components or portion of the Components taken by eminent domain. If less than the whole of the Components is required to be taken under the power of eminent domain and the remainder is usable for the purposes for which it was used by the City at the time of such taking, then the Agreement is required to continue in full force and effect as to such remainder, and the parties to the Indenture waive the benefits of any law to the contrary. So long as any of the Bonds must be Outstanding, the net proceeds of any award made in eminent domain proceedings for taking the Components or any portion of the Components must be transferred to the Payment Fund. Any

such award made after all of the Bonds have been fully paid and retired and all fees and expenses of the Trustee have been fully paid must be paid to the City.

Accounting Records and Reports.

The Authority is required to keep or cause to be kept proper books of record and accounts in which complete and correct entries must be made of all transactions relating to the receipts, disbursements, allocation and application of the Revenues and the Subordinated Revenues, and such books is required to be available for inspection by the Trustee, at reasonable hours and under reasonable conditions. Not more than 270 days after the close of each Fiscal Year, the Authority is required to furnish or cause to be furnished to the Trustee financial statements that include the Water Utility Fund for the preceding Fiscal Year, prepared in accordance with generally accepted accounting principles, together with a report of an Independent Certified Public Accountant thereon. For purposes of “*Accounting Records and Reports*” of the Indenture, “financial statement” means audited financial statements, if available, or unaudited financial statements, if audited financial statements are not available and unaudited financial statements are available. The Authority keeps or cause to be kept such other information as is required under the Tax Certificate.

The City’s Budgets.

The Authority is required to supply to the Trustee, as soon as practicable after the beginning of each Fiscal Year following the effectiveness of the applicable City ordinance but in no event later than six months from the date of effectiveness of such ordinance, a Certificate of the City certifying that the City has made adequate provision in its annual budget for such Fiscal Year for the payment of all Parity Installment Payments, Subordinated Installment Payments and all other Obligations due under the Agreement as so supplemented in such Fiscal Year. If the amounts so budgeted are not adequate for the payment of all Parity Installment Payments, Subordinated Installment Payments and all other Obligations due under the Agreement in such Fiscal Year, the Authority is required to take such action as may be necessary and within its power to request such annual budget to be amended, corrected or augmented by the City so as to include in the Indenture the amounts required to be paid by the City from Net System Revenues in such Fiscal Year, and must notify the Trustee of the proceedings then taken or proposed to be by the Authority.

Agreement and Other Documents.

The Authority is required to at all times maintain and vigorously enforce all of its rights under the Agreement, as supplemented, and is required to promptly collect all Parity Installment Payments, Subordinated Installment Payments and all other Obligations due as the same become due under the Agreement as so supplemented, and is required to promptly and vigorously enforce its rights against any person who does not pay such installments as they become due under the Agreement as so supplemented. The Authority is prohibited from doing or permitting anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Agreement by the Corporation thereunder.

Other Liens.

The Authority must require the City to keep the Components free from judgments, mechanics’ and materialmen’s liens (except those arising from the acquisition, construction, and installation of the Components) and free from all liens, claims, demands and encumbrances of whatsoever prior nature or character to the end that the security for the Bonds provided in the Indenture must at all times be maintained and preserved free from any claim or liability that, in the judgment of the Trustee (whose determination is final), might hamper the Authority in conducting its business or interfere with the City’s operation of the Water System, and the Trustee at its option (after first giving the Authority and the City ten days’ written notice to comply therewith and failure of the Authority to so comply within such period) may (but is prohibited from being obligated to) defend against any and all actions or proceedings in which the validity

of the Indenture is or might be questioned, or may pay or compromise any claim or demand asserted in any such action or proceeding; provided, that in defending such actions or proceedings or in paying or compromising such claims or demands the Trustee may not in any event be deemed to have waived or released the Authority from liability for or on account of any of its agreements and covenants contained in the Indenture, or from its liability under the Indenture to defend the validity of the Indenture and the pledge of the Revenues made in the Indenture and to perform such agreements and covenants.

Prosecution and Defense of Suits.

The Authority is required to promptly from time to time take or cause to be taken such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Components, whether now existing or after the date of the Indenture developing, and is required to prosecute or cause to be prosecuted all such suits, actions and other proceedings as may be appropriate for such purpose and is required to indemnify and hold the Trustee harmless from all loss, cost, damage and expense, including attorney's fees, that it may incur by reason of any such defect, cloud, suit, action or proceeding.

The Authority is required to defend against every suit, action or proceeding at any time brought against the Trustee upon any claim arising out of the receipt, application or disbursement of any of the Revenues or involving the rights of the Trustee under the Indenture; provided that the Trustee at its election may appear in and defend any such suit, action or proceeding.

Continuing Disclosure.

The City has undertaken all responsibility for compliance with continuing disclosure requirements, and accordingly the Authority is required to have no liability to the Owners of the Bonds or any other person with respect to S.E.C. Rule 15c2-12, and the City is required to comply with and carry out all of the provisions of each continuing disclosure certificate, each dated the date of the execution and delivery of each series of the Bonds, executed and delivered by the City (each, a "Continuing Disclosure Certificate"). Notwithstanding any other provision of the Indenture, failure of the City to comply with a Continuing Disclosure Certificate is prohibited from being considered an Event of Default under the Indenture or under the Installment Purchase Agreement; provided, that the Trustee may and, at the request of any participating underwriter or the Owners of at least twenty-five percent (25%) in aggregate principal amount of the Outstanding Bonds of any series, is required to, or any Owner or Beneficial Owner of any of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under such Continuing Disclosure Certificate.

Further Assurances.

The Authority is required to promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments, and promptly do or cause to be done all such other and further things as may be necessary or reasonably required to further and more fully vest in the Owners all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by the Indenture.

AMENDMENT OF INDENTURE

Amendment of Indenture.

The Indenture and the rights and obligations of the Authority and of the all Owners of the Bonds may be amended at any time by a Supplemental Indenture, which becomes binding when the written consents of the Owners of 51% in aggregate principal amount of the Senior Bonds then Outstanding and the written consents of the Owner of 51% in aggregate principal amount of the Subordinated Bonds then Outstanding, exclusive of Bonds disqualified as described in "Disqualified Bonds" of the Indenture, are filed with the Trustee. No such amendment will (i) permit the creation by the Authority of any pledge of the Revenues or Subordinated Revenues as described in the Indenture superior to or on a parity with the

pledge created by the Indenture for the benefit of any Bond without the written consent of the Owner; (ii) modify any rights or obligations of the Trustee without its prior written assent to the Indenture; or (iii) modify provisions respecting the time or amount of payments on any Bond, without the written consent of the Owner.

The Indenture and the rights and obligations of the Authority and of the Owners may also be amended at any time by a Supplemental Indenture which will become binding without the consent of any Owners of Bonds for any one or more of the following purposes:

(i) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Indenture in regard to questions arising under the Indenture that the Authority may deem desirable or necessary and not inconsistent with the Indenture and that is prohibited from adversely affecting the interests of the Owners; or

(ii) to make any other change or addition to the Indenture that is prohibited from materially adversely affecting the interests of the Owners, or to surrender any right or power reserved or conferred in the Indenture on the Authority; provided, however, that the Owners must be given prompt notice of any such amendment and must receive a copy of the final executed Supplemental Indenture making such changes.

Disqualified Bonds.

Bonds owned or held by or for the account of the Authority or the City is prohibited from being deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds as described in “– *Amendment of Indenture*” above, and is prohibited from being entitled to consent to or take any other action as described in “– *Amendment of Indenture*” above.

Endorsement or Replacement of Bonds After Amendment.

After the effective date of any action taken as described in the Indenture, the Authority may determine that the Bonds may bear a notation by endorsement in form approved by the Authority as to such action, and in that case upon demand of the Owner of any Outstanding Bond and presentation of its Bond for such purpose at the Corporate Trust Office of the Trustee, a suitable notation as to such action must be made on such Bond. If the Authority is required to determine that a Bond is required to bear such a notation by endorsement as described under “– *Endorsement or Replacement of Bonds After Amendment*”, a new Bond so modified must be prepared and executed, and upon demand of the Owner of any Outstanding Bond, such new Bond must be exchanged at the Corporate Trust Office of the Trustee without cost to such Owner upon surrender of such Bond.

Amendment by Mutual Consent.

The provisions of “– *Amendment of Indenture*” in the *Indenture* is prohibited from preventing any Owner from accepting any amendment as to the particular Bonds owned by him, provided that due notation thereof is made on such Bonds.

EVENTS OF DEFAULT AND REMEDIES OF HOLDERS

Events of Default and Acceleration of Maturities.

The following events constitute events of default under the Indenture (each, an “Event of Default”):

(a) failure in the due and punctual payment of the interest on the Bonds when and as the same must become due and payable;

(b) failure in the due and punctual payment of the principal of the Bonds when and as the same must become due and payable, whether at maturity as in the Indenture expressed or by proceedings for redemption;

(c) failure by the Authority in the performance of any of the other agreements or covenants required in the Indenture to be performed by the Authority, as described under the titles: “– *Punctual Payment and Performance*” above, “– *Rebate Fund*” above, “– *Eminent Domain*” above “– *Accounting Records and Reports*” above, “– *the City’s Budgets*” above, “– *Agreement and Other Documents*” above, “– *Other Liens*” above, “– *Prosecution and Defense of Suits*” above, “– *Continuing Disclosure*” above, and “– *Further Assurances*” above, and such must have continued for a period of 30 days after the Authority and the City must be given notice in writing of such default by the Trustee or to the Authority, the City and the Trustee by Owners of 25% or more of the aggregate principal amount of the Bonds then Outstanding; or

(d) if any event of default has occurred and is continuing under “– *Remedies Not Exclusive*” of the Agreement; or

(e) if the Authority files a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction is required to assume custody or control of the Authority or of the whole or any substantial part of its property.

If one or more Events of Default occurs, then and in each and every such case during the continuance of such Event of Default, the Trustee may by notice in writing to the Authority and the City, declare the principal of all Bonds then Outstanding and the interest accrued on such Event of Default to be due and payable immediately. Upon any such declaration, the same must become due and payable, anything contained in the Indenture or in the Bonds to the contrary notwithstanding. The provisions as described under “– *Events of Default and Acceleration of Maturities*” are subject to the condition that if at any time after the entire principal amount of the unpaid Bonds and the accrued interest must have been so declared due and payable and before any judgment or decree for the payment of the moneys due must have been obtained or entered, there must be deposited with the Trustee a sum sufficient to pay the unpaid principal amount of the Bonds due prior to such declaration and the accrued interest thereon, with interest on such overdue installments at the rate or rates applicable thereto in accordance with their terms, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment the entire principal amount of the unpaid Bonds and the accrued interest there due and payable solely by reason of such declaration) must have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate must have been made therefor, then and in every such case the Trustee, by written notice to the City and the Authority, may rescind and annul such declaration and its consequences; but no such rescission and annulment is required to extend to or is required to affect any subsequent default or is required to impair or exhaust any right or power consequent thereon.

Proceedings by Trustee.

Upon the occurrence and continuance of any Event of Default, the Trustee in its discretion may, and at the written request of Owners of 51% or more in aggregate principal amount of Bonds Outstanding is required to (but only to the extent indemnified to its satisfaction from fees and expenses, including attorneys’ fees), do the following:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners and require the Authority to enforce all rights of the Owners of the Bonds, including the right to require the Authority to receive and collect Revenues and to enforce its rights under the Agreement and to require the Authority to carry out any other covenant or agreement with Owners of Bonds and to perform its duties under the Indenture;

(b) bring suit upon the Bonds;

(c) by action or suit in equity enjoin any acts or things that may be unlawful or in violation of the rights of the Owners; and

(d) as a matter of right, have receivers appointed for the Revenues and the issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment is required to confer.

Effect of Discontinuance or Abandonment.

In case any proceeding taken by the Trustee on account of any default or Event of Default has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee, then and in every such case, the Authority, the Trustee and the Owners is required to be restored to their former positions and rights under the Indenture, respectively, and all rights, remedies and powers of the Trustee is required to continue as though no such proceeding had been taken.

Rights of Owners.

Anything in the Indenture to the contrary notwithstanding and subject to the limitations and restrictions as to the rights of the Owners in as described in “– *Events of Default and Acceleration of Maturities,*” “– *Proceedings by Trustees,*” and “– *Restrictions on Owners’ Actions*”, upon the occurrence and continuance of any Event of Default or the Owners of 51% or more in aggregate principal amount of the Bonds then Outstanding is required to have the right upon providing the Trustee security and indemnity reasonably satisfactory to it against the costs, expenses, and liabilities to be incurred by such Event of Default, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture.

The Trustee may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is prejudicial to rights of other Owners or would subject the Trustee to personal liability.

Restrictions on Owners’ Actions.

(a) In addition to the other restrictions on the rights of Owners to request action upon the occurrence of an Event of Default and to enforce remedies as described under “– *Events of Default and Remedies of Holders*” above, no Owner of any of the Bonds has any right to institute any suit, action or proceeding in equity or at law for the enforcement of any trust under the Indenture, or any other remedy under the Indenture or on said Bonds, unless:

- (i) such Owner previously must have given to the Trustee written notice of an Event of Default as described in the Indenture; and
- (ii) the Owners of 51% or more in aggregate principal amount of the Bonds then Outstanding must have made written request of the Trustee to institute any such suit, action, proceeding or other remedy, after the right to exercise such powers or rights of action, as the case may be, must have accrued, and must have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers in the Indenture granted, or to institute such action, suit or proceeding in its or their name; and
- (iii) there must have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in the Indenture or by the Indenture; and
- (iv) the Trustee is prohibited from complying with such request within a reasonable time.

(b) Such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the trusts of the Indenture or for any other remedy under the Indenture. It is understood and intended, subject to “restrictions on Owners’ Actions” of the Indenture, that no one or more Owners of the Bonds secured by the Indenture must have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture, or to enforce any right under the Indenture or under the Bonds, except in the manner in the

Indenture provided, and that all proceedings at law or in equity must be instituted, and maintained in the manner in the Indenture provided, and for the equal benefit of all Owners of Outstanding Bonds.

Power of Trustee to Enforce.

All rights of action under the Indenture or under any of the Bonds secured by the Indenture which are enforceable by the Trustee may be enforced by it without the possession of any of the Bonds, or the production of the Bonds at the trial or other proceedings relative to the Indenture. Any such suit, action or proceedings instituted by the Trustee must be brought in its own name, as Trustee, for the equal and ratable benefit of the Owners of the Bonds, subject to the provisions of the Indenture.

Remedies Not Exclusive.

No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy must be cumulative, and must be in addition to every other remedy given under the Indenture or now or after the date of the Indenture existing at law or in equity or by statute.

Waiver of Events of Default; Effect of Waiver.

The Trustee is required to waive any Event of Default under the Indenture and its consequences and rescind any declaration of acceleration, upon the written request of the Owners of 67% or more of the Outstanding Bonds. If any Event of Default has been waived as in the Indenture provided, the Trustee is required to promptly give written notice of such waiver to the Authority and must give notice of such waiver by first class mail, postage prepaid to all Owners of Outstanding Bonds if such Owners had previously been given notices of such Event of Default. No such waiver, rescission and annulment is required to extend to or affect any subsequent Event of Default, or impair any right or remedy consequent on such Event of Default.

No delay or omission of the Trustee or any Owner of the Bonds to exercise any right or power accruing upon any default or Event of Default is required to impair any such right or power or is required to be construed to be a waiver of any such default or Event of Default or an acquiescence therein. Every power and remedy as described by “– *Events of Default and Remedies of Holders*” above to the Trustee or the Owners of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Application of Moneys.

Any moneys received by the Trustee as described under “– *Events of Default and Remedies of Holders*” above, together with any moneys that upon the occurrence of an Event of Default are held by the Trustee in any of the funds and accounts under the Indenture (other than the Rebate Fund and other than moneys held for Bonds not presented for payment) is required to, after payment of all fees and expenses of the Trustee, and the fees and expenses of its counsel, be applied as follows:

Unless the principal of all of the Outstanding Bonds is due and payable:

First – To the payment of the Owners of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest and, if the amount available is prohibited from being sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Owners, without any discrimination or privilege;

Second – To the payment of the Owners of the unpaid principal of any of the Bonds that must become due (other than Bonds matured or called for redemption for the payment of which moneys are held as described under the provisions of the Indenture), in the order of their due dates and, if the amount available is must not be sufficient to pay in full the principal of and premium, if any, on such Bonds due on any particular date, then to the payment ratably, according to the amount due on such date, to the Owners without any discrimination; and

Third – To be held for the payment to the Owners as the same is required to become due of the principal of and interest on the Bonds, that may thereafter become due either at maturity or upon call for redemption prior to maturity and, if the amount available is prohibited from being sufficient to pay in full such principal and premium, if any, due on any particular date, together with interest then due and owing thereon, payment must be made in accordance with the First and Second paragraphs of this paragraph.

If the principal of all of the Outstanding Bonds must be due and payable, to the payment of the principal and interest then due and unpaid upon the Outstanding Bonds without preference or priority of any of principal, or interest over the others or of any installment of interest, or of any Outstanding Bond over any other Outstanding Bond, ratably, according to the amounts due respectively for principal and interest, to the Owners without any discrimination or preference except as to any difference in the respective amounts of interest specified in the Outstanding Bonds.

Whenever moneys are to be applied pursuant to the provisions described under “– *Application of Moneys*”, such moneys are required to be applied at such times, and from time to time, as the Trustee must determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. The Trustee must give, by mailing by first-class mail as it may deem appropriate, such notice of the deposit with it of any such moneys.

Limitation on Rights and Remedies of Holders of Subordinated Bonds.

So long as any Senior Bonds remain outstanding, no Owners of Subordinated Bonds may have the right to declare an Event of Default, to declare any Bonds immediately due and payable, to direct the Trustee with respect to any Event of Default or to waive any Event of Default and any reference to the provisions described under “– *Events of Default and Remedies of Holders*”, to the Owners of a percentage of the principal amount of “Bonds then Outstanding” is required to be deemed to refer to the Owners of such percentage of Senior Bonds then Outstanding.

Subordination of Subordinated Bonds.

Notwithstanding the provisions of “Application of Moneys” of the Indenture, so long as any Senior Bonds remain Outstanding, no amounts, other than amounts in the Subordinated Bonds Payment Fund and the Subordinated Bonds Reserve Fund, may be applied to the payment of Subordinated Bonds.

DEFEASANCE

Discharge of Bonds.

If the Authority is required to pay or cause to be paid to the Owners of all Outstanding Bonds the interest thereon and the principal thereof and the premiums, if any, thereon at the times and in the manner stipulated in the Indenture and in the Indenture, then the Owners of such Bonds is required to cease to be entitled to the pledge of the Revenues as described in the Indenture, and all agreements, covenants and other obligations of the Authority to the Owners of such Bonds is required to cease, terminate and become void and be discharged and satisfied. In such event, the Trustee is required to execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee is required to pay over or deliver to the Authority all money or securities or other property held by it as described under the Indenture that are not required for the payment of the interest on and principal of and redemption premiums, if any, on such Bonds.

Subject to the provisions of the above paragraph, when any of the Bonds is required to be paid and if, at the time of such payment, the Authority must have kept, performed and observed all the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by the Authority or on its part on or prior to that time, then the Indenture must be considered to have been discharged in respect of such Bonds and such Bonds is required to cease to be entitled to the lien of the Indenture and such lien and all agreements, covenants, and other obligations of the Authority in the Indenture is required to cease, terminate and become void and be discharged and satisfied as to such Bonds.

Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, remain in effect and must be binding upon the Trustee and the Owners of the Bonds and the Trustee must continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of, redemption premium, if any, and interest on the Bonds, to pay to the Owners of Bonds the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture contained in “– *Compensation*” of the Indenture, relating to the compensation of the Trustee is required to remain in effect and must be binding upon the Trustee and the Authority.

Any Outstanding Bonds prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of “– *Discharge of Bonds*” above. if:

(a) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority is required to have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of “– *Redemption of Bonds*” of the Indenture, notice of redemption of such Bonds on said redemption date, said notice to be given in accordance with “– *Redemption of Bonds*” of the Indenture;

(b) there must have been deposited with the Trustee either (A) money in an amount which must be sufficient; or (B) Federal Securities of which are not subject to redemption prior to maturity except by the holder thereof (including any such Permitted Investments issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) and/or Pre-Refunded Municipals, the interest on and principal of which when due, and without any reinvestment thereof, will provide money that, together with the money, if any, deposited with the Trustee at the same time, is required to, as verified by an independent certified public accountant or other independent financial consultant acceptable to the Trustee, be sufficient, to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and interest on such Bonds; and

(c) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority must have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Owners of such Bonds and to the Securities Depositories and the Information Services that the deposit required by clause (ii) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the provisions as described under “– *Discharge of Bonds*” above and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and interest on such Bonds.

Unclaimed Money.

Anything contained in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the Bonds which remains unclaimed for two years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for redemption prior to maturity, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee, must at the Written Request of the Authority be repaid by the Trustee to the Authority as its absolute property free from trust, and the Trustee must thereupon be released and discharged with respect to the Indenture and the Owners are required to look only to the Authority for the payment of such Bonds, provided, that before being required to make any such payment to the Authority, the Trustee is required to, at the expense of the Authority, cause to be mailed to the Owners of such Bonds (at the expense of the Authority) at their addresses as they appear in the registration books maintained by the Trustee, a notice that such money remains unclaimed and that, after a

date named in such notice, which date is prohibited from being less than thirty (30) days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the Authority.

MISCELLANEOUS

Liability of Authority Limited to Revenues and Subordinated Revenues.

Notwithstanding anything contained in the Indenture, the Authority is prohibited from being required to advance any money derived from any source of income other than the Revenues and the Subordinated Revenues, as described in the Indenture for the payment of the interest on, or principal of, or premiums, if any, on the Bonds or for the performance of any agreements or covenants in the Indenture contained. The Authority may, however, advance funds for any such purpose so long as such funds are derived from a source legally available for such purpose without incurring an indebtedness.

The Senior Bonds must be limited obligations of the Authority and must be payable solely from the Revenues and amounts on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Subordinated Bonds Payment Fund, the Subordinated Bonds Reserve Fund and the Rebate Fund created as described under the Indenture). The Subordinated Bonds must be limited obligations of the Authority and must be payable solely from the Subordinated Bonds Revenues and amounts on deposit in the Subordinated Bonds Payment Fund and the Subordinated Bonds Reserve Fund. The Bonds do not constitute a debt or liability of the Authority, the City or of the State of California and neither the faith and credit of the Authority, the City nor of the State are pledged to the payment of the principal of or interest on the Bonds.

Benefits of Indenture Limited to Parties.

Nothing in the Indenture expressed or implied is intended or is to be construed to confer upon, or to give or grant to, any person or entity, other than the Authority, the City, the Trustee and the Owners of the Bonds, any right, remedy or claim under or by reason of the Indenture or any covenant, condition or stipulation of the Indenture, and all covenants, stipulations, promises and agreements in the Indenture contained by and on behalf of the Authority is to be for the sole and exclusive benefit of the Authority, the City, the Trustee and the Owners of the Bonds.

Successor Is Deemed Included in All References to Predecessor.

Whenever in the Indenture either the Authority or the City or any member, officer, or employee of such entity is named or referred to, such reference must be deemed to include the successor to the powers, duties and functions with respect to the administration, control and management of the Project that are presently vested in the Authority or the City or such member, officer or employee, and all agreements and covenants must be performed by or on behalf of the Authority or the City or any member, officer or employee of such entity is required to bind and inure to the benefit of the respective successors whether so expressed or not.

Execution of Documents by Owners.

Any declaration, request, or other instrument that is permitted or required in the Indenture to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his attorney of any declaration, request, or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to make acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution, or by an affidavit of a witness of such execution of the instrument, duly sworn to before such notary public or other officer. The ownership of any Bonds and the amount, maturity, number and date of holding the same may be proved by the registration books relating to the Bonds at the office of the Trustee.

Any declaration, request or other instrument or writing of the Owner of any Bond is required to bind all future Owners of such Bond with respect to anything done or suffered to be done by the Authority in good faith and in accordance therewith.

Waiver of Personal Liability.

No member, officer, or employee of the Authority or the City may be individually or personally liable for the payment of the interest on, or principal of, or premiums, if any, on the Bonds by reason of their issuance, but nothing in the Indenture contained may relieve any member, officer, or employee of the Authority or the City from the performance of any official duty provided by any applicable provisions of law or by the Indenture.

Acquisition of Bonds by Authority.

All Bonds acquired by the Authority, whether by purchase or gift or otherwise, must be surrendered to the Trustee for cancellation.

Destruction of Cancelled Bonds.

Whenever provision is made for the return to the Authority of any Bonds that have been cancelled as described under the provisions of the Indenture, the Authority may, by a Written Request of the Authority, direct the Trustee to destroy such Bonds and furnish to the Authority a certificate of such destruction.

COMMERCIAL PAPER NOTES

Authorization of Issuance of Commercial Paper Notes.

The Indenture authorizes the issuance of Commercial Paper Notes as described under “– *Purposes of Commercial Paper Notes; Application of Commercial Paper Note Proceeds*”, where an issue of Subordinated Bonds must be designated as “Subordinated Water Revenue Commercial Paper Notes (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund)” and must be entitled to the benefits, protection and security of the Indenture. The principal amount of the Commercial Paper Notes to be issued must be determined by an Authorized City Representative, provided that the aggregate principal amount of all Commercial Paper Notes Outstanding at any time is prohibited from exceeding \$250,000,000. For purposes of the foregoing sentence, no Commercial Paper Note must be deemed to be Outstanding on its date of maturity to the extent that the proceeds of one or more Commercial Paper Notes are available to be used to pay such Commercial Paper Note on such day. In addition, no Commercial Paper Note must be deemed Outstanding under the Indenture if sufficient funds for the payment of such Commercial Paper Note are held by the issuing and paying agent for the payment of such Holders of such Commercial Paper Note on the maturity date of the Commercial Paper Note. The Commercial Paper Notes must otherwise be subject to the terms, conditions and limitations provided or referred to in the Indenture and in the Issuing and Paying Agency Agreement. The Authority may create one or more series or subseries of the Commercial Paper Notes or designate and redesignate the Commercial Paper Notes in such a manner as may be determined by an Authorized Representative.

Purposes of Commercial Paper Notes; Application of Commercial Paper Note Proceeds.

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

Terms Applicable to Commercial Paper Notes.

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

- (i) must be dated the date of their delivery from time to time under the Indenture,
- (ii) must mature on such dates and must bear interest from its date of issuance at such rates as is required to be determined by an Authorized City Representative at the date of issuance; provided that (A) the term of any Commercial Paper Note (1) is prohibited from exceeding 270 days from the date of its issue, and (2) is prohibited from extending beyond a date which is two Commercial Paper Notes Business Days prior to the Termination Date of the Subordinated Credit Support Instrument relating to such Commercial Paper Notes, and (B) no Commercial Paper Note must bear interest at a rate in excess of the lesser of eleven percent (11%) per annum or the maximum rate of interest permitted by law,
- (iii) must be issued in registered form either through the book-entry system of a Securities Depository or by itself, as determined by an Authorized City Representative,
- (iv) must be issued in the denomination of \$100,000 or any integral multiple of \$1,000 in its excess, as determined by an Authorized City Representative,
- (v) must be numbered consecutively from 1 upwards in order of their issuance, prefixed by the applicable designation to identify the appropriate series or subseries, as applicable, and may bear such other or alternative identification as an Authorized City Representative may deem appropriate, and
- (vi) must not be subject to redemption prior to maturity.

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

(b) Both principal of and interest on Commercial Paper Notes must be payable in any coin or currency of the United States of America which must be legal tender for the payment of public and private debts. Except in the case of Book-Entry Commercial Paper Notes, principal of and interest on Commercial Paper Notes is required to be payable upon presentation and surrender of the Commercial Paper Notes at the principal office of the Issuing and Paying Agent.

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

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

Execution and Authentication of Commercial Paper Notes.

Each Authorized Representative is by the Indenture authorized and directed to execute by his or her manual or facsimile signature the Commercial Paper Notes in the name of the Authority and the corporate seal (or a facsimile of such signature) must be affixed, imprinted, engraved or otherwise reproduced on the Commercial Paper Notes. In case any such Authorized Representative who must have signed the Master Note issued through a Securities Depository or any Commercial Paper Notes not issued

through a Securities Depository is required to cease to be such Authorized Representative before the Master Note must have been executed by the Issuing and Paying Agent or the Commercial Paper Notes must have been authenticated by the Issuing and Paying Agent, the Commercial Paper Notes may nevertheless be issued as though the person who signed such notes had not ceased to be such Authorized Representative.

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

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

Master Note.

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

Book-Entry-Only System for Commercial Paper Notes.

Notwithstanding any other provision of the Indenture, the Authority may employ a book-entry-only system of note registration with respect to all or any of the registered Commercial Paper Notes, all as more fully set forth in subsections (b) and (c) of "*Book-Entry-Only System for Commercial Paper Notes*" in the Indenture. Any provisions of the Indenture inconsistent with book-entry-only Commercial Paper Notes is prohibited from being applicable to such Book-Entry Commercial Paper Notes.

The Depository Trust Company is required to act as the initial Securities Depository for the Commercial Paper Notes. Each Authorized Representative is by the Indenture authorized to execute and deliver on behalf of the Authority a Master Note, letter of representation or other agreements, documents or instruments in connection with the implementation or operation of such a book-entry-only system and may prescribe changes to the form of Commercial Paper Note to the extent necessary or convenient to make such Commercial Paper Note or Notes eligible for deposit under such a book-entry-only system. The provisions of any letter of representation or other agreement with a Securities Depository must be deemed to be incorporated in the Indenture and, in accordance with subsection (a) of "*Book-Entry-Only System for Commercial Paper Notes*" in the Indenture, any provision of the Indenture inconsistent with such letter

or agreement is prohibited from applying to Commercial Paper Notes thereafter issued in book-entry-only form.

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

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

The Securities Depository may determine not to continue to act as securities depository for the Commercial Paper Notes, and the Authority may determine to discontinue the book-entry-only issuance of the Commercial Paper Notes through the Securities Depository and in such case is required to deliver a certificate to the Issuing and Paying Agent and the affected Dealer to that effect. In either case, if the Authority determines to replace the Securities Depository with another qualified securities depository, the Authority is required to prepare or direct the preparation of one or more new, separate, fully registered Master Notes, registered in the name of such successor or substitute qualified securities depository or its nominee, or make such other arrangements acceptable to the Authority, the Issuing and Paying Agent and the replacement Securities Depository as are not inconsistent with the terms of the Indenture. If the Authority fails to identify another securities depository to replace the Securities Depository, the Authority may amend the Indenture as described under “– *Amendment of Indenture*” above, is required to deliver to the Issuing and Paying Agent for safekeeping, completion, authentication and delivery in accordance with the provisions of the Indenture, as so amended, and of the Issuing and Paying Agency Agreement, Commercial Paper Notes executed on behalf of the Authority, with the date of issuance, principal amount, maturity date, owner and rate of interest left blank. Each such Commercial Paper Note instrument must be held in safekeeping by the Issuing and Paying Agent until authenticated and issued in accordance with the provisions of the Indenture and of the Issuing and Paying Agency Agreement.

Non-Presented Commercial Paper Notes.

Any monies held by the Issuing and Paying Agent for the Holders of matured Commercial Paper Notes which is required to remain unclaimed by such Holders for six months after the date on which such Commercial Paper Notes must have matured must be paid to the Authority upon the request of the Authority to the Issuing and Paying Agent, in accordance with the Issuing and Paying Agency Agreement. Upon such payment to the Authority, the Authority is required to hold such monies in trust for the Holders of such matured Commercial Paper Notes and such Holders is required to look only to the Authority for the payment of such Commercial Paper Notes as described in the Indenture.

Special Provisions Relating to Subordinated Credit Support Instruments.

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

To the extent that a Subordinated Credit Support Instrument is in full force and effect and so provides, the obligations of the City to make payments thereunder constitutes a Subordinated Credit Provider Reimbursement Obligation and constitutes a Subordinated Obligation as described under the Agreement.

The Authority is prohibited from substituting a Subordinated Credit Support Instrument or consent to any assignment by a bank under any Subordinated Credit Support Instrument with respect to any Commercial Paper Notes that such Subordinated Credit Support Instrument supports prior to the payment or defeasance of the Commercial Paper Notes secured by such Subordinated Credit Support Instrument. The Authority is prohibited from causing more than one Subordinated Credit Support Instrument to be in effect at any particular time with respect to any series of Commercial Paper Notes.

Issuing and Paying Agent.

U.S. Bank Trust Company, National Association, as successor in interest to U.S. Bank Trust Company, National Association, in its capacity as Trustee under the Indenture is required to act as the Issuing and Paying Agent for the Commercial Paper Notes. The Issuing and Paying Agent may resign or be discharged of the duties and obligations created by the Issuing and Paying Agency Agreement in accordance therewith; provided, however, that any such removal or resignation is prohibited from being effective prior to the earlier of (i) the appointment of a successor Issuing and Paying Agent and the delivery of each Subordinated Credit Support Instrument to such successor Issuing and Paying Agent or (ii) the maturity of all Outstanding Commercial Paper Notes. The Authority is required to promptly appoint a successor Issuing and Paying Agent. Any Issuing and Paying Agent appointed under the provisions of “– *Issuing and Paying Agent*” of the Indenture is required to be a bank or trust company that is qualified to act as Trustee as described under subsection (e) of “– *Duties, Immunities, and Liabilities of Trustee*” in the Indenture.

Delegation of Authority to City Regarding the Commercial Paper Notes.

The Authority by the Indenture irrevocably delegates all authority to the City to act on behalf of the Authority, and irrevocably appoints the City as its agent to take all actions and make all determinations to be performed or made by the Authority, and to receive all notices, reports and other information, with respect to any matter relating to the Commercial Paper Notes under the Fifth Supplement, the Issuing and Paying Agency Agreement and each Dealer Agreement. Notwithstanding the foregoing, the Commercial Paper Notes is required to continue to be special limited obligations of the Authority and any other payment or indemnification obligations of the Authority under the Fifth Supplement, the Issuing and Paying Agency Agreement and the Dealer Agreements remain obligations of the Authority.

Commercial Paper Notes Costs of Issuance Account.

The Trustee is directed to establish a special trust account to be designated the “Public Facilities Financing Authority of the City of San Diego Water System Improvement Project Costs of Issuance Account – Commercial Paper Notes.” The Trustee is required to disburse moneys from the Commercial Paper Notes Costs of Issuance Account to pay Costs of Issuance with respect to the Commercial Paper

Notes. Such disbursements must be made from time to time upon receipt of Requisitions of the City on behalf of the Authority in the form as required by the Fifth Supplement. All amounts, not the subject of any prior requisition, on deposit in the Costs of Issuance Account for the Commercial Paper Notes on the date which is six months following their date of deposit in the Indenture (or such earlier date as the City may direct the Trustee in writing) must be transferred by the Trustee to the Commercial Paper Notes Acquisition Account to be applied as set forth in “– *Commercial Paper Notes Acquisition Account; Acquisition of Commercial Paper Notes Components; Completion Date*” of the Indenture.

**Commercial Paper Notes Acquisition Account;
Acquisition of Commercial Paper Notes Components; Completion Date.**

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

Compliance with Commercial Paper Notes Tax Certificate.

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

Defeasance of Commercial Paper Notes.

In addition to the provisions set forth in the Indenture regarding the defeasance of Bonds, no Commercial Paper Notes may be defeased without a confirmation of the then existing rating from each Rating Agency then rating such series of Commercial Paper Notes.

Acceleration of Commercial Paper Notes.

The Commercial Paper Notes are subject to acceleration of principal or interest in accordance with subsection (b) “– *Limitation on Rights and Remedies of Holders of Subordinated Bonds*” of the Indenture. Interest on the Commercial Paper Notes must cease to accrue from and after the date of declaration of any such acceleration. The Trustee must provide notice of any acceleration of the Commercial Paper Notes (or the rescission of the Commercial Paper Notes) in accordance with subsection (b) “– *Limitation on Rights and Remedies of Holders of Subordinated Bonds*” of the Indenture, to the Issuing and Paying Agent.

TENTH SUPPLEMENTAL INDENTURE

In addition to certain information contained in the forepart of this Official Statement, the following is a summary of certain provisions of the Tenth Supplemental Indenture. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Tenth Supplemental Indenture.

DEFINITIONS

The definitions of the following terms under “– *Definitions*” in the Original Indenture, as amended and supplement, as applicable, is modified to read as follows:

Agreement

The term “Agreement” means the Master Installment Purchase Agreement, dated as of August 1, 2002, as amended and supplemented.

Authority

The term “Authority” means Public Facilities Financing Authority of the City of San Diego, a joint exercise powers authority duly organized and existing under the laws of the State of California.

Certificate of Completion

The term “Certificate of Completion” means, with respect to the 2026A Bonds, a Certificate of the City filed with the Trustee stating that the 2026 Components financed and/or refinanced with the proceeds of the 2026A Bonds have been acquired, constructed, installed and improved and that all Acquisition Costs relating to the 2026A Bonds have been paid or provided for.

2026A Bonds

The term “2026A Bonds” means the Authority’s Senior Water Revenue Bonds, Series 2026A (Payable Solely from Installment Payments Secured by Net System Revenues of the Water Utility Fund), issued under the Indenture.

2026 Closing Date

The term “2026 Closing Date” means the date of initial delivery of the 2026A Bonds.

2026 Components

The term “2026 Components” means the Components of the Project specified in the 2026 Supplement, for which the City will be making 2026 Installment Payments.

2026 Installment Payments

The term “2026 Installment Payments” means those Installment Payments scheduled to be paid by the City under the 2026 Supplement.

2026 Supplement

The term “2026 Supplement” means the 2026 Supplement to Amended and Restated Master Installment Purchase Agreement, by and between the City and the Corporation.

Terms of the 2026A Bonds

The Tenth Supplemental Indenture sets forth the terms of the 2026A Bonds, most of which terms are described in the forepart of this Official Statement under “DESCRIPTION OF THE 2026A BONDS.”

Establishment of Costs of Issuance Account for the 2026A Bonds.

The Trustee is directed to establish a special trust account to be designated the “City of San Diego Water System Improvement Project Costs of Issuance Account – 2026A Bonds.”

Establishment of Acquisition Fund for the 2026A Bonds.

The Trustee is directed to establish a special trust fund to be designated the “City of San Diego Water System Improvement Project Acquisition Fund – 2026A Bonds.”

Use of Moneys in Acquisition Fund.

The Trustee must disburse moneys from the Acquisition Fund for the 2026A Bonds to pay Project Costs with respect to the 2026 Components or, at the election of the City as set forth in a Requisition or Written Request of the City, transfer such moneys from the Acquisition Fund for the 2026A Bonds to the Interest Account to pay interest on the 2026A Bonds when and as the same must become due and payable. Such disbursements must be made from time to time upon receipt of Requisitions of the City on behalf of the Authority the form as provided in the 2026 Supplement. If, after payment of all Requisitions of the City on behalf of the Authority and delivery to the Trustee of a Certificate of Completion, there must remain any balance of money in the Acquisition Fund, all money so remaining must be transferred to the Senior Bonds Interest Account within the Senior Bonds Payment Fund, to be applied as a credit towards the next interest payment on the 2026A Bonds

Acquisition of 2026 Components; Completion Date.

The Authority appoints the City as its agent for the acquisition and construction of the 2026 Components with moneys on deposit in the Acquisition Fund. Upon the determination by the City that such acquisition and construction is complete, the City will so indicate by filing a Certificate of Completion with the Trustee.

Compliance with Tax Certificate.

The Authority covenants and agrees to comply with the terms of the Tax Certificate delivered on the 2026 Closing Date with respect to the 2026A Bonds, it being acknowledged and agreed that Bond Counsel will rely upon the same in delivering its opinion respecting the tax status of the 2026A Bonds.

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AMENDED AND RESTATED MASTER INSTALLMENT PURCHASE AGREEMENT

In addition to certain information contained in the forepart of this Official Statement, the following is a summary of certain provisions of the Master Installment Purchase Agreement. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Master Installment Purchase Agreement.

DEFINITIONS

Accountant's Report

The term "Accountant's Report" means a report signed by an Independent Certified Public Accountant.

Acquisition Fund

The term "Acquisition Fund" means the fund by that name established pursuant to any Issuing Instrument.

Adjusted Debt Service

The term "Adjusted Debt Service" means, for any Fiscal Year, Debt Service on Parity Obligations for such Fiscal Year, minus an amount equal to earnings from investments in any Reserve Fund securing Parity Obligations for such Fiscal Year.

Adjusted Net System Revenues

The term "Adjusted Net System Revenues" means, for any Fiscal Year, the Net System Revenues for such Fiscal Year, minus an amount equal to earnings from investments in any Reserve Fund securing Parity Obligations for such Fiscal Year.

Authorized City Representative

The term "Authorized City Representative" means the Chief Financial Officer of the City or such other officer or employee of the City or other person who has been designated in writing as such representative by the Chief Financial Officer.

Authorizing Ordinance

The term "Authorizing Ordinance" means the ordinance pursuant to which the Installment Purchase Agreement was authorized and any additional ordinance or official authorizing act of the council of the City approving execution and delivery of any Supplement to the Installment Purchase Agreement or any Issuing Instrument.

Balloon Indebtedness

The term "Balloon Indebtedness" means, with respect to any Series of Obligations twenty-five percent (25%) or more of the principal of which matures on the same date or within a 12-month period (with sinking fund payments on Term Obligations deemed to be payments of matured principal), that portion of such Series of Obligations which matures on such date or within such 12-month period; provided, however, that to constitute Balloon Indebtedness the amount of indebtedness maturing on a single date or over a 12-month period must equal or exceed 150% of the amount of such Series of Obligations which matures during any preceding 12-month period. For purposes of this definition, the principal amount maturing on any date is required to be reduced by the amount of such indebtedness which is required, by the documents governing such indebtedness, to be amortized by prepayment or redemption prior to its stated maturity date.

Bond Counsel

The term “Bond Counsel” means a firm of attorneys which is nationally recognized in the area of municipal finance selected by the City.

Capacity Charge

The term “Capacity Charge” means a charge imposed upon a person, firm, corporation or other entity incident to the granting of a permit for a new water connection or due to an increase in water usage by the addition of any type of dwelling, commercial or industrial unit, which charge is based upon an increase in water consumption as measured by equivalent dwelling units, and the proceeds of which are used to construct, improve and expand the Water System to accommodate the additional business of such added dwellings or commercial or industrial units.

Charter

The term “Charter” means the Charter of the City as it now exists or amended from now on, and any new or successor Charter.

City

The term “City” means the City of San Diego, a municipal corporation organized and existing under the Charter and the Constitution of the State of California.

Code

The term “Code” means the Internal Revenue Code of 1986, and the regulations under the Code, as amended, and any successor provisions of law.

Collateral Agency, Account and Assignment Agreement

The term “Collateral Agency, Account and Assignment Agreement” means that certain agreement dated as of November 14, 2018, by and among U.S. Bank Trust Company, National Association, as successor in interest to U.S. Bank Trust Company, National Association, as collateral agent, the City, the Corporation, the Public Facilities Financing Authority of the City of San Diego, U.S. Bank Trust Company, National Association, as successor in interest to U.S. Bank Trust Company, National Association, as trustee, and the United States Environmental Protection Agency, an agency of the United States of America, acting by and through the Administrator of the Environmental Protection Agency.

Components

The term “Components” means components of the Project specified in the Installment Purchase Agreement or in a Supplement.

Consultant

The term “Consultant” means the consultant; consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm retained by the City to perform acts or carry out the duties provided for such consultant in the Installment Purchase Agreement. Such consultant, consulting firm, engineer, architect, engineering firm or architectural firm is required to be nationally recognized within its profession for work of the character required. Such accountants or accounting firm is required to be independent certified public accountants licensed to practice in the State of California.

Corporation

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

Credit Provider

The term “Credit Provider” means any municipal bond insurance company, bank or other financial institution or organization which is performing in all material respects its obligations under any Credit Support Instrument for some or all of the Parity Obligations.

Credit Provider Reimbursement Obligations

The term “Credit Provider Reimbursement Obligations” means obligations of the City to repay, from Net System Revenues, amounts advanced by a Credit Provider as credit support or liquidity for Parity Obligations, which obligations is required to constitute Parity Obligations or Subordinated Obligations, as designated by the City.

Credit Support Instrument

The term “Credit Support Instrument” means a policy of insurance, a letter of credit, a standby purchase agreement, revolving credit agreement or other credit arrangement pursuant to which a Credit Provider provides credit support or liquidity with respect to the payment of interest, principal or the purchase price of any Parity Obligations.

Debt Service

With regard to the issuance of Parity Obligations, the term “Debt Service” means, for any Fiscal Year, the sum of (a) the interest payable during such Fiscal Year on all Outstanding Parity Obligations, assuming that all Outstanding Serial Parity Obligations are retired as scheduled and that all Outstanding Term Parity Obligations are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Parity Obligations), (b) that portion of the principal amount of all Outstanding Serial Parity Obligations maturing on the next succeeding principal payment date which falls in such Fiscal Year (excluding Serial Obligations which at the time of issuance are intended to be paid from the sale of a corresponding amount of Parity Obligations), (c) that portion of the principal amount of all Outstanding Term Parity Obligations required to be redeemed or paid on any redemption date which falls in such Fiscal Year (together with the redemption premiums, if any on any redemption date); provided that, (1) as to any Balloon Indebtedness, Tender Indebtedness and Variable Rate Indebtedness, interest on any redemption date must be calculated as described under the definition of Maximum Annual Debt Service and principal must be deemed due at the nominal maturity dates of the definition; (2) the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service must be deducted from the amount of principal due at the final maturity of the Parity Obligations for which such debt service reserve fund was established and in each preceding year until such amount is exhausted; and (3) the amount of payments on account of Parity Obligations which are redeemed, retired or repaid on the basis of the accreted value due on the scheduled redemption, retirement or repayment date must be deemed principal payments, and interest that is compounded and paid as part of the accreted value must be deemed payable on the scheduled redemption, retirement or repayment date, but not before.

With regard to the issuance of Subordinated Obligations, the term “Debt Service” means, for any Fiscal Year, the sum of (a) the interest payable during such Fiscal Year on all Outstanding Obligations, assuming that all Outstanding Serial Obligations are retired as scheduled and that all Outstanding Term Obligations are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Obligations), (b) that portion of the principal amount of all Outstanding Serial Obligations maturing on the next succeeding principal payment date which falls in such Fiscal Year (excluding Serial Obligations which at the time of issuance are intended to be paid from the sale of a corresponding amount of other Obligations) (c) that portion of the principal amount of all Outstanding Term Obligations required to be redeemed or paid on any redemption date which falls in such Fiscal Year (together with the redemption premiums, if any on that portion of the principal amount) provided that, (1) as to any Balloon Indebtedness, Tender Indebtedness and Variable Rate Indebtedness, interest is required to be calculated as described under the definition of Maximum Annual Debt Service and

principal must be deemed due at the nominal maturity dates to be due; (2) the amount on deposit in a Reserve Fund on any date of calculation of Debt Service must be deducted from the amount of principal due at the final maturity of the Obligations for which such Reserve Fund was established and in each preceding year, until such amount is exhausted; and (3) the amount of payments on account of Obligations which are redeemed, retired or repaid on the basis of the accreted value due on the scheduled redemption, retirement or repayment date must be deemed principal payments, and interest that is compounded and paid as part of the accreted value of the amount due must be deemed payable on the scheduled redemption, retirement or repayment date, but not before.

Default Rate

The term “Default Rate” means the Maximum Rate.

Engineer’s Report

The term “Engineer’s Report” means a report signed by an Independent Engineer.

Event of Default

The term “Event of Default” means any occurrence or event described under “– *Events of Default and Acceleration of Maturities*” below.

Fiscal Year

The term “Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period selected and designated as the official Fiscal Year of the City.

Independent Certified Public Accountant

The term “Independent” Certified Public Accountant” means any firm of certified public accountants appointed by the City, and each of whom is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Independent Engineer

The term “Independent Engineer” means any registered engineer or firm of registered engineers of national reputation generally recognized to be well qualified in engineering matters relating to water systems, appointed and paid by but not under the control of the City.

Installment Payment Date

The term “Installment Payment Date” means any date on which an Installment Payment is due as specified in the Installment Purchase Agreement or determined pursuant to a Supplement.

Installment Payments

The term “Installment Payments” means the Installment Payments scheduled to be paid by the City with respect to and as described in the Installment Purchase Agreement and any supplement to the Installment Purchase Agreement as well as any amounts payable by the City on any Obligations with respect to and pursuant to any Issuing Instrument.

Installment Payment Obligations

The term “Installment Payment Obligations” means Obligations consisting of or which are supported in whole by Installment Payments.

Installment Purchase Agreement

The term “Installment Purchase Agreement” means the Amended and Restated Master Installment Purchase Agreement, by and between the City and the Corporation, dated as of January 1, 2009, as amended and supplemented.

Issuing Instrument

The term “Issuing Instrument” means any indenture, trust agreement, loan agreement, lease, installment purchase agreement or the Installment Purchase Agreement, including any Supplement or other instrument with respect to which Obligations are issued or created.

Law

The term “Law” means the Charter and all applicable laws of the State.

Maintenance and Operation Costs of the Water System

The term “Maintenance and Operation Costs of the Water System” means (a) any Qualified Take or Pay Obligation, and (b) the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Water System, calculated in accordance with generally accepted accounting principles, including, without limitation, the costs of the purchase, delivery or storage of water, the reasonable expenses of maintenance and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including administrative costs of the City attributable to the Water System, including the Project and the Installment Purchase Agreement, salaries and wages of employees of the Water System, payments to such employees’ retirement systems (to the extent paid from System Revenues), overhead, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations, including the Installment Purchase Agreement, including any amounts required to be deposited in the Rebate Fund pursuant to a Tax Certificate, and fees and expenses payable to any Credit Provider (other than in repayment of a Credit Provider Reimbursement Obligation), but excluding in all cases (1) depreciation, replacement and obsolescence charges or reserves of the Rebate Fund, (2) amortization of intangibles or other bookkeeping entries of a similar nature, (3) costs of capital additions, replacements, betterments, extensions or improvements to the Water System which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, (4) charges for the payment of principal of and interest on any general obligation bond to the Installment Purchase Agreement or issued later for Water System purposes, and (5) charges for the payment of principal of and interest on any debt service on account of any Obligation on a parity with or subordinate to the Installment Payments.

Maximum Annual Debt Service

The term “Maximum Annual Debt Service” means,

(A) with respect to Parity Obligations then Outstanding, the maximum amount of principal and interest becoming due on the Parity Obligations in the then-current or any future Fiscal Year, calculated by the City or by an Independent Certified Public Accountant as described under subsection (a) of the definition of Maximum Annual Debt Service and provided to the Trustee. For purposes of calculating Maximum Annual Debt Service in the Installment Purchase Agreement, the following assumptions must be used to calculate the principal and interest becoming due in any Fiscal Year:

(i) in determining the principal amount due in each Fiscal Year, payments must (except to the extent a different subsection of the definition of Maximum Annual Debt Service of the Installment Purchase Agreement applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including the amount of any Parity Obligations which are or have the characteristics of commercial paper and which are not intended at the time of issuance to be retired from the sale of

a corresponding amount of Parity Obligations, and including any scheduled mandatory redemption or prepayment of Parity Obligations on the basis of accreted value due upon such redemption or prepayment, and for such purpose, the redemption payment or prepayment must be deemed a principal payment; provided, however, that with respect to Parity Obligations which are or have the characteristics of commercial paper and which are intended at the time of issuance to be retired from the sale of a corresponding amount of other Obligations, which other Obligations would not constitute Balloon Indebtedness, each maturity of each obligation must be treated as if it were to be amortized in substantially equal installments of principal and interest over a term of 30 years, commencing in the year of such stated maturity; in determining the interest due in each Fiscal Year, interest payable at a fixed rate must (except to the extent subsection (A)(ii) or (iii) of the definition of Maximum Annual Debt Service in the Installment Purchase Agreement applies) be assumed to be made at such fixed rate and on the required payment dates;

(ii) if all or any portion or portions of an Outstanding Series of Parity Obligations constitute Balloon Indebtedness or if all or any portion or portions of a Series of Parity Obligations or such payments then proposed to be issued would constitute Balloon Indebtedness, then, for purposes of determining Maximum Annual Debt Service, each maturity which constitutes Balloon Indebtedness must be treated as if it were to be amortized in substantially equal annual installments of principal and interest over a term of 30 years, commencing in the year the stated maturity of such Balloon Indebtedness occurs, the interest rate used for such computation must be determined as described in subsection (A)(iv) or (v) of Maximum Annual Debt Service's definition, as appropriate, and all payments of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness must be treated as described in subsection (A)(i) of the definition of Maximum Annual Debt Service;

(iii) if any Outstanding Series of Parity Obligations constitutes Tender Indebtedness or if Parity Obligations proposed to be issued would constitute Tender Indebtedness, then for purposes of determining Maximum Annual Debt Service, Tender Indebtedness must be treated as if the principal amount of such Parity Obligations were to be amortized in accordance with the amortization schedule set forth in the Supplement or Issuing Instrument for such Tender Indebtedness or in the standby purchase or liquidity facility established with respect to such Tender Indebtedness, or if no such amortization schedule is set forth, then such Tender Indebtedness must be deemed to be amortized in substantially equal annual installments of principal and interest over a term of 30 years commencing in the year in which such Series is first subject to tender, the interest rate used for such computation must be determined as provided in subsection (A)(iv) or (v) of the definition of Maximum Annual Debt Service in the Installment Purchase Agreement, as appropriate;

(iv) if any Outstanding Series of Parity Obligations constitutes Variable Rate Indebtedness, the interest rate on such Obligations must be assumed to be 110% of the daily average interest rate on such Parity Obligations during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Parity Obligations must have been Outstanding;

(v) if Parity Obligations proposed to be issued will be Variable Rate Indebtedness, then such Parity Obligations must be assumed to bear interest at 80% of the average Revenue Bond Index during the calendar quarter preceding the calendar quarter in which the calculation is made, or if that index is no longer published, another similar index selected by the City, or if the City fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity, or if there are no such Treasury bonds having such maturities, 100% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States ranked by assets; and

(vi) if moneys or Permitted Investments have been deposited by the City into a separate fund or account or are otherwise held by the City or by a fiduciary to be used to pay principal of and/or interest on specified Parity Obligations, then the principal and/or interest to be paid from such moneys, Permitted Investments or from the earnings on the Permitted Investments are required to be disregarded and not included in calculating Maximum Annual Debt Service.

(B) with regard to all Obligations then Outstanding, the maximum amount of principal and interest becoming due on the Obligations in the then-current or any future Fiscal Year, calculated by the City or by an Independent Certified Public Accountant in accordance with subsection (b) of the definition of Maximum Annual Debt Service of the Installment Purchase Agreement and provided to the Trustee. For purposes of calculating Maximum Annual Debt Service, the following assumptions is required to be used to calculate the principal and interest becoming due in any Fiscal Year:

(i) in determining the principal amount due in each Fiscal Year, payments must (except to the extent a different subsection of the definition of Maximum Annual Debt Service in the Installment Purchase Agreement applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such debt, including the amount of any Obligations which are or have the characteristics of commercial paper and which are not intended at the time of issuance-to be retired from the sale of a corresponding amount of Obligations, and including any scheduled mandatory redemption or prepayment of Obligations on the basis of accreted value due upon such redemption or prepayment, and for such purpose, the redemption payment or prepayment must be deemed a principal payment; provided, however, that with respect to Obligations which are or have the characteristics of commercial paper and which are intended at the time of issuance to be retired from the proceeds of sale of a corresponding amount of other Obligations, and which would not constitute Balloon Indebtedness, each maturity of each obligation is required to be treated as if it were to be amortized in substantially equal installments of principal and interest over a term of 30 years, commencing in the year of such stated maturity; in determining the interest due in each Fiscal Year, interest payable at a fixed rate must (except to the extent subsection (B)(ii) or (iii) of the definition of Maximum Annual Debt Service in the Installment Purchase Agreement applies) be assumed to be made at such fixed rate and on the required payment dates;

(ii) if all or any portion or portions of an Outstanding Series of Obligations constitute Balloon Indebtedness or if all or any portion or portions of a Series of Obligations or such payments then proposed to be issued would constitute Balloon Indebtedness, then, for purposes of determining Maximum Annual Debt Service, each maturity which constitutes Balloon Indebtedness must be treated as if it were to be amortized in substantially equal annual installments of principal and interest over a term of 30 years, commencing in the year the stated maturity of such Balloon Indebtedness occurs, the interest rate used for such computation must be determined as described in subsection (B)(iv) or (v) of “– *Maximum Annual Debt Service*” below, as appropriate, and all payments of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness must be treated as described in subsection (B)(i) of “– *Maximum Annual Debt Service*” above;

(iii) if any Outstanding Series of Obligations constitutes Tender Indebtedness or if Obligations proposed to be issued would constitute Tender Indebtedness, then for purposes of determining Maximum Annual Debt Service, Tender Indebtedness must be treated as if the principal amount of such Obligations were to be amortized in accordance with the amortization schedule set forth in the Supplement or Issuing Instrument for such Tender Indebtedness or in the standby purchase or liquidity facility established with respect to such Tender Indebtedness, or if no such amortization schedule is set forth, then such Tender Indebtedness must be deemed to be amortized in substantially equal annual installments of principal and interest over a term of 30 years, commencing in the year in which such Obligations are first subject to tender, the interest rate

used for such computation must be determined as described in subsection (B)(iv) or (v) of “–*Maximum Annual Debt Service*” below, as appropriate;

(iv) if any Outstanding Series of Obligations constitute Variable Rate Indebtedness, the interest rate on such Series of Obligations must be assumed to be 110% of the daily average interest rate on such Series of Obligations during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Series of Obligations must have been Outstanding;

(v) if Obligations proposed to be issued will be Variable Rate Indebtedness, then such Obligations is required to be assumed to bear interest at 80% of the average Revenue Bond Index during the calendar quarter preceding the calendar quarter in which the calculation is made, or if that index is no longer published, another similar index selected by the City, or if the City fails to select a replacement index, an interest rate equal to 80% of the yield for outstanding United States Treasury bonds having an equivalent maturity, or if there are no such Treasury bonds having such maturities, 100% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States ranked by assets; and

(vi) if moneys or Permitted Investments have been deposited by the City into a separate fund or account or are otherwise held by the City or by a fiduciary to be used to pay principal and/or interest on specified Obligations, then the principal and/or interest to be paid from such moneys, Permitted Investments or from the earnings on the Permitted Investments are required to be disregarded and not included in calculating Maximum Annual Debt Service.

Maximum Rate

The term “Maximum Rate” means, on any day, the maximum interest rate allowed by law.

Moody’s

The term “Moody’s” means Moody’s Investors Service, Inc., a Delaware corporation, and its successors, and if such corporation is required to for any reason no longer perform the functions of a securities rating agency, “Moody’s” must be deemed to refer to any other nationally recognized securities rating agency designated by the City.

Net Proceeds

The term “Net Proceeds” means, when used with respect to any insurance, self-insurance or condemnation award, the proceeds from such award that are remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such proceeds.

Net System Revenues

The term “Net System Revenues” means, for any Fiscal Year, the System Revenues for such Fiscal Year, less the Maintenance and Operation Costs of the Water System for such Fiscal Year.

Obligations

The term “Obligations” means (a) obligations of the City for money borrowed (such as bonds, notes or other evidences of indebtedness) or as installment purchase payments under any contract (including Installment Payments), or as lease payments under any financing lease (determined to be such in accordance with generally accepted accounting principles), the principal of and interest on which are payable from Net System Revenues; (b) obligations to replenish any debt service reserve funds with respect to such obligations of the City; (c) obligations secured by or payable from any of such obligations of the City; and (d) obligations of the City payable from Net System Revenues under (1) any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, (2) any contract to exchange cash flows or a series of payments, or (3) any contract to hedge payment, currency, rate spread or similar exposure, including but not limited to interest rate cap agreements.

Outstanding

The term “Outstanding,” when used as of any particular time with respect to Obligations, means all Obligations theretofore or thereupon executed, authenticated and delivered by the City or any trustee or other fiduciary, *except* (a) Obligations theretofore cancelled or surrendered for cancellation; (b) Obligations paid or deemed to be paid within the meaning of any defeasance provisions of the Obligations; (c) Obligations owned by the City; and (d) Obligations in lieu of or in substitution for which other Obligations have been executed and delivered.

Owner

The term “Owner” means any person who is required to be the registered owner of any certificate or other evidence of a right to receive Installment Payments directly or as security for payment of an Outstanding Obligation.

Parity Installment Obligation

The term “Parity Installment Obligation” means Obligations consisting of or payable from Installment Payments which are not subordinated in right of payment to other Installment Payments.

Parity Obligation Interest Funding Date

The term “Parity Obligation Interest Funding Date” means each Parity Obligation Installment Payment Date on which the Interest Portion is due and payable under the Installment Purchase Agreement as well as each date on which interest is due and payable on any Parity Obligation under any other Issuing Instrument.

Parity Obligation Principal Funding Date

The term “Parity Obligation Principal Funding Date” means each Parity Obligation Installment Payment Date on which the Principal Portion is due and payable under the Installment Purchase Agreement as well as each date on which principal or mandatory sinking fund redemptions are due and payable on any Parity Obligation under any other Issuing Instrument.

Parity Obligations

The term “Parity Obligations” means Obligations the payment of which is secured by a first priority lien on and pledge of Net System Revenues as described under subsection (a) of “– *Commitment of the Net System Revenues*” and “– *Required Information*”.

Payment Fund

The term “Payment Fund” means the fund designated in the Issuing Instrument as the fund into which Installment Payments are to be deposited for the purposes of paying principal of or interest on related Obligations.

Permitted Investments

The term “Permitted Investments” means investments which pursuant to an Issuing Instrument are permissible for the investment of funds received from the sale of Obligations pursuant to the Issuing Document or from other funds held pursuant to the Issuing Instrument.

Project

The term “Project” means the construction, replacement and improvements to the Water System described in the Installment Purchase Agreement, as it may be modified from time to time in conformance with “– *Changes to the Project*” of the Installment Purchase Agreement.

Purchase Price

The term “Purchase Price” means the principal amount, plus interest on the principal amount, owed by the City to the Corporation under the terms of the Installment Purchase Agreement, for the purchase of Project Components, as described in “– *Purchase Price*” and as specified in the Installment Purchase Agreement or in a Supplement.

Qualified Take or Pay Obligation

The term “Qualified Take or Pay Obligation” means the obligation of the City to make use of any facility, property or services, or some portion of the capacity of the City, or to pay therefor from System Revenues, or both, whether or not such facilities, properties or services are ever made available to the City for use, and there is provided to the City a certificate of the City or of an Independent Engineer to the effect that the incurrence of such obligation will not adversely affect the ability of the City to comply with the provisions of “*Amount of Rates and Charges; Rate Stabilization Fund; Other Funds*” of the Installment Purchase Agreement.

Rate Stabilization Fund

The term “Rate Stabilization Fund” means the fund by that name established as described in the “– *Amount of Rates and Charges; Rate Stabilization Fund; Other Funds*” below.

Rating Agencies

The term “Rating Agencies” means Moody’s and S&P, or whichever of them and any other rating agency that is then rating Obligations.

Rebate Fund

The term “Rebate Fund” means the fund by that name established pursuant to any Issuing Instrument.

Reserve Fund

The term “Reserve Fund” is required to refer to the fund by that name established under an Issuing Instrument or Supplement.

Reserve Fund Obligations

The term ‘Reserve Fund Obligations’ means the obligations of the City to pay amounts advanced under any Reserve Fund Credit Facility entered into in accordance with the provisions of the related Issuing Instrument or Supplement, which obligations is required to constitute Parity Obligations or Subordinated Obligations, as designated by the City.

Reserve Fund Credit Facility

The term “Reserve Fund Credit Facility” means a letter of credit, line of credit, surety bond, insurance policy or similar facility deposited in the Reserve Fund established with respect to an Issuing Instrument in lieu of or in partial substitution for cash or securities on deposit in the Reserve Fund.

Reserve Requirement

The term ‘Reserve Requirement’ means any meaning given to such term in any Issuing Instrument or Supplement.

Revenue Bond Index

The term “Revenue Bond Index” means the Revenue Bond Index by that name published from time to time in *The Bond Buyer*.

S&P

The term “S&P” means Standard & Poor’s, a division of the McGraw-Hill Companies, a New York corporation, and its successors, and if such corporation must for any reason no longer perform the functions of a securities rating agency, “S&P” must refer to any other nationally recognized securities rating agency designated by the City.

Secondary Purchase Fund

The term “Secondary Purchase Fund” means the fund by that name established under “– *Amount of Rates and Charges; Rate Stabilization Fund; Other Funds*” below.

Serial Obligations

The term “Serial Obligations” means Obligations for which no sinking fund payments are provided.

Serial Parity Obligations

The term “Serial Parity Obligations” means Serial Obligations which are Parity Installment Payments or are payable on a parity with Parity Installment Obligations.

Series

The term “Series” means Obligations issued at the same time or sharing some other common term or characteristic and designated as a separate Series.

State

The term “State” means the State of California.

Subordinated Credit Provider

The term “Subordinated Credit Provider” means any municipal bond insurance company, bank or other financial institution or organization which is performing in all respects its obligations under any Subordinated Credit Support Instrument for some, or all of the Subordinated Obligations.

Subordinated Credit Support Instrument

The term “Subordinated Credit Support Instrument” means a policy of insurance, a letter of credit, a standby purchase agreement, revolving credit agreement or other credit arrangement pursuant to which a Subordinated Credit Provider provides credit support or liquidity with respect to the payment of interest, principal or the purchase price of any Subordinated Obligations.

Subordinated Obligation Interest Funding Date

The term “Subordinated Obligation Interest Funding Date” means each Subordinated Obligation Installment Payment Date on which the Interest Portion is due and payable under the Installment Purchase Agreement as well as each date on interest is due and payable on any Subordinated Obligation under any other Issuing Instrument.

Subordinated Obligation Principal Funding Date

The term “Subordinated Obligation Principal Funding Date” means each Subordinated Obligation Installment Payment Date on which the Principal Portion is due and payable under the Installment Purchase Agreement as well as each date on which principal or mandatory sinking fund redemptions are due and payable on any Subordinated Obligation under any other Issuing Instrument.

Subordinated Obligations

The term “Subordinated Obligations” means Obligations the payment of which is secured by a second priority lien on and pledge of Net System Revenues that is junior and subordinate to the lien on and pledge of Net System Revenues securing Parity Obligations as described under subsection (a) of “–

Commitment of the Net System Revenues” below and “– *Required Information*” of the Summary of Collateral Agency Agreement.

Supplement

The term “Supplement” means a supplement to the Installment Purchase Agreement providing for the payment of specific Installment Payments as the Purchase Price for additional Components of the Project, executed and delivered by the City and the Corporation.

System Revenues

The term “System Revenues” means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Water System, including, without limiting the generality of the foregoing:

- (a) all income, rents, rates, fees, charges, or other moneys derived by the City from the water services or facilities, and commodities or byproducts, including hydroelectric power, sold; furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, and including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Water System by or pursuant to law, and earnings on any Reserve Fund for Obligations, but only to the extent that such earnings may be utilized under the Issuing Instrument for the payment of debt service for such Obligations;
- (b) standby charges and Capacity Charges derived from the services and facilities sold or supplied through the Water System;
- (c) the proceeds derived by the City directly or indirectly from the lease of a part of the Water System;
- (d) any amount received from the levy or collection of taxes which are solely available and are earmarked for the support of the operation of the Water System;
- (e) amounts received under contracts or agreements with governmental or private entities and designated for capital costs for the Water System, which may not be used to pay Maintenance and Operation Costs of the Water System; and
- (f) grants for maintenance and operations received from the United States of America or from the State of California; provided, however, that System Revenues is prohibited from including: (1) in all cases, customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (2) the proceeds of borrowings; but
- (g) notwithstanding the above, there is required to be deducted from System Revenues any amounts transferred into a Rate Stabilization Fund as contemplated by subsection (b) of “– *Amount of Rates and Charges; Rate Stabilization Fund; Other Funds*” below and any amounts transferred from current System Revenues to the Secondary Purchase Fund as contemplated by subsection (c) of “– *Amount of Rates and Charges; Rate Stabilization Fund; Other Funds*” below, and there is required to be added to System Revenues any amounts transferred out of such Rate Stabilization Fund or the Secondary Purchase Fund to pay Maintenance and Operation Costs of the Water System.

Tax Certificate

The term “Tax Certificate” means any certificate delivered with respect to the maintenance of the tax-exempt status of Tax-Exempt Installment Payment Obligations.

Tax-Exempt Installment Payment Obligations

The term “Tax-Exempt Installment Payment Obligations” means Installment Payment Obligations, the interest component of which is excluded from gross income pursuant to Section 103 of the Code.

Tender Indebtedness

The term “Tender Indebtedness” means any Obligations or portions of Obligations, a feature of which is an option, on the part of the holders of the Obligations, or an obligation, with respect to the terms of such Obligations, to tender all or a portion of such Obligations to the City, a Trustee or other fiduciary or agent for payment or purchase and requiring that such Obligations or portions of Obligations or that such rights .to payments or portions of payments be purchased if properly presented. Tender Indebtedness may consist of either Parity Obligations or Subordinated Obligations.

Term Parity Obligations

The term “Term Parity Obligations” means Term Obligations which are Parity Installment Obligations or are payable on a parity with Parity Installment Obligations.

Term Obligations

The term “Term Obligations” means Obligations which are payable on or before their specified maturity dates from sinking fund payments established for that purpose and calculated to retire such Obligations on or before their specified maturity dates.

Trustee

The term “Trustee” means a financial institution acting in its capacity as Trustee with respect to and pursuant to any Issuing Instrument, or its successors and assigns.

Variable Rate Indebtedness

The term “Variable Rate Indebtedness” means any portion of indebtedness evidenced by Obligations, the interest rate for which is subject to adjustment periodically through a remarketing process or according to a stated published index for similar obligations in the municipal markets. Variable Rate Indebtedness may consist of either Parity Obligations or Subordinated Obligations.

Water Service

The term “Water Service” means the collection, conservation, production, storage, treatment, transmission, furnishing and distribution services made available or provided by the Water System.

Water System

The term “Water System” means any and all facilities, properties, improvements and works at any time owned, controlled or operated by the City as part of the public utility system of the City for water purposes, for the development, obtaining, conservation, production, storage, treatment, transmission, furnishing and distribution of water and its other commodities or byproducts for public and private use (whether located within or without the City), and any related or incidental operations designated by the City as part of the Water System, including reclaimed and re-purified water.

Water Utility Fund

The term “Water Utility Fund” means the fund by that name established under the Charter.

ACQUISITION AND CONSTRUCTION OF THE PROJECT

Acquisition and Construction of the Project Components.

The Corporation agreed to cause the Project to be constructed, acquired and installed by the City, as agent of the Corporation. The City is required to enter into contracts and provide for, as agent of the

Corporation, the complete construction, acquisition and installation of the Project. The City agrees that it will cause the construction, acquisition and installation of the Project to be diligently performed.

Except to the extent of proceeds of Obligations which are deposited in an Acquisition Fund, the Corporation is required to be under no liability of any kind or character whatsoever for the payment of any cost of any Components. In the event the proceeds of Obligations deposited in an Acquisition Fund are insufficient to complete the construction, acquisition and installation of the designated Components, the City must cause to be deposited in such Acquisition Fund (or must otherwise appropriate and encumber) from and to the extent of available amounts on deposit in the Water Utility Fund (or other lawfully available moneys) an amount equal to that necessary to complete the construction, acquisition and installation of such Components.

The Corporation will not undertake to cause any Component of the Project to be constructed, acquired or installed unless and until the City and the Corporation have entered into a Supplement specifying the Components, of the Project to be installed, the date of completion, the purchase price to be paid by the City Installment Purchase Agreement for that Component of the Project, and the Installment Payments or the method of calculating Installment Payments.

Changes to the Project.

Subject to the restrictions described under “– Changes to the Project”, the City may modify or amend the description of the Project, to eliminate any part of the Project and/or to add or substitute another Component or Components, all without obtaining any consent, by filing an amended “– The Description of the 1998 Project” to the Installment Purchase Agreement, with the Corporation and the Trustee under the related Issuing Instrument; provided however, that no such amendment is required to add or substitute a Component or Components which are not to be accounted for as an asset of the Water Utility Fund or is required to in any way impair the obligations of the City contained in any Supplement executed and delivered prior to any such amendment.

The City may substitute other improvements for those listed as Components in any Supplement, but only if the City first files with the Corporation and the Trustee a certificate of an Authorized City Representative: (1) identifying the Components to be substituted and the Components they replace; (2) stating that the substituted Components will be accounted for as an asset of the Water Utility Fund; and (3) stating that with respect to Components financed with Tax-Exempt Installment Payment Obligations, the estimated costs of construction, acquisition and installation of the substituted improvements are not less than such costs for the improvements previously included in such Supplement, that any excess amounts will be applied to the payment of principal evidenced by the related Obligations or any Additional Obligations, and that said substitution will not violate any provision of the related Tax Certificate.

Substituted Components may include or consist of an undivided interest in such Components, in which event the costs associated with the substituted Components over and above the undivided interest need not be deposited in the Acquisition Fund (or otherwise appropriated and encumbered); provided, however, that the certificate of an Authorized City Representative specifies that the funds necessary to complete the substituted Components are on deposit in the Acquisition Fund or otherwise appropriated and encumbered,

INSTALLMENT PAYMENTS

Purchase Price.

The City will pay the Purchase Price for any Components being purchased as provided in a Supplement. The Purchase Price to be paid by the City to the Corporation pursuant to any Supplement to the Installment Purchase Agreement, solely from Net System Revenues and from no other sources, is the sum of the principal amount of the City’s obligations with respect to such Supplement plus the interest to

accrue on the unpaid balance of such principal amount from the effective date thereof over the term thereof, subject to prepayment as provided therein.

The principal amount of the Installment Payments to be made by the City, with respect to a Supplement, must be paid at least three Business Days prior to the date such Installment Payments are payable as specified in such Supplement or at such other earlier time or times and in the manner or manners as specified in such Supplement. In the event the principal amount of an Installment Payment is not paid by the date the same is due and payable as specified in such Supplement, the same is required to bear interest at the Default Rate, commencing on the day the same is due, to, but not including, the payment date.

The interest to accrue on the unpaid balance of such principal amount must be paid at least three Business Days prior to the date such interest is payable as specified in a Supplement or at such other earlier time or times as specified in such Supplement, and must be paid by the City as and constitute interest paid on the principal amount of the City's obligations under the Installment Purchase Agreement. Interest must be payable in an amount not exceeding the Maximum Rate at the time of incurring such obligation, at such intervals and according to such interest rate formulas as must be specified in a Supplement or by reference to any Issuing Instrument to which such Supplement relates, and must be payable with such frequency must be specified in the Supplement. In the event that interest is not paid by the date such interest is payable, to the extent permitted by applicable law, such interest must bear interest at the Default Rate, commencing on the day the same is due, to, but not including, the payment date.

Installment Payments; Reserve Fund Payments.

The City is required to , subject to any rights of prepayment provided for in a Supplement, pay to the Corporation, solely from Net System Revenues and from no other sources, the Purchase Price in Installment Payments over a period not to exceed the maximum period permitted by law, all as specified in a Supplement.

In the event that a Trustee notifies the City that the amount on deposit in a Reserve Fund or Reserve Account is less than the Reserve Requirement, the City is required to deposit or cause to be deposited, solely from Net System Revenues in accordance with subsection (b) of the “*Allocation of System Revenues*” in the Installment Purchase Agreement in such Reserve Fund or Reserve Account such amounts on a monthly basis as are necessary to increase the amount on deposit in the Reserve Fund or Reserve Account to the Reserve Requirement in the ensuing twelve months.

The obligation of the City to make the Installment Payments solely from Net System Revenues is absolute and unconditional, and until such time as the Purchase Price has been paid in full (or provision for the payment of the Purchase Price must have been made as described under “*Discharge of Installment Payment Obligations*” below), the City will not discontinue or suspend any Installment Payments required to be made when due, as described under “*Installment Payments; Reserve Fund Payments*” above, whether or not the Project or any part of the Project is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such Installment Payments must not be subject to reduction whether by offset or otherwise and must not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

SYSTEM REVENUES

Commitment of the Net System Revenues.

All Parity Obligations, including Parity Installment Payment Obligations, must be secured by a first priority lien on and pledge of Net System Revenues. The City does grants to the Collateral Agent, for the benefit of the holders of Parity Obligations, a first priority lien on and pledge of Net System Revenues to secure Parity Obligations. All Parity Obligations is required to be of equal rank with each other without preference, priority or distinction of any Parity Obligations over any other Parity Obligations; provided that a Parity Obligation that by its terms with respect to certain circumstances can require the full amount of the

Parity Obligation to become payable in installments over not less than five years from the occurrence of the triggering event must not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Parity Obligation over any other Parity Obligation.

All Subordinated Obligations, including Subordinated Installment Payment Obligations, must be secured by a second priority lien on and pledge of Net System Revenues that is junior and subordinate to the lien on and pledge of Net System Revenues securing Parity Obligations. The City does grant to the Collateral Agent, for the benefit of the holders of Subordinated Obligations, a second priority lien on and pledge of Net System Revenues to secure Subordinated Obligations. All Subordinated Obligations must be of equal rank with each other without preference, priority or distinction of any Subordinated Obligations over any other Subordinated Obligations; provided that a Subordinated Obligation that by its terms with respect to certain circumstances can require the full amount of the Subordinated Obligation to become payable in installments over not less than five years from the triggering event must not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Subordinated Obligation over any other Subordinated Obligation; and provided further that a Subordinated Obligation that by its terms with respect to certain circumstances must be treated as, or becomes, a Parity Obligation must not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Subordinated Obligation over any other Subordinated Obligation.

The City represents and states that it has not granted any lien or charge on any of the Net System Revenues except as described in the Installment Purchase Agreement, in the Collateral Agency Agreement and in the SRF Loan Agreements; provided, however, that out of Net System Revenues there may be apportioned such sums for such purposes as are expressly permitted under “– System Revenues” of the Installment Purchase Agreement.

Nothing contained in the Installment Purchase Agreement may limit the ability of the City to grant liens on and pledges of the Net System Revenues that are subordinate to the liens on and pledges of Net System Revenues for the benefit of Parity Obligations and Subordinated Obligations contained in the Installment Purchase Agreement.

Allocation of System Revenues.

In order to carry out and effectuate the commitment and pledge as described under “–Commitment of the Net System Revenues” above, the City agrees and covenants that all System Revenues must be received by the City in trust and must be deposited when and as received in the Water Utility Fund, which fund the City agrees and covenants to maintain so long as any Obligations remain unpaid, and all moneys in the Water Utility Fund must be so held in trust and applied and used solely as described in the Installment Purchase Agreement in the amounts, at the times and only for the purposes specified below and in the following order of priority; provided that no amount must be transferred on any date pursuant to any clause below until amounts sufficient for all the purposes specified with respect to the prior clauses must have been transferred or set aside; and provided further that in the event there are insufficient Net System Revenues to make all of the payments contemplated in any one clause below, then said transfers, deposits and payments directed by such clause must be made as nearly as practicable pro rata, based upon the respective unpaid amounts of the Obligations addressed by such clause:

First, the City is required to pay from the Water Utility Fund directly or as otherwise required all Maintenance and Operation Costs of the Water System;

Second, on each Parity Obligation Interest Funding Date and on each other date on which the following amounts must be due and payable, the City is required to transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Parity Obligations Interest Account of the Parity Obligations Payment Fund, the sum of (A) an amount equal to the interest due and payable on all Parity Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the

Parity Obligations Interest Account on any preceding Parity Obligation Interest Funding Date;

Third, on each Parity Obligation Principal Funding Date and on each other date on which the following amounts must be due and payable, the City is required to transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Parity Obligations Principal Account of the Parity Obligations Payment Fund, the sum of (A) an amount equal to the principal and mandatory sinking fund redemptions due and payable on all Parity Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Parity Obligations Principal Account on any preceding Parity Obligation Principal Funding Date;

Fourth, on each Parity Obligation Interest Funding Date, the City is required to transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in any Parity Obligations Reserve Account (if any) the amount necessary so that the balance equals the applicable Parity Obligations Reserve Requirement; provided that in the event of any draw on a Reserve Fund Credit Facility held in any Parity Obligations Reserve Account, there must be deemed a deficiency in such Parity Obligations Reserve Account until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount;

Fifth, on each Subordinated Obligation Interest Funding Date and on each other date on which the following amounts must be due and payable, the City is required to transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Subordinated Obligations Interest Account of the Subordinated Obligations Payment Fund, the sum of (A) an amount equal to the interest due and payable on all Subordinated Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Subordinated Obligations Interest Account on any preceding Subordinated Obligation Interest Funding Date;

Sixth, on each Subordinated Obligation Principal Funding Date and on each other date on which the following amounts must be due and payable, the City is required to transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Subordinated Obligations Principal Account of the Subordinated Obligations Payment Fund, the sum of (A) an amount equal to the principal and mandatory sinking fund redemptions due and payable on all Subordinated Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Subordinated Obligations Principal Account on any preceding Funding Date; and

Seventh, on each Subordinated Obligation Interest Funding Date, the City is required to transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in any Subordinated Obligations Reserve Account (if any) the amount necessary so that the balance equals the applicable Subordinated Obligations Reserve Requirement; provided that in the event of any draw on a Reserve Fund Credit Facility held in any Subordinated Obligations Reserve Account, there must be deemed a deficiency in such Subordinated Obligations Reserve Account until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount.

After the transfers, deposits and payments as described under subsection (a) of “*Commitment of the Net System Revenues*” above have been made, any amounts remaining in the Water Utility Fund may be used for any lawful purpose of the Water System.

Additional Obligations.

The City may not create any Obligations, the payments of which are senior or prior in right to the payment by the City of Parity Obligations.

Without regard to subsection (c) of “– *Additional Obligations*” of the Installment Purchase Agreement, the City may at any time enter into or create an obligation or commitment which is a Reserve Fund Obligation, provided that the Obligation to which the Reserve Fund Obligation relates is permitted to be entered into with respect to the terms of “– *Additional Obligations*” of the Installment Purchase in this summary.

After the initial issuance of Parity Obligations Installment Purchase Agreement, the City may at any time issue or create any other Parity Obligations, provided that: (1) there must not have occurred and be continuing an Event of Default with respect to the terms of the Installment Purchase Agreement, any Issuing Instrument or any Credit Support Instrument; and (2) the City obtains or provides a certificate or certificates, prepared by the City or at the City’s option by a Consultant, showing that: (A) the Net System Revenues as shown by the books of the City for any 12-consecutive-month period within the 18 consecutive months ending immediately prior to the incurring of such additional Parity Obligations is required to have amounted to or exceeded the greater of (i) at least 1.20 times the Maximum Annual Debt Service on all Parity Obligations to be Outstanding immediately after the issuance of the proposed Parity Obligations or (ii) at least 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Parity Obligations. For purposes of preparing the certificate or certificates described above, the City or its Consultant may rely upon audited financial statements, or, if audited financial statements for the period are not available, financial statements prepared by the City that have not been subject to audit by an Independent Certified Public Accountant; or (B) the estimated Net System Revenues for the five Fiscal Years following the earlier of (i) the end of the period during which interest on those Parity Obligations is to be capitalized or, if no interest is to be capitalized, the Fiscal Year in which the Parity Obligations are issued, or (ii) the date on which substantially all new Components to be financed with such Parity Obligations are expected to commence operations, will be at least equal to 1.20 times the Maximum Annual Debt Service for all Parity Obligations which will be Outstanding immediately after the issuance of the proposed Parity Obligations.

For purposes of the computations to be made as described in subsection (c)(2)(B) of “– *Additional Obligations*” of the Installment Purchase Agreement, the determination of Net System Revenues: (1) may take into account any increases in rates and charges which relate to the Water System and which have been approved by the City Council, and is required to take into account any reduction in such rates and charges which have been approved by the City Council, which will, for purposes of the test described in subsection (c)(2)(B) of “– *Additional Obligations*” of the Installment Purchase Agreement, be effective during a Fiscal Year ending within the five-Fiscal Year period for which such estimate is being made; and (2) may take into account an allowance for any estimated increase in such Net System Revenues from any revenue-producing additions or improvements to or extensions of the Water System to be made with the proceeds of such additional indebtedness or with the proceeds of Parity Obligations previously issued, all in an amount equal to the estimated additional average annual Net System Revenues to be derived from such additions, improvements and extensions during the five-Fiscal Year period contemplated by subsection (c)(2)(B) of “– *Additional Obligations*” of the Installment Purchase Agreement, all as shown by such certificate of the City or its Consultant, as applicable; and (3) for the period contemplated by subsection (c)(2)(B) of “– *Additional Obligations*” of the Installment Purchase Agreement, Maintenance and Operation Costs of the Water System is required to initially be deemed to be equal to such costs for the 12 consecutive months immediately prior to incurring such other Parity Obligations for the first Fiscal Year of the five-Fiscal Year period, but adjusted if deemed necessary by the City or its Consultant, as applicable, for any increased Maintenance and Operations Costs of the Water System which are, in the judgment of the City or such Consultant, as applicable, essential to maintaining and operating the Water System and which will

occur during any Fiscal Year ending within the period contemplated by subsection (c)(2)(B) of “– *Additional Obligations*” of the Installment Purchase Agreement.

The certificate or certificates described in subsection (c)(2)(B) of “– *Additional Obligations*” of the Installment Purchase Agreement, is required to not be required if the Parity Obligations being issued are for the purpose of (1) issuing the Parity Obligations initially issued as described in the Installment Purchase Agreement or (2) refunding (A) any then Outstanding Parity Obligations if at the time of the issuance of such Parity Obligations a certificate of an Authorized City Representative is required to be delivered showing that the sum of Adjusted Debt Service on all Parity Obligations Outstanding for all remaining Fiscal Years after the issuance of the refunding Parity Obligations will not exceed the sum of Adjusted Debt Service on all Parity Obligations Outstanding for all remaining Fiscal Years prior to the issuance of such refunding Parity Obligations; or (B) then Outstanding Balloon Indebtedness, Tender Indebtedness or Variable Rate Indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to or otherwise purchased pursuant to a standby purchase or other liquidity facility relating to such indebtedness.

Without regard to subsection (c) of “– *Additional Obligations*” of the Installment Purchase Agreement, if (i) no Event of Default has occurred and is continuing and (ii) no event of default or termination event attributable to an act of or failure to act by the City with respect to any Credit Support Instrument has occurred and is continuing, the City may issue or incur Subordinated Obligations, and such Subordinated Obligations is required to be paid in accordance with the provisions of subsection (b) of “– *Allocation of System Revenues*” in the Installment Purchase Agreement, provided that: (1) City obtains or provides a certificate or certificates, prepared by the City or at the City’s option by a Consultant, showing that: (A) the Net System Revenues as shown by the books of the City for any 12-consecutive-month period within the 18 consecutive months ending immediately prior to the incurring of such additional Subordinated Obligations is required to have amounted to at least 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Subordinated Obligations; or (B) the estimated Net System Revenues for the five Fiscal Years following the earlier of (i) the end of the period during which interest on those Subordinated Obligations is to be capitalized or, if no interest is to be capitalized, the Fiscal Year in which the Subordinated Obligations are issued; or (ii) the date on which substantially all new facilities financed with such Subordinated Obligations are expected to commence operations, will be at least equal to 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Subordinated Obligations; (2) For purposes of preparing the certificate or certificates described in clause (A) of subsection (f)(1) of “– *Additional Obligations*” of the Installment Purchase Agreement, the City and its Consultant(s) may rely upon audited financial statements or, if audited financial statements for the period are not available, financial statements prepared by the City that have not been subject to audit by an Independent Certified Public Accountant; (3) For purposes of the computations to be made as described in clause (B) of subsection (f)(1) of “– *Additional Obligations*” of the Installment Purchase Agreement, the determination of Net System Revenues: (A) may take into account any increases in rates and charges which relate to the Water System and which have been approved by the City Council and is required to take into account any reduction in such rates and charges which have been approved by the City Council, which will, for purposes of the test described in clause (B) of subsection (f)(1) “– *Additional Obligations*” of the Installment Purchase Agreement, be effective during any Fiscal Year ending within the five-Fiscal Year period for which such estimate is made; and (B) may take into account an allowance for any estimated increase in such Net System Revenues from any revenue-producing additions .or improvements to or extensions of the Water System to be made with the proceeds of such additional indebtedness, with the proceeds of Obligations previously issued or with cash contributions made or to be made by the City, all in an amount equal to the estimated additional average annual Net System Revenues to be derived from such additions, improvements and extensions during the five-Fiscal Year period contemplated by clause (B) of subsection (f)(1) of “– *Additional Obligations*” of the Installment Purchase Agreement, all as shown by such certificate of the City or its Consultant, as applicable; and (C) for the period contemplated by clause (B) of subsection (f)(1) of “– *Additional Obligations*” of the

Installment Purchase Agreement, is required to initially include Maintenance and Operation Costs of the Water System in an amount equal to such costs for any 12-consecutive month period within the 24 consecutive months ending immediately prior to incurring such Subordinated Obligations for the first Fiscal Year of the five-Fiscal Year period, but adjusted if deemed necessary by the City or its Consultant, as applicable, for any increased Maintenance and Operations Costs of the Water System which are, in the judgment of the City or its Consultant, as applicable, essential to maintaining and operating the Water System and which will occur during any Fiscal Year ending within the period contemplated by clause (B) of subsection (1)(1) of “– *Additional Obligations*” (4) The certificate or certificates described above in subsection (f)(1) of “– *Additional Obligations*,” is required to not be required if the Subordinated Obligations being issued are for the purpose of refunding (i) then-Outstanding Parity Obligations or Subordinated Obligations if at the time of the issuance of such Subordinated Obligations a certificate of an Authorized City Representative is required to be delivered showing that the sum of Debt Service for all remaining Fiscal Years on all Parity Obligations and Subordinated Obligations Outstanding after the issuance of the refunding Subordinated Obligations will not exceed the sum of Debt Service for all remaining Fiscal Years on all Parity Obligations and Subordinated Obligations Outstanding prior to the issuance of such refunding Subordinated Obligations; or (ii) then-Outstanding Balloon Indebtedness, Tender Indebtedness or Variable Rate Indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to or otherwise purchased by a standby purchase agreement or other liquidity facility relating to such indebtedness.

COVENANTS OF THE CITY

Compliance With Installment Purchase Agreement and Ancillary Agreements.

The City will punctually pay Parity Obligations in strict conformity with the terms of the Installment Purchase Agreement and Ancillary Agreements; and will faithfully observe and perform all the Installment Purchase Agreements, conditions, covenants and terms contained in the Installment Purchase Agreement required to be observed and performed by it, and will not terminate the Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Corporation to observe or perform any agreement, condition, covenant or term contained in the Installment Purchase Agreement required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with the Installment Purchase Agreement or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Corporation or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The City will faithfully observe and perform all the Installment Purchase Agreements, conditions, covenants and terms contained in the Installment Purchase Agreement, including Supplements, and any Issuing Instrument or Credit Support Instrument relating to Parity Obligations required to be observed and performed by it, and it is expressly understood and agreed by and between the parties to the Installment Purchase Agreement that, subject to the provisions described under “– *Partial Invalidity*”, each of the agreements, conditions, covenants and terms contained in the Installment Purchase Agreement and Supplements, is an essential and material term of the purchase of and payment for each Component by the City pursuant to, and in accordance with, and as authorized under the Law.

The City will faithfully observe and perform all of the agreements and covenants of the City contained in each Authorizing Ordinance and will not permit the same to be amended or modified so as to adversely affect the Owners of Installment Payment Obligations.

The City is required to be unconditionally and irrevocably obligated, so long as any Installment Payment Obligations remain Outstanding and unpaid, to take all lawful action necessary or required to continue to entitle the City to collect and deposit such System Revenues in the Water Utility Fund for use as described in the Installment Purchase Agreement; provided, however, that such obligation does not, in any way, limit the City's ability to undertake any and all legal actions, including any appeals, in the defense of a federal court order dictating a water system configuration other than that approved and adopted by the City.

Against Encumbrances.

The City will not make any pledge of or place any lien on the Net System Revenues except as otherwise provided or permitted in the Installment Purchase Agreement.

Debt Service Reserve Fund.

The City will maintain or cause to be maintained each Reserve Fund at the applicable Reserve Requirement. In the event the amount in any such fund or account falls below the applicable Reserve Requirement, the City will replenish such fund or account up to the applicable Reserve Requirement as described under “– *Allocation of System Revenues*” below.

Against Sale or Other Disposition of Property.

The City will not sell, lease or otherwise dispose of the Water System or any part of the Water System essential to the proper operation of the Water System or to the maintenance of the System Revenues, except as described under “– *Against Sale or Other Disposition of Property*” and “– *Subcontracting*”. Further, the City will not, except as otherwise as described in the Installment Purchase Agreement, enter into any agreement or lease which impairs the operation of the Water System or any part of the Water System necessary to secure adequate Net System Revenues for the payment of the Parity Obligations or which would otherwise impair the rights of the Corporation with respect to the System Revenues or the operation of the Water System.

The City may dispose of any of the works, plant properties, facilities or other parts of the Water System, or any real or personal property comprising a part of the Water System, only upon the approval of the City Council and consistent with one or more of the following: (1) the City in its discretion may carry out such a disposition if the facilities or property being disposed of are not material to the operation of the Water System, or must have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the Water System or are no longer necessary, material or useful to the operation of the Water System, and if such disposition will not materially reduce the Net System Revenues and if the proceeds of such disposition are deposited in the Water Utility Fund; (2) the City in its discretion may carry out such a disposition if the City receives from the acquiring party an amount equal to the fair market value of the portion of the Water System disposed of. As described under “– *Against Sale or Other Disposition of Property*”, “fair market value” means the most probable price that the portion being disposed of should bring in a competitive and, open market with respect to all conditions requisite to a fair sale, the willing buyer and willing seller each acting prudently and knowledgeably, and assuming that the price is not affected by coercion or undue stimulus. The proceeds of the disposition is required to be used (A) first, promptly to redeem, or irrevocably set aside for the redemption of, Parity Obligations, and second, promptly to redeem, or irrevocably set aside for the redemption of, Subordinated Obligations, and/or (B) to provide for a part of the cost of additions to and betterments and extensions of the Water System; provided, however, that before any such disposition with respect to this clause (2), the City must obtain (1) a certificate of an Independent Engineer to the effect that upon such disposition and the use of the proceeds of the disposition as proposed by the City, the remaining portion of the Water System will retain its operational integrity and the estimated Net System Revenues for the five Fiscal Years following the Fiscal Year in which the disposition is to occur will be equal to or exceed the greater of (i) at least 1.20 times the Adjusted Debt Service on all Outstanding Parity Obligations during the five Fiscal Years following the Fiscal Year in

which the disposition is to occur, or (ii) at least 1.00 times the Adjusted Debt Service on all Outstanding Obligations during the first five Fiscal Years following the Fiscal Year in which the disposition is to occur, taking into account (aa) the reduction in revenue resulting from the disposition, (bb) the use of any proceeds of the disposition for the redemption of Parity Obligations and/or Subordinated Obligations, (cc) the Independent Engineer's estimate of revenue from customers anticipated to be served by any additions to and betterments and extensions of the Water System financed in part by the proceeds of the disposition, and (dd) any other adjustment permitted in the preparation of a certificate as described under "*Additional Obligations*", and (ii) confirmation from the Rating Agencies to the effect that the rating then in effect on any Outstanding Parity Obligations will not be reduced or withdrawn upon such disposition.

The City will operate the Water System in an efficient and economic manner, *provided* that the City may remove from service on a temporary or permanent basis such part or parts of the Water System as the City is required to determine, so long as (1) Net System Revenues are at least equal to the greater of (i) 100% of all Obligations payable in the then-current Fiscal Year or (ii) 120% of Adjusted Debt Service for the then-current Fiscal Year, after giving effect to any defeasance of Parity Obligations and/or Subordinated Obligations occurring incident to such removal, and for each Fiscal Year after, to and including the Fiscal Year during which the last Installment Payment is due, after giving effect to such defeasance, as evidenced by (i) an Engineer's Report on file with the City, or (ii) a Certificate of the City, (2) the value of the parts of the Water System to be so removed is less than 5% of the total Water System Plant assets, each as shown on the most recent audited financial statements that include the Water Utility Fund, and (3) the City is required to have filed with each Trustee an opinion of Bond Counsel to the effect that the removal of such part or parts of the Water System will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on Tax-Exempt Installment Payment Obligations.

Covenant Regarding State Orders.

The City covenants and agrees that it is required to comply in all material respects with the provisions of the existing compliance orders of the State of California Department of Public Health applicable to the Water System initially issued in January 1997 and most recently amended on May 11, 2007, through and including Amendment 11.

Prompt Acquisition and Construction.

The City is required to take all necessary and appropriate steps to construct, acquire and install the Project, as agent of the Corporation, with all practicable dispatch and in an expeditious manner and in conformity with law so as to complete the same as soon as possible.

Maintenance and Operation of the Water System; Budgets.

The City is required to maintain and preserve the Water System in good repair and working order at all times and is required to operate the Water System in an efficient, and economical manner and will pay all Maintenance and Operation Costs of the Water System as they become due and payable. The City is required to adopt and make available to the Corporation, on or before the effective date, a budget approved by the City Council of the City setting forth the estimated Maintenance and Operation Costs of the Water System for the period from such date until the close of the then-current Fiscal Year. On or before August 1 of each Fiscal Year, the City is required to adopt, and on or before the day that is 120 days after the beginning of the Fiscal Year, make available to the Corporation a budget approved by the City Council of the City setting forth the estimated Maintenance and Operation Costs of the Water System for such Fiscal Year. Any budget may be amended at any time during any Fiscal Year and such amended budget is required to be filed by the City with the Corporation.

Amount of Rates and Charges; Rate Stabilization Fund; Other Funds.

(a) The City is required to fix, prescribe and collect rates and charges for the Water Service which will be at least sufficient to yield the greater of (1) Net System Revenues sufficient to pay during

each Fiscal Year all Obligations payable in such Fiscal Year or (2) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service for such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification of the rates and charges as it deems necessary, but is required to not reduce the rates and charges then in effect unless the Net System Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements described under “– *Amount of Rates and Charges; Rate Stabilization Fund; Other Funds*”.
Holders of Subordinated Obligations

(b) The City may establish, as a fund within the Water Utility Fund, a fund denominated the “Rate Stabilization Fund.” From time to time, the City may deposit into the Rate Stabilization Fund, from current System Revenues, such amounts as the City is required to determine and the amount of available current System Revenues must be reduced by the amount so transferred. Amounts may be transferred from the Rate Stabilization Fund solely and exclusively to pay Maintenance and Operation Costs of the Water System, and any amounts so transferred is required to be deemed System Revenues when so transferred. All interest or other earnings upon amounts in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as System Revenues.

(c) The City may establish, as a fund within the Water Utility Fund, a fund denominated the “Secondary Purchase Fund.” From time to time, the City may deposit in the Secondary Purchase Fund, from any lawful source, which may or may not consist of current System Revenues, such amounts as the City is required to determine, and the amount of available System Revenues must be reduced by the amount so transferred, but only to the extent that amounts so transferred consist of then-current System Revenues. Amounts may be transferred from the Secondary Purchase Fund solely and exclusively to pay Maintenance and Operation Costs of the Water System, and any amounts so transferred must be deemed System Revenues when so transferred. All interest or other earnings upon amounts in the Secondary Purchase Fund may be withdrawn from the Secondary Purchase Fund and accounted for as System Revenues.

Payment of Claims.

The City will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the System Revenues or any part of the System Revenues or on any funds in the hands of the City or the Trustee might impair the security of the Installment Payments, but the City is prohibited from being required to pay such claims if the validity of such claims is required to be contested in good faith.

Compliance with Contracts.

The City will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Water System and all other contracts affecting or involving the Water System to the extent that the City is a party to the Installment Purchase Agreement.

Insurance.

The City will procure and maintain or cause to be procured and maintained insurance on the Water System with responsible insurers, in such amounts and against such risks (including accident to or destruction of the Water System) as are usually covered in connection with water systems similar to the Water System, or it will self-insure or participate in an insurance pool or pools with reserves adequate, in the reasonable judgment of the City, to protect the Water System against loss. In the event of any damage to or destruction of the Water System caused by the perils covered by such insurance or self-insurance, the Net Proceeds of the Water System must be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Water System. The City is required to begin such reconstruction, repair or replacement promptly after such damage or destruction is required to occur, and is required to continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and is required to pay out of such Net Proceeds all costs and expenses in connection with such reconstruction,

repair or replacement so that the same is required to be completed and the Water System is required to be free and clear of all claims and liens unless the City determines that such property or facility is not necessary to the efficient or proper operation of the Water System and therefore determines not to reconstruct, repair or replace such project or facility. If such Net Proceeds exceed the costs of such reconstruction, repair or replacement, then the excess Net Proceeds is required to be deposited in the Water Utility Fund and be available for other proper uses of funds deposited in the Water Utility Fund.

The City will procure and maintain such other insurance which it is required to deem advisable or necessary to protect its interests and the interests of the Corporation, which insurance is required to afford protection in such amounts and against such risks as are usually covered in connection with water systems similar to the Water System; provided that any such insurance may be maintained with respect to a self-insurance program so long as such self-insurance is maintained in the amounts and in the manner usually maintained in connection with water systems similar to the Water System.

All policies of insurance required to be maintained in the Installment Purchase Agreement is required to, to extent reasonably obtainable, provide that the Corporation and each Trustee is required to be given 30 days' written notice of any intended cancellation of the policies of insurance or reduction of coverage provided. The City is required to certify to the Corporation and each Trustee annually on or before August 31 that it is in compliance with the insurance requirements Installment Purchase Agreement.

Accounting Records; Financial Statements and Other Reports.

The City will keep appropriate accounting records in which complete and correct entries must be made of all transactions relating to the Water System, which records is required to be available for inspection by the Corporation and the Trustee at reasonable hours and under conditions.

The City will prepare and file with the Corporation annually (commencing with the Fiscal Year ending June 30, 1998), within 270 days of the close of each Fiscal Year, financial statements that include the Water Utility Fund for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report.

The City will furnish a copy of the financial statements as described under "*Accounting Records; Financial Statements and Other Reports*" to any Owner of the Certificates requesting a copy of the financial statements, which may be in electronic form.

Protection of Security and Rights of the Corporation.

The City will preserve and protect the security of the Installment Purchase Agreement and the rights of the Corporation to the Installment Payments under the Installment Purchase Agreement and will warrant and defend such rights against all claims and demands of all persons.

Payment of Taxes and Compliance with Governmental Regulations.

The City is required to pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Water System or any part of the Water System or upon the System Revenues when the same must become due, except that the City may contest in good faith any taxes, assessments and other governmental charges so long, as the City must have budgeted for the amount being contested and, if appropriate, such amount must have been included as Maintenance and Operation Costs of the Water System. The City is required to duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Water System or any part of the Water System, but the City must not be required to comply with any regulations or requirements so long as the validity or application of the Water System is required to be contested by the City in good faith.

Collection of Rates and Charges; No Free Service.

The City is required to have in effect at all times rules and regulations for the payment of bills for Water Service. Such regulations may provide that where the City furnishes water to the property receiving

Water Service, the Water Service charges is required to be collected together with the water rates upon the same bill providing for a due date and a delinquency date for each bill. In each case where such bill remains unpaid in whole or in part after it becomes delinquent, the City may disconnect such premises from the Water System, and such premises must not be reconnected to the Water System except in accordance with City operating rules and regulations governing such situations of delinquency. To the extent permitted by law, the City must not permit any part of the Water System or any of its facilities to be used or taken advantage of free of charge by any authority, firm or person, or by any public agency (including the United States of America, the State of California and any city, county, district, political subdivision, public authority or agency of the State of California).

Eminent Domain Proceeds.

If all or any part of the Water System must be taken by eminent domain proceedings, then subject to the provisions of any Authorizing Ordinance, the Net Proceeds of the proceedings must be applied to the replacement of the property or facilities so taken, unless the City determines that such property or facility is not necessary to the efficient or proper operation of the Water System and therefore determines not to replace such property or facilities. Any Net Proceeds of such award not applied to replacement or remaining after such work has been completed is required to be deposited in the Water Utility Fund and be available for other proper uses of funds deposited in the Water Utility Fund.

Tax Covenants.

There is required to be included in each Supplement relating to Tax-Exempt Installment Payment Obligations such covenants as are deemed necessary or appropriate by Bond Counsel for the purpose of assuring that interest on such Installment Payment Obligations must be excluded from gross income with respect to Section 103 of the Code.

Further Assurances.

The City is required to adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out its intention or to facilitate its performance and for the better assuring and confirming unto the Corporation of the rights and benefits provided to it in the Installment Purchase Agreement.

Subcontracting.

Nothing in the Installment Purchase Agreement to the contrary must prevent the City from delegating the power to be an operator of some or all of the Water System, even though the City continues to retain ownership of the Water System and its operations, and no such subcontracting arrangement is required to relieve the City of any of its obligations Installment Purchase Agreement. Prior to the effective date of any such delegation, the City is required to deliver to the Trustee an opinion of Bond Counsel to the effect that the proposed delegation will not have an adverse effect on the exclusion from gross income for federal income tax purposes of the interest component of Tax-Exempt Installment Payment Obligations.

Additional Covenants.

The City may provide additional covenants pursuant to any Supplement, including covenants relating to any Credit Support obtained for Installment Payment Obligations; provided, however, that such additional covenants do not materially and adversely affect the right of Owners of Outstanding Obligations issued prior to the effective date of any such Supplement.

PREPAYMENT OF INSTALLMENT PAYMENTS

Provisions may be made in any Supplement for the prepayment of Installment Payments, in whole or in part, in such multiples and in such order of maturity and from funds of any source, and with such

prepayment premiums and other terms as are specified in the Supplement. Said Supplement is required to also provide for any notices to be given relating to such prepayment.

EVENTS OF DEFAULT AND REMEDIES OF THE CORPORATION

Events of Default and Acceleration of Maturities.

If one or more of the following Events of Default happens, that is to say:

(a) if default must be made in the due and punctual payment of or on account of any Parity Obligation as the same must become due and payable;

(b) if default must be made by the City in the performance of any of the Installment Purchase Agreements or covenants required in the Installment Purchase Agreement to be performed by it (other than as specified in subsection (a) of “Events of Default and Acceleration of Maturities”), and such default is required to have continued for a period of 60 days after the City must have been given notice in writing of such default by the Corporation or any Trustee;

(c) if any Event of Default specified in any Supplement, Authorizing Ordinance or Issuing Instrument occurred and is continuing; or

(d) if the City must file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state in the United States of America, or if a court of competent jurisdiction is required to approve a petition filed with the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state in the United States of America, or if with respect to the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction is required to assume custody or control of the City or of the whole or any substantial part of its property; then, and in each and every such case during the continuance of such Event of Default, the Corporation is required to upon the written request of the Owners of 25% or more of the aggregate principal amount of all Series of Parity Installment Obligations Outstanding, voting collectively as a single class, by notice in writing to the City, declare the entire unpaid principal amount of all Series of Parity Installment Obligations Outstanding and the accrued interest on the principal amount to be due and payable immediately, and upon any such declaration the same is required to become immediately due and payable, anything contained in the Installment Purchase Agreement to the contrary notwithstanding; provided, that with respect to a Series of Parity Installment Obligations which is credit enhanced by a Credit Support Instrument, acceleration is required to not be effective unless the declaration is consented to by the related Credit Provider. The foregoing provisions, however, are subject to the condition that if at any time after the entire principal amount of all Parity Installment Obligations and the accrued interest on the principal amount is required to have been so declared due and payable and before any judgment or decree for the payment of the moneys due is required to have been obtained or entered, the City is required to deposit with the Corporation a sum sufficient to pay the unpaid principal amount of all such Parity Installment Obligations and the unpaid payments of any other Parity Obligations referred to in clause (a) above due prior to such declaration and the accrued interest of the unpaid payments, with interest on such overdue installments at the rate or rates applicable to the Installment Purchase Agreement in accordance with their terms, and the reasonable expenses of the Corporation, and any and all other defaults known to the Corporation (other than in the payment of the entire principal amount of the unpaid Parity Installment Obligations and the accrued interest of the unpaid Parity Installment Obligations due and payable solely by reason of such declaration) is required to have been made good or cured to the satisfaction of the Corporation or provision deemed by the Corporation to be adequate is required to have been made for the Corporation, then and in every such case the Corporation, by written notice to the City, may rescind and annul such declaration and its consequences; but no such rescission and annulment is required to extend to or is required to affect any subsequent default or is required to impair or exhaust any right or power consequent on the Corporation.

Subject to the provisions described under “– *Events of Default and Acceleration of Maturities*”, the Owners of Subordinated Obligations may enforce the provisions of the Installment Purchase Agreement for their benefit by appropriate legal proceedings. The payment of Subordinated Obligations will be subordinated in right of payment to payment of the Parity Obligations (except for any payment in respect of Subordinated Obligations from the Reserve Fund securing such Subordinated Obligations). Upon the occurrence and during the continuance of any Event of Default, Owners of Parity Obligations will be entitled to receive payment of the Parity Obligations in full before the Owners of Subordinated Obligations are entitled to receive payment of the Subordinated Obligations (except for any payment in respect of Subordinated Obligations from the Reserve Fund securing such Subordinated Obligations) and the Owners of the Subordinated Obligations will become subrogated to the rights of the Owners of Parity Obligations to receive payments as described under the Installment Purchase Agreement.

Application of Net System Revenues Upon Acceleration.

All Net System Revenues received after the date of the declaration of acceleration by the Corporation, as described under “– *Events of Default and Acceleration of Maturities*”, must be applied in the following order:

First, to the payment of the costs and expenses of the Corporation and the Trustee, if any, in carrying out the provisions of “Events of Default and Remedies of the Corporation,” including reasonable compensation to its accountants and counsel;

Second, to the payment of the entire principal amount of the unpaid Parity Installment Obligations and the unpaid principal amount of all other Parity Obligations and the accrued interest of the unpaid amounts, with interest on the overdue installments at the rate or rates of interest applicable to the Installment Purchase Agreement in accordance with their respective terms. In the event there are insufficient Net System Revenues to pay the entire principal amount of and accrued interest on all Parity Obligations, then accrued interest must first be paid and any remaining amount must be paid on account of principal, and in the event there are insufficient Net System Revenues to fully pay either interest or principal in accordance with the foregoing, then payment must be prorated within a priority based upon the total amounts due in that priority; and

Third, to the payment of the entire principal amount of the unpaid Subordinated Obligations and the accrued interest of the unpaid amount, with interest on the overdue installments at the rate or rates of interest applicable to the Installment Purchase Agreement in accordance with their respective terms. In the event there are insufficient Net System Revenues to pay the entire principal amount of and accrued interest on all Subordinated Obligations, then accrued interest must first be paid and any remaining amount must be paid on account of principal, and in the event there are insufficient Net System Revenues to fully pay either interest or principal in accordance with the foregoing, then payment must be prorated within a priority based upon the total amounts due in that priority.

Other Remedies of the Corporation.

The Corporation is required to have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the City or any councilmember, officer or employee of the Corporation, and to compel the City or any such councilmember, officer or employee to perform and carry out its or his duties under the Law and the Installment Purchase Agreements and covenants required to be performed by it or him contained in the Installment Purchase Agreement;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Corporation; or

(c) by suit in equity upon the happening of an Event of Default to require the City and its councilmembers, officers and employees to account as the trustee of an express trust.

Non-Waiver.

No provisions as described under “– *Events of Default and Remedies of the Corporation*” or in any other provision of the Installment Purchase Agreement may affect or impair the obligation of the City, which is absolute and unconditional, to pay the Installment Payments to the Corporation at the respective due dates or upon prepayment from the Net System Revenues and the other funds in the Installment Purchase Agreement committed for such payment, or may affect or impair the right of the Corporation, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Installment Purchase Agreement.

A waiver of any default or breach of duty or contract by the Corporation must not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Corporation to exercise any right or remedy accruing upon any default or breach of duty or contract may impair any such right or remedy or may be construed to be a waiver of any such default or breach of duty or contract or an acquiescence in the Installment Purchase Agreement, and every right or remedy conferred upon the Corporation by the Law or by the provisions described under “– *Events of Default and Remedies of the Corporation*” may be enforced and exercised from time to time and as often as may be deemed expedient by the Corporation.

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

Remedies Not Exclusive.

No remedy in the Installment Purchase Agreement conferred upon or reserved to the Corporation is intended to be exclusive of any other remedy, and each such remedy may be cumulative and may be in addition to every other remedy given Installment Purchase Agreement or now or at a later time existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by law.

Assignment by Corporation.

The Corporation irrevocably and absolutely assigns, transfers and conveys to the Collateral Agent and any successor to the Installment Purchase Agreement all of the rights, privileges, duties and obligations of the Corporation as described under “–*Events of Default and Remedies of the Corporation*” above. So long as a Collateral Agency Agreement is in effect, all references to the Corporation in “–*Events of Default and Remedies of the Corporation*” above means the Collateral Agent.

DISCHARGE OF INSTALLMENT PAYMENT OBLIGATIONS

If the City is required to pay or cause to be paid or there must otherwise be paid to the Owners all Outstanding Installment Payment Obligations of a Series, the principal and the interest and redemption premiums, if any, owed by the City or if all such Outstanding Installment Payment Obligations is required to be deemed to have been paid at the times and in the manner stipulated in the applicable Issuing Instrument, then, as to any such Series, all agreements, covenants and other obligations of the City Installment Purchase Agreement is required to thereupon cease, terminate and become void and be discharged and satisfied, except for the obligation of the City to pay or cause to be paid all sums due Installment Purchase Agreement.

MISCELLANEOUS

Liability of City Limited to System Revenues.

(a) Notwithstanding anything contained in the Installment Purchase Agreement, the City must not be required to advance any moneys derived from any source of income other than the Net System Revenues and the other funds as described in the Installment Purchase Agreement for the payment

of the Installment Payments or for the performance of any other agreements or covenants required to be performed by it contained in the Installment Purchase Agreement. The City may, however, but in no event is required to be obligated to, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the City for such purpose.

(b) The obligation of the City to make the Installment Payments is a special obligation of the City payable solely from such Net System Revenues and other funds provided for in the Installment Purchase Agreement, and does not constitute a debt of the City or of the State of California or of any political subdivision of the City of State, within the meaning of any constitutional or statutory debt limitation or restriction.

Benefits of Installment Purchase Agreement Limited to Parties.

Nothing contained in the Installment Purchase Agreement, expressed or implied, is intended to give to any person other than the City, the Corporation or the assigns of the Corporation and any Credit Provider any right, remedy or claim under or with respect to the Installment Purchase Agreement, and any agreement or covenant required in the Installment Purchase Agreement to be performed by or on behalf of the City or the Corporation is required to be for the sole and exclusive benefit of the other party.

Amendments.

The Installment Purchase Agreement may be amended with respect to a Series of Installment Payment Obligations in writing as may be mutually agreed by the City and the Corporation, with the written consent of any Credit Provider for any Installment Payment Obligations or, as to Installment Obligations for which there is no Credit Support Instrument, the Owners of a majority in aggregate principal amount of such Series of Installment Payment Obligations then Outstanding, provided that no such amendment may (1) extend the payment date of any Installment Payment, or reduce the amount of any Installment Payment without the prior written consent of the Owner of each Obligation so affected; or (2) reduce the percentage of Installment Payment Obligations the consent of the Owners of which is required for the execution of any amendment of the Installment Purchase Agreement without the prior written consent of each of the Owners so affected.

The Installment Purchase Agreement and the rights and obligations of the City and the Corporation Installment Purchase Agreement may also be amended or supplemented at any time by an amendment or supplement to the Installment Purchase Agreement which may not adversely affect the interests of the Owners of the Installment Payment Obligations and which is required to become binding upon execution by the City and the Corporation, without the written consents of any Owner of Installment Payment Obligations or any Credit Provider, but only to the extent permitted by law and only upon receipt of an unqualified opinion of Bond Counsel to the effect that such amendment or supplement is permitted by the provisions of the Installment Purchase Agreement and is not inconsistent with the Installment Purchase Agreement and does not adversely affect the exclusion of the interest portion of the Installment Payments received by the Owners from gross income for federal income tax purposes, and only for any one or more of the following purposes; (1) to add to the covenants and agreements of the Corporation or the City contained in the Installment Purchase Agreement other covenants and agreements at a later time to be observed or to surrender any right or power in the Installment Purchase Agreement reserved to or conferred upon the Corporation or the City; (2) to cure, correct or supplement any ambiguous or defective provision contained in the Installment Purchase Agreement or in regard to questions arising with respect to the Installment Purchase Agreement, as the Corporation or the City may deem necessary or desirable; (3) to make other amendments or modifications which may not materially adversely affect the interests of the Owners of the Installment Payment Obligations; (4) to provide for the issuance of Parity Installment Payment Obligations; and (5) to provide for the issuance of Subordinated Obligations.

**2026 SUPPLEMENT TO AMENDED AND RESTATED
MASTER INSTALLMENT PURCHASE AGREEMENT**

In addition to certain information contained in the forepart of this Official Statement, the following is a summary of certain provisions of the 2026 Supplement to Amended and Restated Master Installment Purchase Agreement. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the 2026 Supplement to Amended and Restated Master Installment Purchase Agreement.

DEFINITIONS.

Capitalized terms used in the 2026 Supplement (as defined below) but not defined in the 2026 Supplement have the meanings given those terms in the Agreement (as defined below) and, if any such terms are not defined in the Agreement, then such terms have the meanings given those terms in the Indenture. As used in the 2026 Supplement, the following additional terms have the following meanings:

Agreement

The term “Agreement” means the Master Installment Purchase Agreement dated as of August 1, 2002, as amended and supplemented.

2026 Components

The term “2026 Components” means the Components of the Project specified in the 2026 Supplement and by the reference made a part of the 2026 Supplement for which the City will be making 2026 Installment Payments.

2026 Supplement

The term “2026 Supplement” means the 2026 Supplement to Amended and Restated Master Installment Purchase Agreement, by and between the City and the Corporation.

2026 Installment Payment Date

The term “2026 Installment Payment Date” means the 15th day of the calendar month immediately preceding each Interest Payment Date for the 2026A Bonds..

2026 Installment Payments

The term “2026 Installment Payments” means the Installment Payments as described under “ 2026 *Installment Payments*” that are to pay the Purchase Price of the 2026 Components in accordance with the terms of the 2026 Supplement.

2026A BONDS; PLEDGE OF CERTAIN AMOUNTS

Corporation’s Obligation to Pay 2026A Bonds Proceeds.

In consideration of the agreement by the City to make 2026 Installment Payments, the Corporation agrees to cause the Authority, as assignee of the Corporation’s rights and obligations under the 2026 Supplement, to pay to the City, the net proceeds of the 2026A Bonds.

Proceeds of the 2026A Bonds to Trustee.

The City directs the Authority, in lieu of delivering the proceeds of the 2026A Bonds to the City, to deliver the proceeds of the 2026A Bonds to the Trustee for application in accordance with the provisions under “ *Application of Proceeds*” in the Indenture.

Pledge of Amounts in the 2026 Acquisition Fund.

The City irrevocably pledges all Revenues and amounts, if any, on deposit in the Acquisition Fund established pursuant to “*Establishment of Funds and Accounts*” in the Indenture and held by the Trustee, for the benefit of the Owners, subject to the provisions of the Indenture.

Sale and Purchase of 2026 Components.

In consideration of the agreement by the City to make 2026 Installment Payments, the Corporation sells, transfers, and assigns the 2026 Components to the City and the City agrees to purchase and accept the 2026 Components.

2026 INSTALLMENT PAYMENTS

2026 Installment Payments.

In consideration of the payment by the Authority, on behalf of the Corporation, of the proceeds of the 2026A Bonds and the sale of the 2026 Components by the Corporation to the City pursuant to the provisions described under “*Sale and Purchase of 2026 Components*”, the City agrees to pay a portion of the Purchase Price on each 2026 Installment Payment Date as 2026 Installment Payments, solely from Net System Revenues, as provided in the Agreement.

Senior Obligations.

The 2026 Installment Payments will be Senior Obligations under the Agreement and the payment of the 2026 Installment Payments must be on parity in right of payment to the Senior Installment Payments under the Agreement. No Owner of the Obligations must have any right to take any action or enforce any right that has a materially adverse effect on the interests of the Owners of the Installment Payment Obligations.

ADDITIONAL COVENANTS

Additional Covenants Relating to Tax Exemption.

The City must not directly or indirectly use or permit the use of any proceeds of the 2026A Bonds or any other funds of the City or of the 2026 Components or take or omit to take any action that would cause the 2026A Bonds to be “private activity bonds” within the meaning of Section 141 of the Code, or obligations that are “federally guaranteed” within the meaning of Section 149(b) of the Code.

The City covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the 2026A Bonds under Section 103 of the Code. The City must not directly or indirectly use or permit the use of any proceeds of the 2026A Bonds or any other funds of the City, or take or omit to take any action, that would cause the 2026A Bonds to be “arbitrage bonds” within the meaning of Section 148(a) of the Code. To that end, the City must comply with all requirements of Section 148 of the Code to the extent applicable to the 2026A Bonds. If, at any time, the City is of the opinion that for purposes of the provisions described under “*Additional Covenants Relating to Tax Exemption*”, it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture or otherwise, then the City must so instruct the Trustee in writing, and must cause the Trustee to take such action as may be necessary in accordance with such instructions.

Without limiting the generality of the foregoing, the City agrees that there must be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any Treasury Regulations promulgated under Section 148(f) of the Code and any Treasury Regulations as may be applicable to the 2026A Bonds from time to time. This covenant must survive payment in full or defeasance of the 2026A Bonds. The City specifically covenants to pay or cause to be paid to the United States of America at the times and in the amounts determined under the provisions described under “*Additional Covenants Relating to Tax Exemption*” the rebate requirement, as described

in the Tax Certificate, and to otherwise comply with the provisions of the Tax Certificate executed by the City and the Authority in connection with the execution and delivery of the 2026A Bonds.

Notwithstanding any provision described under “ *Additional Covenants Relating to Tax Exemption*”, if the City provides to the Trustee an opinion of Bond Counsel to the effect that any action required under the provisions described under “ *Additional Covenants Relating to Tax Exemption*” is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the 2026A Bonds pursuant to Section 103 of the Code, then the City may rely conclusively on such opinion in complying with the provisions of the 2026 Supplement, and the covenants under the 2026 Supplement must be deemed to be modified to that extent.

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COLLATERAL AGENCY, ACCOUNT AND ASSIGNMENT AGREEMENT

In addition to certain information contained in the forepart of this Official Statement, the following is a summary of certain provisions of the Collateral Agency, Account and Assignment Agreement. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Collateral Agency, Account and Assignment Agreement.

Definitions

“Account” means an account established as described under “– *Establishment of Funds and Accounts*” of the Agreement.

“Agreement” means the certain Collateral Agency, Account and Assignment Agreement dated as of November 14, 2018, by and among the Collateral Agent, the Borrower, the Corporation, the Authority, the Trustee, as described under the Indenture, and the WIFIA Lender.

“Authority” means the Public Facilities Financing Authority of the City of San Diego, a joint exercise of powers agency established and existing under the laws of the State of California.

“Borrower” means the City of San Diego, a municipal corporation organized and existing under its Charter duly adopted pursuant to the provisions of the Constitution of the State of California.

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

“City” means the City of San Diego.

“Class” means any group of Holders that, collectively, hold a single series, tranche or other identifiable category of Obligations under a single credit agreement, loan agreement, note purchase agreement, indenture or other evidence of indebtedness.

“Collateral” means all of the interests of the Borrower in (a) the Net System Revenues and (b) the Funds, the Accounts and any subaccounts (other than the Parity Obligations Reserve Account and the Subordinated Obligations Reserve Account) including all amounts on deposit or credited to those funds and accounts.

“Collateral Agent” means U.S. Bank Trust Company, National Association, as successor in interest to U.S. Bank National Association, a national banking association organized under the laws of the United States of America, as Collateral Agent under the Agreement.

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

“Counterpart” means a Counterpart to the Agreement.

“Fund” means a fund established under the Agreement.

“Holder Representative” means any agent, trustee or other representative appointed by a Class of Holders to act on their behalf pursuant to the terms of an Issuing Instrument relating to the Obligations held by such Class of Holders.

“Holder” or **“Holders”** means the holders of or lenders under Secured Obligations including, without limitation, any such holder or lender that has executed the Agreement, but excluding the Corporation and the Authority, and any Person who becomes such a holder or lender under Secured Obligations including, without limitation, any Person that becomes a party to the Agreement pursuant to execution of a Counterpart; provided, however, that as described under subsection (a) of “– *Required Information*,” subsection (b) of “– *Application of Net system Revenues and Other Accounts*,” “– *Statements*,” “– *Resignation and Removal*,” “– *Assignment by Collateral Agent*,” “– *Notices to the Parties*,” “– *Amendment*,” “– *Additional Parties*,” and “– *Third Parties Beneficiaries*” below, “Holder” or “Holders”

means and refers to the Holder Representative for each Class that has a Holder Representative and not to the individual Holders of such Class.

“**Indenture**” means the Indenture, dated as of January 1, 2009, as amended and supplemented from time to time, by and between the Authority and the Trustee.

“**Installment Payments**” means the Installment Payments payable by the City as described under the MIPA and any supplement to the MIPA as well as any amounts payable by the City on any Obligations under and pursuant to any Issuing Instrument.

“**Issuing Instrument**” means any indenture, trust agreement, loan agreement, lease, installment purchase agreement, including the MIPA and any supplement to the MIPA, or other instrument under which Obligations are issued or created.

“**Maintenance and Operation Costs of the Water System**” means (a) any Qualified Take or Pay Obligation, and (b) the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Water System, calculated in accordance with generally accepted accounting principles, including, without limitation, the costs of the purchase, delivery or storage of water, the reasonable expenses of maintenance and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including administrative costs of the City attributable to the Water System, including the Project and the MIPA, salaries and wages of employees of the Water System, payments to such employees’ retirement systems (to the extent paid from System Revenues), overhead, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations, including the MIPA, including any amounts required to be deposited in the Rebate Fund pursuant to a Tax Certificate, and fees and expenses payable to any Credit Provider (other than in repayment of a Credit Provider Reimbursement Obligation), but excluding in all cases (1) depreciation, replacement and obsolescence charges or reserves of the amounts, (2) amortization of intangibles or other bookkeeping entries of a similar nature, (3) costs of capital additions, replacements, betterments, extensions or improvements to the Water System which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, (4) charges for the payment of principal of and interest on any general obligation bond issued for Water System purposes, and (5) charges for the payment of principal of and interest on any debt service on account of any Obligation on a parity with or subordinate to the Installment Payments.

“**MIPA**” means Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009, as amended and supplemented, by and between the City and Corporation.

“**Net System Revenues**” means, for any Fiscal Year, the System Revenues for such Fiscal Year, less the Maintenance and Operation Costs of the Water System for such Fiscal Year.

“**Obligations**” means (a) obligations of the City for money borrowed (such as bonds, notes or other evidences of indebtedness) or as installment purchase payments under any contract (including Installment Payments), or as lease payments under any financing lease (determined to be such in accordance with generally accepted accounting principles), the principal of and interest on which are payable from Net System Revenues; (b) obligations to replenish any debt service reserve funds with respect to such obligations of the City; (c) obligations secured by or payable from any of such obligations of the City; and (d) obligations of the City payable from Net System Revenues under (1) any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, (2) any contract to exchange cash flows or a series of payments, or (3) any contract to hedge payment, currency, rate spread or similar exposure, including but not limited to interest rate cap agreements.

“**Parity Obligation Interest Payment Date**” means the date any interest is due and payable on any Parity Obligation.

“Parity Obligation Principal Payment Date” means the date any principal or mandatory sinking fund redemptions are due and payable as described under any Parity Obligation.

“Parity Obligations” means Obligations the payment of which is secured by a first priority lien on and pledge of Net System Revenues pursuant to the MIPA and “– *Lien and Pledge*” below.

“Parity Obligations Interest Account” means the account of that name established and maintained by the Collateral Agent as described under “– *Establishment of Funds and Accounts*” of the Agreement.

“Parity Obligations Principal Account” means the account of that name established and maintained by the Collateral Agent as described under “– *Establishment of Funds and Accounts*” of the Agreement.

“Parity Obligations Reserve Account” means the account of that name established and maintained by the Collateral Agent as described under “– *Establishment of Funds and Accounts*” of the Agreement.

“Parity Obligations Reserve Fund” means each reserve fund established under an Issuing Instrument and held by a Holder Representative or other trustee, fiscal agent or Person designated by an Issuing Instrument to establish and maintain a reserve account or fund for the benefit of the Holders of Parity Obligations issued or incurred under such Issuing Instrument.

“Payment Date” means each date that is a Parity Obligation Interest Payment Date, a Parity Obligation Principal Payment Date, a Subordinated Obligation Interest Payment Date or a Subordinated Obligation Principal Payment Date.

“Permitted Investments” means the investments as described in this definition:

Amounts held overnight in the Funds and Accounts as described under “– *Establishment of Funds and Accounts*” may be invested until applied pursuant to under “– *Application of Net System Revenues and Other Amounts*” and “– *Application of Net System Revenues Upon Acceleration*” of the Agreement in any cash sweep or similar account arrangement of or available to the Collateral Agent, the investments of which are limited to investments described in clauses (1), (2), (3) and (5) below and any money market fund, the entire investments of which are limited to investments described in clauses (1), (2), (3) and (4) below and which money market fund is rated, at the time of purchase, by at least one national statistical rating organization in its highest rating category (without regard to any refinement or gradation of such rating category by a plus or minus sign or a numeral).

(1) Federal Securities or Federal Certificates where:

(A) “Federal Securities” means direct 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) or evidence of ownership in a portion of the obligations (which may consist of specified portions of interest on the obligations and obligations of the Resolution Funding Corporation which constitute interest strips) if held by a custodian on behalf of the Collateral Agent; obligations the principal of and interest on which are unconditionally guaranteed by the United States of America; and pre-refunded municipal obligations rated, at the time of purchase, by Moody’s Investors Service and Standard & Poor’s Ratings Services in their highest rating category (without regard to any refinement or gradation of such rating category by a plus or minus sign or a numeral); provided that “structured securities” (including flip notes, range notes, inverse floaters and step-ups) will not be considered Federal Securities; provided further that floaters (based on single, interest rate based indices) and callable securities of the above-enumerated agencies may be treated as Federal Securities; and

(B) “Federal Certificates” means evidences of indebtedness or ownership of proportionate interests in future principal and interest payments of Federal Securities, including depository receipts of the indebtedness or ownership wherein (i) a bank or trust company acts as custodian and holds the underlying Federal Securities; (ii) the owner of the Federal Certificate is a real party in interest with the right to proceed directly and individually against the obligor of the underlying Federal Securities; and (iii) the underlying Federal Securities are held in trust in a special account, segregated from the custodian’s general assets, and are not available to satisfy any claim of the custodian or any person claiming through the custodian, or any person to whom the custodian may be obligated.

(2) The following listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

(A) Federal Home Loan Mortgage Corporation (FHLMC) senior debt obligations and Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts);

(B) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system-wide bonds and notes;

(C) Federal Home Loan Banks (FHL Banks) consolidated debt obligations;

(D) Federal National Mortgage Association (FNMA) senior debt obligations and mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts);

(E) The senior debt obligations of Resolution Funding Corporation (RFCO), Financing Corporation (FICO) and Tennessee Valley Authority (TVA);

(3) Obligations of any state, territory or commonwealth of the United States of America or any political subdivision of such entity or any agency or department of the foregoing, that are rated, at the time of purchase, in the highest rating category (without regard to any refinement or gradation of such rating category by a plus or minus sign or a numeral) by two national statistical rating organizations.

(4) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank. Investments under this subdivision shall be rated “AA” or better by a national statistical rating organization.

(5) Any repurchase agreement: (A) with (i) any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Collateral Agent), or a state-licensed branch of a foreign bank, having a minimum permanent capital of one hundred million dollars (\$100,000,000) and having short-term debt which is rated, at the time of the purchase, by two national statistical rating organizations in one of the three highest short-term rating categories; or (ii) any government bond dealer reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York; and (B) which agreement is secured by any one or more of the securities and obligations described in clause (1) or (2) above and having maturities equal to or less than 5 years from the date of delivery, which shall have a market value (valued at least monthly) not less than 102% of the principal amount of such investment and shall be placed with the Collateral Agent or other fiduciary, as custodian for the Collateral Agent, by the bank, trust company, national banking association or bond dealer executing such repurchase agreement. The entity executing each such repurchase agreement

required to be so secured shall furnish the Collateral Agent with an undertaking satisfactory to the Collateral Agent that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least monthly) will be an amount equal to 102% the principal amount of such repurchase agreement, and the Collateral Agent shall be entitled to rely on each such undertaking.

“**Person**” means any corporation, partnership, trust, limited liability company, financial institution, insurance company, pension fund, mutual fund, government agency or natural person.

“**Pro Rata Amount**” means, as described under any payment to be made to a Holder as described under subsection (b) of “– *Application of Net System Revenues and Other Amounts*” below from funds held by the Collateral Agent in the applicable Account, an amount equal to the total amount of funds held by the Collateral Agent in such Account and available to make such payment to all Holders entitled to receive such payment multiplied by the quotient of the amount of such payment due and payable on such date to such Holder divided by the amount of such payment due and payable on such date to all Holders entitled to receive such payment.

“**Required Holders**” has the meaning provided in “– *Remedies*” below.

“**Reserve Requirement**” means, as described under each Parity Obligations Reserve Fund (if any) and each Subordinated Obligations Reserve Fund (if any), the amount required to be maintained in the Parity Obligations Reserve Fund (if any) and each Subordinated Obligations Reserve Fund (if any) by the Issuing Instrument under which such Parity Obligations Reserve Fund or Subordinated Obligations Reserve Fund is mandated and established.

“**Secured Obligations**” means Parity Obligations and/or Subordinated Obligations, as the context requires.

“**Subordinated Obligation Holders**” means the holders of or lenders under Subordinated Obligations.

“**Subordinated Obligation Interest Payment Date**” means the date any interest is due and payable on any Subordinated Obligation.

“**Subordinated Obligation Principal Payment Date**” means the date any principal or mandatory sinking fund redemptions are due and payable under any Subordinated Obligation.

“**Subordinated Obligations**” means Obligations the payment of which is secured by a second priority lien on and pledge of Net System Revenues that is junior and subordinate to the lien on and pledge of Net System Revenues securing Parity Obligations pursuant to the MIPA and “– *Lien and Pledge*” below.

“**Subordinated Obligations Interest Account**” means the account of that name established and maintained by the Collateral Agent as described under “– *Establishment of Funds and Accounts*” of the Agreement.

“**Subordinated Obligations Principal Account**” means the account of that name established and maintained by the Collateral Agent as described under “– *Establishment of Funds and Accounts*” of the Agreement.

“**Subordinated Obligations Reserve Account**” means the account of that name established and maintained by the Collateral Agent as described under “– *Establishment of Funds and Accounts*” of the Agreement.

“**Subordinated Obligations Reserve Fund**” means each reserve fund established under an Issuing Instrument and held by a Holder Representative or other trustee, fiscal agent or Person designated by an Issuing Instrument to establish and maintain a reserve account or fund for the benefit of the Holders of Subordinated Obligations issued or incurred under such Issuing Instrument.

“System Revenues” means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Water System, including, without limiting the generality of the foregoing:

(a) all income, rents, rates, fees, charges, or other moneys derived by the City from the water services or facilities, and commodities or byproducts, including hydroelectric power, sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, and including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Water System by or pursuant to law, and earnings on any Reserve Fund for Obligations, but only to the extent that such earnings may be utilized under the Issuing Instrument for the payment of debt service for such Obligations;

(b) standby charges and Capacity Charges, which may not be used to pay Maintenance and Operation Costs of the Water System, derived from the services and facilities sold or supplied through the Water System;

(c) the proceeds derived by the City directly or indirectly from the lease of a part of the Water System;

(d) any amount received from the levy or collection of taxes which are solely available and are earmarked for the support of the operation of the Water System;

(e) amounts received under contracts or agreements with governmental or private entities and designated for capital costs for the Water System, which may not be used to pay Maintenance and Operation Costs of the Water System; and

(f) grants for maintenance and operations received from the United States of America or from the State of California; provided, however, that System Revenues does not include: (1) in all cases, customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (2) the proceeds of borrowings; but

(g) notwithstanding the foregoing, there must be deducted from System Revenues any amounts transferred into a Rate Stabilization Fund as described under subsection (b) of “– *Amount of Rates and Charges; Rate Stabilization Fund; Other Funds*” of the summary of the MIPA, and any amounts transferred from current System Revenues to the Secondary Purchase Fund as described under subsection (c) of “– *Amount of Rates and Charges; Rate Stabilization Fund; Other Funds*” of the summary of the MIPA, and there must be added to System Revenues any amounts transferred out of such Rate Stabilization Fund or the Secondary Purchase Fund to pay Maintenance and Operation Costs of the Water System.

“Trustee” means Wells Fargo Bank, a national banking association existing under and by virtue of the laws of the United States, or any other bank or trust company which may be substituted in its place as provided under the Indenture.

“Water System” means any and all facilities, properties, improvements and works at any time owned, controlled or operated by the City as part of the public utility system of the City for water purposes, for the development, obtaining, conservation, production, storage, treatment, transmission, furnishing and distribution of water and its other commodities or byproducts for public and private use (whether located within or without the City), and any related or incidental operations designated by the City as part of the Water System, including reclaimed and re-purified water.

“Water Utility Fund” means the fund by that name established under the Charter and held by the Borrower.

“WIFIA Lender” means the United States Environmental Protection Agency, an agency of the United States of America, acting by and through the Administrator of the Environmental Protection Agency.

Purpose

The Borrower and the Holders establish, for the sole benefit of the Holders, a collateral agency arrangement in accordance with the laws of the State of California for the deposit of Net System Revenues in collateral accounts established under the Agreement, for the purposes set forth in the Agreement, including, the payment of amounts due under the Secured Obligations. Except as otherwise defined in the Agreement, all terms defined in the MIPA has the same meaning for the purposes of the Agreement as described in the summary of the MIPA.

Appointment

Each of the Holders, under the Agreement, authorizes and directs the Collateral Agent to act in strict accordance with the terms of the Agreement and the MIPA. Subject to the terms of the Agreement, the Collateral Agent agrees, for the benefit of the Holders, to administer and enforce the Agreement as Collateral Agent, and, among other remedies, to foreclose upon, collect and dispose of the Collateral and to apply the proceeds, for the benefit of the Holders, as provided in the Agreement, and otherwise to perform its duties and obligations as the Collateral Agent under the Agreement and in accordance with the its terms.

The Collateral Agent is fully justified in failing or refusing to take any action under the Agreement unless the Collateral Agent is required to act first receive written direction from the Required Holders and is indemnified by the Borrower to its reasonable satisfaction, including the indemnification from the Borrower as described under subsection (e) of “– *Liability of the Collateral Agent*,” of the Agreement from and against any liability or expense related thereto. The Collateral Agent is required to act under the Agreement in accordance with any written directions by the Required Holders. The Collateral Agent must not incur any liability for any determination made or instruction or direction given by the Required Holders.

The Collateral Agent may conclusively rely upon the information provided to it by the Borrower as described under subsection (a)(vi) of “– *Required Information*” of the Agreement, regarding the identity of the Holders unless a different Holder is identified in writing to the Collateral Agent by the Borrower.

Required Information

Upon the incurrence of each subsequent Obligation, and upon any change in the following, the Borrower must provide in writing to the Collateral Agent (which provides copies of the same to each Holder that has requested copies) the following information: (i) copies of the Issuing Instrument and related documents for each Obligation; (ii) a schedule of Payment Dates for each Obligation; (iii) a schedule of payment amounts for each Obligation; (iv) the outstanding principal amount of each Obligation; (v) the designation of each Obligation as a Parity Obligation or a Subordinated Obligation; (vi) the names and payment instructions of each Holder as described under each Obligation; and (vii) the Reserve Requirement for each Parity Obligations Reserve Fund and each Subordinated Obligations Reserve Fund, if any.

Not later than two (2) business days before each Payment Date, the Borrower provides in writing to the Collateral Agent the following information: (i) the aggregate amount of interest payable on each Parity Obligation on the upcoming Payment Date; (ii) the aggregate amount of principal or mandatory sinking fund redemption payable on each Parity Obligation on the upcoming Payment Date; (iii) the aggregate amount of interest payable on each Subordinated Obligation on the upcoming Payment Date; (iv) the aggregate amount of principal or mandatory sinking fund redemption payable on each Subordinated Obligation on the upcoming Payment Date; (v) the amount of interest payable to each Holder or Holder Representative of each Parity Obligation on the upcoming Payment Date; (vi) the amount of principal or mandatory sinking fund redemption payable to each Holder or Holder Representative of each Parity Obligation on the upcoming Payment Date; (vii) the amount of interest payable to each Holder or Holder Representative of each Subordinated Obligation on the upcoming Payment Date; (viii) the amount of principal or mandatory sinking fund redemption payable to each Holder or Holder Representative of each Subordinated Obligation on the upcoming Payment Date; (ix) copies of any invoice or statement received by the Borrower as described under any of the foregoing; (x) written direction to transfer amounts to the

Person maintaining any Parity Obligations Reserve Fund or any Subordinated Obligations Reserve Fund in order to restore the same to its Reserve Requirement; and (xi) in the event of any anticipated deficiency in the transfers and payments to be made by the Collateral Agent as described under “– *Application of Net System Revenues and Other Amounts*,” the calculation of the Pro Rata Amounts.

Lien and Pledge

All Parity Obligations, including Parity Installment Payment Obligations, must be secured by a first priority lien on and pledge of Net System Revenues. The City, under the Agreement, grants to the Collateral Agent, for the benefit of the Holders of Parity Obligations, a first priority lien on and pledge of Net System Revenues to secure Parity Obligations. All Parity Obligations must be of equal rank with each other without preference, priority or distinction of any Parity Obligations over any other Parity Obligations; provided that a Parity Obligation that by its terms under certain circumstances can require the full amount of the Parity Obligation to become payable in installments over not less than five years from the occurrence of the triggering event must not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Parity Obligation over any other Parity Obligation.

All Subordinated Obligations, including Subordinated Installment Payment Obligations, must be secured by a second priority lien on and pledge of Net System Revenues that is junior and subordinate to the lien on and pledge of Net System Revenues securing Parity Obligations. The City, under the Agreement, grants to the Collateral Agent, for the benefit of the Holders of Subordinated Obligations, a second priority lien on and pledge of Net System Revenues to secure Subordinated Obligations. All Subordinated Obligations must be of equal rank with each other without preference, priority or distinction of any Subordinated Obligations over any other Subordinated Obligations; provided that a Subordinated Obligation that by its terms under certain circumstances can require the full amount of the Subordinated Obligation to become payable in installments over not less than five years from the triggering event must not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Subordinated Obligation over any other Subordinated Obligation; and provided further that a Subordinated Obligation that by its terms under certain circumstances must be treated as, or becomes, a Parity Obligation must not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Subordinated Obligation over any other Subordinated Obligation.

The City, under the Agreement, grants to the Collateral Agent, for the benefit of the Holders of Parity Obligations, a first priority lien on and pledge of the Funds and Accounts established pursuant to the Agreement below and any and all amounts held in the Funds and Accounts, or credited to the Funds and Accounts, to secure the Parity Obligations; provided that any amounts held in or credited to the Parity Obligations Reserve Account is required to be held solely for the benefit of and payment to the Holders of the Class of Obligations for which Parity Obligations Reserve Funds have been established pursuant to the Issuing Instrument under which such Class of Obligations was created. The City, under the Agreement, grants to the Collateral Agent, for the benefit of the Holders of Subordinated Obligations, a second priority lien on and pledge of the Funds and Accounts established pursuant to the Agreement and any and all amounts held in, or credited to the Funds and Accounts, to secure the Subordinated Obligations; provided that any amounts held in or credited to the Subordinated Obligations Reserve Account must be held solely for the benefit of and payment to the Holders of the Class of Obligations for which Subordinated Obligations Reserve Funds have been established pursuant to the Issuing Instrument under which such Class of Obligations was created.

The Collateral Agent may, but must not be obligated to, take such action as it deems necessary to perfect or continue the perfection of the security interests on the Collateral held for the benefit of the Holders. The Collateral Agent must not release any of the Collateral except upon payment in full of all Secured Obligations.

Application of Net System Revenues and Other Amounts

The Borrower collects and deposits all System Revenues when and as received in the Water Utility Fund and makes each of the transfers of Net System Revenues from the Water Utility Fund to the Collateral Agent for deposit in the Accounts set forth in the Agreement and as described in “– *Allocation of System Revenues*” of the summary of the MIPA.

The Collateral Agent makes the following withdrawals, transfers and payments from the Accounts in the amounts, at the times and for the purposes described under subsection (b) of “– *Application of Net System Revenues and Other Amounts*” of the Agreement.

Parity Obligations Interest Account. On each Parity Obligation Interest Payment Date and on each other date on which the following amounts is due and payable, the Collateral Agent pays to the Holders of Parity Obligations, from the Parity Obligations Interest Account, the interest due and payable, including any amounts overdue and payable, on such date to Holders of Parity Obligations; provided that if the amount on deposit in the Parity Obligations Interest Account is insufficient, the Collateral Agent pays each Parity Obligation Holder a Pro Rata Amount.

Parity Obligations Principal Account. On each Parity Obligation Principal Payment Date and on each other date on which the following amounts is due and payable, the Collateral Agent pays to the Holders of Parity Obligations, from the Parity Obligations Principal Account, the principal and mandatory sinking fund redemptions due and payable, including any amounts overdue and payable, on such date to Holders of Parity Obligations; provided that if the amount on deposit in the Parity Obligations Principal Account is insufficient, the Collateral Agent pays each Parity Obligation Holder a Pro Rata Amount.

Parity Obligations Reserve Account. On each Parity Obligation Interest Payment Date, the Collateral Agent transfers to the holder of each Parity Obligations Reserve Fund (if any) the amount set forth in a written direction of the Borrower, which is required to be no more than the amount necessary so that the balance equals the applicable Reserve Requirement; provided that if the amount on deposit in the Parity Obligations Reserve Account is insufficient, the Collateral Agent transfers to each holder of a Parity Obligations Reserve Fund a Pro Rata Amount; and provided further that in the event of any draw on a Reserve Fund Credit Facility held in any Parity Obligations Reserve Fund, there is deemed a deficiency in such Parity Obligations Reserve Fund until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount.

Subordinated Obligations Interest Account. On each Subordinated Obligation Interest Payment Date and on each other date on which the following amounts is due and payable, the Collateral Agent pays to the Holders of Subordinated Obligations, from the Subordinated Obligations Interest Account, the interest due and payable, including any amounts overdue and payable, on such date to Holders of Subordinated Obligations; provided that if the amount on deposit in the Subordinated Obligations Interest Account is insufficient, the Collateral Agent pays each Subordinated Obligation Holder a Pro Rata Amount.

Subordinated Obligations Principal Account. On each Subordinated Obligation Principal Payment Date and on each other date on which the following amounts is due and payable, the Collateral Agent pays to the Holders of Subordinated Obligations, from the Subordinated Obligations Principal Account, the principal and mandatory sinking fund redemptions due and payable, including any amounts overdue and payable, on such date to Holders of Subordinated Obligations; provided that if the amount on deposit in the Subordinated Obligations Principal Account is insufficient, the Collateral Agent pays each Subordinated Obligation Holder a Pro Rata Amount.

Subordinated Obligations Reserve Account. On each Subordinated Obligation Interest Payment Date, the Collateral Agent transfers to the holder of each Subordinated Obligations Reserve Fund (if any) the amount set forth in a written direction of the Borrower, which is required to be no more than the amount necessary so that the balance equals the applicable Reserve Requirement; provided that if the amount on deposit in the Subordinated Obligations Reserve Account is insufficient, the Collateral Agent transfers to

each holder of a Subordinated Obligations Reserve Fund a Pro Rata Amount; and provided further that in the event of any draw on a Reserve Fund Credit Facility held in any Subordinated Obligations Reserve Fund, there is deemed a deficiency in such Subordinated Obligations Reserve Fund until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount.

For the avoidance of doubt nothing in the Agreement or the MIPA affects or diminishes the Holders' rights and remedies under their respective Issuing Instruments, including any right in such Issuing Instrument to accelerate amounts due under the applicable Secured Obligations.

Remedies

During the continuance of an Event of Default under the MIPA, (including, without limitation, any Event of Default specified in any Supplement, Authorizing Ordinance or Issuing Instrument) the Collateral Agent is required to, upon the written direction of the Holders (or, in the case of any Class that has a Holder Representative, the Holder Representative on behalf of such Class) of 25% or more of the aggregate principal amount of all Series of Parity Installment Obligations Outstanding, or after all Parity Installment Obligations have been paid in full, the Holders (or, in the case of any Class that has a Holder Representative, the Holder Representative on behalf of such Class) of 25% or more of the aggregate principal amount of all Series of Subordinated Obligations Outstanding (the "Required Holders"), voting collectively as a single class, by notice in writing to the City, declare the entire unpaid principal amount of all Series of Parity Installment Obligations (or all Subordinated Obligations, as the case may be) and the accrued interest on the unpaid principal to be due and payable immediately, and upon any such declaration the same must become immediately due and payable, anything contained in the Agreement or in the MIPA to the contrary notwithstanding; provided, that with respect to a Series of Parity Installment Obligations (or Series of Subordinated Obligations, as the case may be) which is credit enhanced by a Credit Support Instrument, acceleration must not be effective unless the declaration is consented to by the related Credit Provider. The provisions described in "*– Remedies*", however, are subject to the condition that if at any time after the entire principal amount of all Parity Installment Obligations (or all Subordinated Obligations, as the case may be) and the accrued interest on the principal amount must have been so declared due and payable and before any judgment or decree for the payment of the moneys due must have been obtained or entered, the City must deposit with the Collateral Agent a sum sufficient to pay the unpaid principal amount of all such Parity Installment Obligations (or all such Subordinated Obligations, as the case may be) and the unpaid payments of any other Parity Obligations (or Subordinated Obligations, as the case may be) due prior to such declaration and the accrued interest of the unpaid payments, with interest on such overdue installments at the rate or rates applicable thereto in accordance with their terms, and the reasonable fees and expenses of the Collateral Agent including, without limitation fees and expenses of the attorneys, agents and advisors of the Collateral Agent, and any and all other defaults known to the Collateral Agent (other than in the payment of the entire principal amount of the unpaid Parity Installment Obligations (or unpaid Subordinated Obligations, as the case may be) and the accrued interest due and payable solely by reason of such declaration) must have been made good or cured to the satisfaction of the Collateral Agent or provision deemed by the Collateral Agent to be adequate must have been made, then and in every such case the Collateral Agent, by written notice to the City, may rescind and annul such declaration and its consequences; but no such rescission and annulment extends to or affects any subsequent default or impairs or exhausts any right or power consequent on such rescission or annulment.

Subject to the provisions of the Agreement as described under "*– Remedies*", the Holders of Subordinated Obligations may enforce the provisions of the MIPA or the applicable Issuing Instrument for their benefit by appropriate legal proceedings. The payment of Subordinated Obligations will be subordinated in right of payment to payment of the Parity Obligations (except for any payment in respect of Subordinated Obligations from the Reserve Fund securing such Subordinated Obligations). Upon the occurrence and during the continuance of any Event of Default, Holders of Parity Obligations will be entitled to receive payment in full before the Holders of Subordinated Obligations are entitled to receive payment as described under the MIPA (except for any payment in respect of Subordinated Obligations from

the Reserve Fund securing such Subordinated Obligations) and the Holders of the Subordinated Obligations will become subrogated to the rights of the Holders of Parity Obligations to receive payments.

Application of Net System Revenues Upon Acceleration

After the date of the declaration of acceleration by the Collateral Agent as described under “– Remedies” below, the City must transfer, promptly upon receipt and after payment of Maintenance and Operation Costs of the Water System then due and payable, all Net System Revenues from the Water Utility Fund to the Collateral Agent, and the Collateral Agent must promptly apply such Net System Revenues in the following order:

First, to the payment of the fees, costs and expenses of the Collateral Agent, if any, in carrying out the provisions of the Agreement, including reasonable compensation to its agents, accountants and counsel;

Second, to the payment of the entire principal amount of the unpaid Parity Installment Obligations and the unpaid principal amount of all other Parity Obligations and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable thereto in accordance with their respective terms. In the event there are insufficient Net System Revenues to pay the entire principal amount of and accrued interest on all Parity Obligations, then accrued interest must first be paid and any remaining amount must be paid on account of principal, and in the event there are insufficient Net System Revenues to fully pay either interest or principal in accordance with the foregoing, then payment must be prorated within a priority based upon the total amounts due in that priority; and

Third, to the payment of the entire principal amount of the unpaid Subordinated Obligations and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable thereto in accordance with their respective terms. In the event there are insufficient Net System Revenues to pay the entire principal amount of and accrued interest on all Subordinated Obligations, then accrued interest must first be paid and any remaining amount must be paid on account of principal, and in the event there are insufficient Net System Revenues to fully pay either interest or principal in accordance with the foregoing, then payment must be prorated within a priority based upon the total amounts due in that priority.

Other Remedies of the Collateral Agent

The Collateral Agent (acting at the direction of the Required Holders) has the right:

- by mandamus or other action or proceeding or suit at law or in equity to enforce, on behalf of the Holders, the rights of the Holders against the City or any councilmember, officer or employee of the City, and to compel the City or any such councilmember, officer or employee to perform and carry out its or his duties under the Law and the agreements and covenants required to be performed by it or him contained in the Agreement;
- by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Holders; or
- by suit in equity upon the happening of an Event of Default to require the City and its councilmembers, officers and employees to account as the trustee of an express trust.

Non-Waiver

(a) Nothing in the Agreement shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the Installment Payments to the Collateral Agent at the respective due dates or upon prepayment from the Net System Revenues and the other funds committed in the Agreement for such payment, or shall affect or impair the right of the Collateral Agent, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Agreement.

(b) A waiver of any default or breach of duty or contract by the Collateral Agent shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies of the Collateral Agent or the Holders on any such subsequent default or breach of duty or contract. No delay or omission by the Collateral Agent to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Collateral Agent by the Law or by the Agreement may be enforced and exercised from time to time and as often as shall be deemed expedient by the Collateral Agent.

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

Remedies Not Exclusive

No remedy conferred upon or reserved to the Collateral Agent is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Agreement or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by law.

Assignment by Corporation

The Corporation irrevocably and absolutely assigns, transfers and conveys to the Collateral Agent and any successor thereto all of the rights, privileges, duties and obligations of the Corporation under the described in “– *Events of Default and Remedies of the Corporation*” in the summary of the MIPA.

Rights of the Corporation

Notwithstanding anything to the contrary set forth in the Agreement, the MIPA or any other Issuing Instrument, from and after the date of the Agreement, the Corporation shall not have any rights, pursuant to the Agreement, the MIPA or any other Issuing Instrument, (a) as a grantee of a pledge of Net System Revenues, (b) to accelerate or otherwise declare any Obligations immediately due and payable, (c) to exercise any remedies by or on behalf of the Holders (or Owners) or otherwise with respect to the Net System Revenues following an Event of Default or (d) to receive and/or apply any Net System Revenues to the payment of any Obligations following an Event of Default, and any provisions purporting to provide such rights to the Corporation shall be null and void. The City purchases projects from the Corporation under the MIPA and each MIPA Supplement in consideration of Installment Payments by the City to the Corporation. The Corporation unconditionally, irrevocably and absolutely assigns and transfers to the Authority its rights to such Installment Payments pursuant to Assignment Agreements. Nothing in the Agreement shall nullify or adversely affect any past, present or future assignment or transfer of the rights of the Corporation to receive Installment Payments under the MIPA or any MIPA Supplement to the Authority or any pledge, assignment or transfer of such rights by the Authority to the Trustee.

Termination

The Agreement shall terminate upon the payment in full of all Obligations. Upon termination, any amount remaining in all Funds, Accounts and subaccounts under the Agreement shall immediately be transferred by the Collateral Agent to the Borrower or its assignees.

Amendment

The Agreement may not be amended or otherwise modified except by a written instrument executed by (i) the Collateral Agent, the Borrower, the Corporation, the Authority and each Holder that is a party to

the Agreement, including any Holder that becomes a party through execution of a Counterpart; and (ii) each other Holder; provided that the consent of any Holder not party to the Agreement will not be required for any amendment or modification to (a) cure any ambiguity, defect or inconsistency, (b) make any change that would provide additional rights or benefits to all Holders, (c) make, complete or confirm any grant of Collateral for the benefit of all Holders, (d) correct any typographical errors, drafting mistakes or other similar mistakes that do not modify the rights, benefits and obligations of the parties hereto, (e) provide for additional obligations of the Borrower or liens on the Collateral securing such obligations to the extent permitted by the terms of the Secured Obligations or (f) upon receipt by the Collateral Agent of an opinion of counsel selected by the Borrower and addressed to the Collateral Agent and the Borrower to the effect that such amendment or modification will not materially adversely affect the interests of the Holders that are not parties to the Agreement.

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HEDGES UNDER THE WIFIA LOAN AGREEMENTS

In addition to certain information contained in the forepart of this Official Statement, the following is a summary of the hedging provisions set forth in the WIFIA Loan Agreements. Such summary is only a brief description of limited provisions of such documents and is qualified in its entirety by reference to the full text of the WIFIA Loan Agreements.

DEFINITIONS

“Acceptable Credit Rating” means, with respect to any Person, the rating of its unsecured, senior long-term indebtedness (or, if such Person has no such rating, then its issuer rating or corporate credit rating) is no lower than (a) at the time such Person executes, delivers or issues a Qualified Hedge, ‘A+’, ‘A1’ or the equivalent rating from each Nationally Recognized Rating Agency that provides a rating on such Person’s unsecured, senior long-term indebtedness or that provides an issuer rating or corporate credit rating for such Person, as applicable; and (b) at any time thereafter, ‘A’, ‘A2’ or the equivalent rating from each Nationally Recognized Rating Agency that provides a rating on such Person’s unsecured, senior long-term indebtedness or that provides an issuer rating or corporate credit rating for such Person, as applicable.

“Authorizing Ordinance” means the ordinance pursuant to which the Master Installment Purchase Agreement was authorized and any additional ordinance or official authorizing act of the City Council approving execution and delivery of any Supplement or any Issuing Instrument.

“Governmental Authority” means any federal, state, provincial, county, city, town, village, municipal or other government or governmental department, commission, council, court, board, bureau, agency, authority or instrumentality (whether executive, legislative, judicial, administrative or regulatory), of or within the United States of America or its territories or possessions, including the State and its counties and municipalities, and their respective courts, agencies, instrumentalities and regulatory bodies, or any entity that acts “on behalf of” any of the foregoing, whether as an agency or authority of such body.

“Hedging Agreement” means (a) the ISDA Master Agreement(s) and any related credit support annex, schedules and confirmations, to be entered into by the City and a Hedging Bank, (b) any other agreement entered into, or to be entered into, by the City and a Hedging Bank for a Hedging Transaction, and (c) any other documentation directly relating to the foregoing.

“Hedging Bank” means any Qualified Hedge Provider that becomes a party to a Hedging Agreement and its permitted successors (to the extent such successors are also Qualified Hedge Providers).

“Hedging Obligations” means, collectively, the payment of (a) all scheduled amounts payable to the Hedging Banks by the City under the Hedging Agreements (including interest accruing after the date of any filing by the City of any petition in bankruptcy or the commencement of any bankruptcy, insolvency or similar proceeding with respect to the City), net of all scheduled amounts payable to the City by such Hedging Banks, and (b) all other indebtedness, fees, indemnities and other amounts payable by the City to the Hedging Banks under such Hedging Agreements, net of all other indebtedness, fees, indemnities and other amounts payable by the Hedging Banks to the City under such Hedging Agreements; provided that Hedging Obligations shall not include Hedging Termination Obligations. For the avoidance of doubt, all calculations of such amounts payable under the Hedging Agreements shall be made in accordance with the terms of the applicable Hedging Agreements.

“Hedging Termination Obligations” means the aggregate amount payable to the Hedging Banks by the City upon the early termination of all or a portion of the Hedging Agreements, net of all amounts payable to the City by such Hedging Banks upon such early termination. For the avoidance of doubt, all calculations of such amounts payable under the Hedging Agreements shall be made in accordance with the terms of the applicable Hedging Agreements.

“Hedging Transaction” means any interest rate protection agreement, interest rate swap transaction, interest rate “cap” transaction, interest rate future, interest rate option or other similar interest rate hedging arrangement commonly used in loan transactions to hedge against interest rate increases; provided that in no event shall any such transaction be for any speculative purpose.

“MIPA Amendment” means that certain First Amendment to Amended and Restated Master Installment Purchase Agreement, dated as of November 14, 2018, by and between the City and the Corporation.

“MIPA Documents” means the Master Installment Purchase Agreement, the MIPA Amendment, the Collateral Agency Agreement, each Authorizing Ordinance (including the WIFIA Ordinance), each Supplement, each Issuing Instrument (other than the respective WIFIA Loan Agreement), the SRF Omnibus Amendment (if applicable) and each other agreement, instrument and document executed and delivered pursuant to or in connection with any of the foregoing, in each case to the extent the provisions of such resolution, agreement, instrument or document pertain to Obligations.

“Nationally Recognized Rating Agency” means any nationally recognized statistical rating organization identified as such by the Securities and Exchange Commission.

“Permitted Hedging Termination” means the early termination, in whole or in part, of any Qualified Hedge (a) at the request of the City as a result of a determination by the City that such (or any part of such) Qualified Hedge is no longer necessary or required under the terms of the respective WIFIA Loan Agreement, (b) pursuant to the terms of any Hedging Agreement evidencing such Qualified Hedge that provides for the notional amount of such Qualified Hedge to amortize or otherwise be reduced from time to time or (c) as may be required pursuant to the provisions of the respective WIFIA Loan Agreement.

“Person” means and includes an individual, a general or limited partnership, a joint venture, a corporation, a limited liability company, a trust, an unincorporated organization and any Governmental Authority.

“Qualified Hedge” means, to the extent from time to time permitted by law, with respect to Permitted Debt, any Hedging Transaction entered into with a Qualified Hedge Provider and meeting the requirements of the provisions of the WIFIA Loan Agreements described under “Hedging” below.

“Qualified Hedge Provider” means any bank or trust company, or an affiliate thereof, authorized to engage in the banking business, which is organized under or licensed as a branch or agency under the laws of the United States of America or any state thereof and which has an Acceptable Credit Rating.

“SRF Omnibus Amendment” means any master amendment entered into between the City and the SWRCB that amends the terms of the SRF Loan Agreements.

“**SWRCB**” means the California State Water Resources Control Board, a unit of the Environmental Protection Agency of the State, or any successor lender under any State Revolving Fund loan program.

HEDGING

(i) As a condition to the issuance of any Additional Parity Obligations or Subordinated Obligations that constitute Variable Rate Indebtedness (other than Variable Rate Indebtedness (x) that is commercial paper or (y) the proceeds of which are applied to repay reimbursement obligations in respect of any letter of credit issued to support commercial paper Obligations), to the extent that such issuance would cause the principal amount of all Outstanding Variable Rate Indebtedness to exceed twenty-five percent (25%) of the principal amount of all Outstanding Parity Obligations and Subordinated Obligations, the City shall enter into a Qualified Hedge with respect to such Additional Obligations and shall maintain such Qualified Hedge in place until the earliest to occur of (i) the date on which such Additional Obligations no longer bear interest at a Variable Interest Rate, (ii) the date on which the aggregate principal amount of all Outstanding Variable Rate Indebtedness no longer exceeds twenty-five percent (25%) of the aggregate principal amount of all Outstanding Parity Obligations and Subordinated Obligations, (iii) the date such Additional Obligations have been repaid in full in cash and (iv) the final maturity date of the respective WIFIA Loan Agreement. Each such Qualified Hedge must have an aggregate stated notional amount of at least ninety-eight percent (98%) and not more than one hundred two percent (102%) of the aggregate principal amount of such Additional Obligations projected to be Outstanding until the earliest to occur of (w) the date on which such Additional Obligations no longer bear interest at a Variable Interest Rate, (x) the date on which the aggregate principal amount of all Outstanding Variable Rate Indebtedness no longer exceeds twenty-five percent (25%) of the aggregate principal amount of all Outstanding Parity Obligations and Subordinated Obligations, (y) the date such Additional Obligations have been repaid in full in cash and (z) the final maturity date of the respective WIFIA Loan Agreement. Each such Qualified Hedge shall have a payment profile that is reasonably consistent with the expected draw and repayment schedule of such Additional Obligations. Each such Qualified Hedge shall have a stated maturity or termination date not earlier than the earliest to occur of (A) the date on which such Additional Obligations no longer bear interest at a Variable Interest Rate, (B) the date on which the aggregate principal amount of all Outstanding Variable Rate Indebtedness no longer exceeds twenty-five percent (25%) of the aggregate principal amount of all Outstanding Parity Obligations and Subordinated Obligations, (C) the date such Additional Obligations have been repaid in full in cash and (D) the final maturity date of the respective WIFIA Loan Agreement.

(ii) Each Qualified Hedge required under the provisions of the WIFIA Loan Agreements described herein shall provide for a fixed interest rate resulting in fixed payment amounts payable by the City to the Qualified Hedge Provider. The City’s obligations to pay Hedging Obligations and Hedging Termination Obligations, in each case pertaining to any Additional Obligations, shall be from the sources and in the priority specified in the MIPA Documents. The City shall ensure that, as of the date following the termination date of any Qualified Hedge required under the provisions of the WIFIA Loan Agreements described herein that for any reason terminates before the earliest to occur of (i) the maturity date of the Variable Rate Indebtedness subject to such Qualified Hedge, (ii) the date on which the aggregate principal amount of all Outstanding Variable Rate Indebtedness no longer exceeds twenty-five percent (25%) of the aggregate principal amount of all Outstanding Parity Obligations and Subordinated Obligations and (iii) the final maturity date of the respective WIFIA Loan Agreement, (A) a new Qualified Hedge is in full force and effect or (B) the Variable Rate Indebtedness have been converted to a fixed rate, in each case in accordance with the WIFIA Loan Agreements and the MIPA Documents.

(iii) The City shall neither terminate (other than Permitted Hedging Terminations), transfer, nor consent to any transfer (other than to a Qualified Hedge Provider) of any existing Qualified Hedge required under the provisions of the WIFIA Loan Agreements described herein without the WIFIA Lender’s prior

written consent as long as the City is required to maintain a Qualified Hedge pursuant to the WIFIA Loan Agreements.

(iv) With respect to any Qualified Hedge required under the provisions of the WIFIA Loan Agreements described herein, if at any time a Hedging Bank no longer satisfies the requirements for a Qualified Hedge Provider, the City shall, within ten (10) days (or such lesser number of days required by the applicable Hedging Agreement, including any credit support annex thereto) after the date on which such Hedging Bank failed to qualify as a Qualified Hedge Provider, either (A) cash collateralize the mark-to-market value of the Hedging Termination Obligations (in accordance with the credit support annex or similar requirements of the applicable Hedging Agreement) or provide a guarantee for such amount from an entity with an Acceptable Credit Rating, or (B) cause such disqualified Hedging Bank to be replaced by a Qualified Hedge Provider, whether by means of a transfer of the disqualified Hedging Bank's Hedging Agreement to a Qualified Hedge Provider or by means of a termination of such disqualified Hedging Bank's Hedging Agreement and replacement thereof by a Hedging Agreement with a Qualified Hedge Provider on terms and conditions that satisfy the requirements of the provisions of the WIFIA Loan Agreements described herein; provided that if the disqualified Hedging Bank's highest credit rating from any Nationally Recognized Rating Agency is less than 'A-', 'A3' or the equivalent, clause (A) shall not apply and the City shall be required to cause such disqualified Hedging Bank to be replaced by a Qualified Hedge Provider pursuant to clause (B).

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APPENDIX B

FORM OF APPROVING OPINION OF BOND COUNSEL

Upon the issuance of the 2026A Bonds, Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, is expected to render its final approving opinion with respect to the 2026A Bonds in substantially the following form:

July __, 2026

Public Facilities Financing Authority
of the City of San Diego
San Diego, California

The City of San Diego
San Diego, California

Ladies and Gentlemen:

We have acted as Bond Counsel to the Public Facilities Financing Authority of the City of San Diego (the “Authority”) in connection with the issuance of \$_____ aggregate principal amount of Senior Water Revenue Bonds, Series 2026A (the “2026A Bonds”) pursuant to Article 4 (commencing with Section 6584, known as the Marks-Roos Local Bond Pooling Act of 1985) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Government Code”), the Indenture, dated as of January 1, 2009 (the “Original Indenture”), as amended and supplemented, including as supplemented by the Tenth Supplemental Indenture, dated as of July 1, 2026 (the “Tenth Supplemental Indenture” and together with the Original Indenture and all other amendments and supplements thereto, the “Indenture”), each by and between the Authority and U.S. Bank Trust Company National Association, as successor trustee (the “Trustee”), and Resolution No. FA-2026-1 of the Board of Commissioners of the Authority. The 2026A Bonds are payable from 2026 Installment Payments payable by The City of San Diego, California (the “City”) to the San Diego Facilities Equipment Leasing Corporation (the “Corporation”) pursuant to the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (the “Original Master Installment Purchase Agreement”), as amended and supplemented, including as supplemented by the 2026 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of July 1, 2026 (the “2026 Supplement” and, together with the Original Master Installment Purchase Agreement and all other amendments and supplements thereto, the “Master Installment Purchase Agreement”), each by and between the City and the Corporation, and other assets pledged therefor under the Indenture.

The Corporation has assigned its rights under the 2026 Supplement to the Authority pursuant to the Assignment Agreement, dated as of July 1, 2026 (the “Assignment Agreement”), by and between the Corporation and the Authority. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture and the Master Installment Purchase Agreement.

In such connection, we have reviewed the Indenture, the Master Installment Purchase Agreement, the Assignment Agreement, the Tax Certificate, dated the date hereof (the “Tax Certificate”), executed by the Authority and the City, certificates of the Authority, the City, the Corporation, the Trustee and others, opinions of the City Attorney, General Counsel to the Authority, counsel to the Corporation and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Master Installment Purchase Agreement, the Assignment Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2026A Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

We are of the opinion that:

1. The 2026A Bonds constitute the valid and binding limited obligations of the Authority, enforceable in accordance with their terms and the terms of the Indenture.

2. The Tenth Supplemental Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the 2026A Bonds, of the Revenues and any other amounts (including proceeds of the sale of the 2026A Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. The 2026 Supplement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the City, enforceable against the City in accordance with its terms. The Master Installment Purchase Agreement, including as supplemented by the 2026 Supplement, creates a valid pledge of Net System Revenues to secure the payment of 2026 Installment Payments to the Authority, on the terms and conditions set forth therein.

4. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below (i) interest on the 2026A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the 2026A Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code, however, interest on the 2026A Bonds is included in the "adjusted financial statement income" of certain corporations that are subject to the alternative minimum tax under Section 55 of the Code.

5. Under existing statutes, interest on the 2026A Bonds is exempt from personal income taxes imposed by the State of California.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the 2026A Bonds in order that, for federal income tax purposes, interest on the 2026A Bonds be not included in gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of proceeds of the 2026A Bonds, restrictions on the investment of proceeds of the 2026A Bonds prior to expenditure and the requirement that certain earnings be rebated to the federal government. Noncompliance with such requirements may cause interest on the 2026A Bonds to become subject to federal income taxation retroactive to their date of issue, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of delivery of the 2026A Bonds, the Authority and the City will execute a Tax Certificate containing provisions and procedures pursuant to which such requirements can be satisfied. In the Tax Certificate, the Authority and the City covenant that the Authority and the City will comply with the provisions and procedures set forth therein and that the Authority and the City will do and perform all acts and things necessary or desirable to assure that interest paid on the 2026A Bonds will, for the purpose of federal income taxation, be excluded from gross income.

In rendering the opinion in paragraph 4 hereof, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of interest paid on the 2026A Bonds, and (ii) compliance by the Authority and the City with the procedures and covenants set forth in the Tax Certificate and other documents as to such tax matters.

We express no opinion as to any other federal, state or local tax consequences arising with respect to the 2026A Bonds or the ownership or disposition thereof, except as stated in paragraphs 4 and 5 above. We render our opinion under existing statutes and court decisions as of the date hereof, and assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, any fact or circumstance that may hereafter come to our attention, any change in law or interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any change in law or interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, we express no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the 2026A Bonds.

We undertake no responsibility for the accuracy, completeness or fairness of any official statement or other offering materials relating to the 2026A Bonds and express herein no opinion relating thereto.

The foregoing opinions are qualified to the extent that the enforceability of the 2026A Bonds, the Indenture, the Master Installment Purchase Agreement and the Tax Certificate may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and are subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. In addition, the imposition of certain fees and charges by the City relating to the Water System is subject to the provisions of Articles XIIC and XIID of the California Constitution.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

Very truly yours,

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APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate, dated July __, 2026 (this “Disclosure Certificate”), is executed and delivered by The City of San Diego (the “City”) in connection with the issuance by the Public Facilities Financing Authority of the City of San Diego (the “Authority”) of Senior Water Revenue Bonds, Series 2026A (Payable Solely from Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the “2026A Bonds”). The 2026A Bonds are being issued pursuant to the Indenture (as defined herein). In connection therewith, the City, as an “obligated person” with respect to the 2026A Bonds (within the meaning of the Rule, as defined herein), covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City on behalf of the Authority for the benefit of the Holders and Beneficial Owners of the 2026A Bonds and in order to assist the Participating Underwriters in complying with the Rule.

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

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

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or dispose of ownership of, any 2026A Bonds (including persons holding 2026A Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2026A Bonds for federal income tax purposes.

“Dissemination Agent” shall mean the City and any Person designated by the City to serve as Dissemination Agent.

“Financial Obligation” shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Holder” shall mean the person in whose name any Bond shall be registered.

“Indenture” shall mean the Indenture, dated as of January 1, 2009, as amended and supplemented by a First Supplemental Indenture, dated as of June 1, 2009, a Second Supplemental Indenture, dated as of June 1, 2010, a Third Supplemental Indenture, dated as of April 1, 2012, a Fourth Supplemental Indenture, dated as of June 1, 2016, a Fifth Supplemental Indenture dated as of January 1, 2017, a Sixth Supplemental Indenture dated as of December 1, 2018, a Seventh Supplemental Indenture dated as of May 1, 2020, an Eighth Supplemental Indenture dated as of April 1, 2023, a Ninth Supplemental Indenture dated as of August 1, 2025, and a Tenth Supplemental Indenture dated as of July 1, 2026, each by and between the Authority and U.S. Bank Trust Company, National Association, as successor in interest to U.S. Bank Trust Company, National Association and as successor trustee.

“MSRB” shall mean the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system.

“Notice Event” shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

“Official Statement” shall mean the Official Statement, dated July __, prepared and distributed in connection with the initial sale of the 2026A Bonds.

“Participating Underwriters” shall mean any of the original purchasers of the 2026A Bonds required to comply with the Rule in connection with offering of the 2026A Bonds.

“Person” shall mean any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time, and including any official interpretations thereof issued either before or after the effective date of this Certificate which are applicable to this Certificate.

Section 3. Provision of Annual Reports.

(a) The City shall, or upon written direction, shall cause the Dissemination Agent (if other than the City) to, not later than April 10 after the end of the City’s Fiscal Year (which currently ends June 30), or the next succeeding business day if that day is not a business day, commencing with the report for the fiscal year ending June 30, 2026 (each, a “Filing Date”), provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. As of the date of this Disclosure Certificate, the format prescribed by the MSRB is the Electronic Municipal Market Access (“EMMA”) system.

The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Filing Date for the filing of the Annual Report if not available by such Filing Date. If the City’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Notice Event under Section 5(c) hereof.

(b) Not later than fifteen (15) business days prior to each Filing Date for providing the Annual Report to the MSRB, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If the City is unable to provide to the MSRB an Annual Report by the Filing Date, the City shall, in a timely manner, send a notice to the MSRB.

(c) The Dissemination Agent (if other than the City) shall:

(i) determine each year prior to the date for providing the Annual Report the format for filing with the MSRB; and

(ii) file a report with the City certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Certificate, and stating the date the Annual Report was so provided.

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

(a) The audited financial statements of the City for the most recently completed Fiscal Year prepared in accordance with generally accepted accounting principles as applicable to state and local governments in the United States of America. If the City’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Financial information and operating data with respect to the City, as such information and data related to the City’s Public Utilities Department and the Water Utility Fund, for the most recently completed Fiscal Year of the type included in the Official Statement, in the following categories (to the extent not included in the City’s audited financial statements):

- (i) An update of the information substantially in the form contained in Table 2 (entitled “Water Deliveries”) for the most recently completed Fiscal Year;
- (ii) An update of the information substantially in the form contained in Table 3 (entitled “Historical Number of Retail Metered Connections to Water System”) for the most recently completed Fiscal Year;
- (iii) An update of the information substantially in the form contained in Table 4 (entitled “Major Retail Customers”) for the most recently completed Fiscal Year;
- (iv) An update of the information substantially in the form contained in Table 5 (entitled “Raw Water Reservoirs”) for the most recently completed Fiscal Year;
- (v) An update of the information substantially in the form contained in Table 6 (entitled “Capacity and Demand of Water System Water Treatment Plants”) for the most recently completed Fiscal Year;
- (vi) An update of the information substantially in the form contained in Table 7 (entitled “Water Supplies Used For Delivery Of Potable Water”) for the most recently completed Fiscal Year;
- (vii) An update of the information substantially in the form contained in Table 12 (entitled “Water Utility Fund Historical Capacity Charge Revenues”) for the most recently completed Fiscal Year;
- (viii) An update of the information substantially in the form contained in Table 13 (entitled “Five-Year Water Service Charge History for Single Family Residential, Multi-Family Residential, Non-Residential, Irrigation, and Temporary Construction”) for the most recently completed Fiscal Year;
- (ix) An update of the information substantially in the form contained in Table 14 (entitled “Water Customer Accounts Receivable by Fiscal Year”) for the most recently completed Fiscal Year;
- (x) An update of the information substantially in the form contained in Table 15 (entitled “Historical Sources of Water Sales Revenues”) for the most recently completed Fiscal Year;
- (xi) An update of the information substantially in the form contained in Table 16 (entitled “Statements of Revenues, Expenses, and Changes in Fund Net Position for the Water Utility Fund”) for the most recently completed Fiscal Year;
- (xii) An update of the information substantially in the form contained in Table 17 (entitled “Reserves and Cash and Investments In Water Utility Fund”) for the most recently completed Fiscal Year;
- (xiii) An update of the information substantially in the form contained in Table 18 (entitled “Calculation of Historic Debt Service Coverage”) for the most recently completed Fiscal Year (will be available in the City’s comprehensive annual financial report for the most recently completed fiscal year or updated information will be presented in tabular format comparable to referenced table);

(xiv) An update of the information substantially in the form contained in Table 20 (entitled “Outstanding Debt”) for the most recently completed Fiscal Year;

(xv) An update of the information substantially in the form contained in Table 21 (entitled “Water Utility Fund Liability Claims Budget and Expenditures”) for the most recently completed Fiscal Year;

(xvi) An update of the information substantially in the form contained in Table 24 (entitled “City of San Diego Schedule of Funding Progress”) for the most recently completed Valuation Year; and

(xvii) An update of the information substantially in the form contained in Table 25 (entitled “City of San Diego and Water Utility Fund Pension Contribution”) for the most recently completed Fiscal Year.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to the MSRB. The City shall clearly identify each such other document so included by reference.

The contents, presentation and format of the Annual Reports may be modified from time to time as determined in the judgment of the City to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the City or to reflect changes in the business, structure, operations, legal form of the City or any mergers, consolidations, acquisitions or dispositions made by or affecting the City; provided that any such modifications shall comply with the requirements of the Rule.

Section 6. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2026A Bonds, in a timely manner not later than ten (10) business days after the occurrence of such Notice Event to the MSRB through EMMA:

- (i) Principal and interest payment delinquencies;
- (ii) Unscheduled draws on debt service reserves reflecting financial difficulties;¹
- (iii) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (iv) Substitution of credit or liquidity providers, or their failure to perform;²
- (v) Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (vi) Tender offers;
- (vii) Defeasances;
- (viii) Rating changes;³
- (ix) Bankruptcy, insolvency, receivership or similar event of the City (such event being considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the 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 City); or
- (x) Default, event of acceleration, termination event, modification of terms or other similar events under a Financial Obligation of the City, if any such event reflects financial difficulties.

(b) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2026A Bonds, if material, not later than ten (10) business days after the occurrence of the such Notice Event to the MSRB through EMMA:

- (i) Unless described in paragraph 5(a)(5), other notices or determinations with respect to the tax status of the 2026A Bonds or other events affecting the tax status of the 2026A Bonds;
- (ii) Modifications to rights of holders of the 2026A Bonds;
- (iii) Bond calls;⁴

¹ Without limiting its reporting obligation, the City advises that it has not established a debt service reserve fund for the 2026A Bonds.

² Without limiting its reporting obligation, the City advises that it has not obtained or provided any credit enhancement or credit or liquidity providers for the 2026A Bonds.

³ Does not include rating changes related to credit enhancement added by a Holder.

⁴ Any scheduled redemption of 2026A Bonds pursuant to mandatory sinking fund redemption requirements does not constitute a Notice Event within the meaning of the Rule.

- Bonds;
- (iv) Release, substitution, or sale of property securing repayment of the 2026A Bonds;
 - (v) Non-payment related defaults;
 - (vi) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets thereof, 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;
 - (vii) Appointment of a successor or additional trustee or the change of name of a trustee; or
 - (viii) Incurrence of a Financial Obligation of the City or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation of the City, any of which affect security holders.

(c) If the City learns of the occurrence of a Notice Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the City shall promptly file, or cause to be filed, a notice of such event with the MSRB through EMMA. Notwithstanding the foregoing, notice of the Notice Events described in subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected 2026A Bonds pursuant to the Indenture.

(d) As used in this Disclosure Certificate, the term “Financial Obligation” will be interpreted so as to comply with applicable federal securities laws guidance as of the date of this Disclosure Certificate, including that provided by the Securities Exchange Commission in its Release No. 34-83885, dated August 20, 2018.

Section 7. Termination of Reporting Obligation. The City’s obligations under this Disclosure Certificate with respect to the 2026A Bonds shall terminate upon the legal defeasance, prior redemption, or payment in full of all the 2026A Bonds. If such termination occurs prior to the final maturity of the 2026A Bonds, the City shall give notice of such in the same manner as for a Notice Event under Section 5(c).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the City. The Dissemination Agent, if other than the City, shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate.

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

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the 2026A Bonds, or the type of business conducted;

(b) the undertakings herein, as proposed to be amended or taking in account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the 2026A Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver (i) is approved by the Holders majority of outstanding principal amount of the 2026A Bonds, in the same manner as provided in the Indenture for amendments to

the Indenture with the consent of the Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the 2026A Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Notice Event under subsection 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

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

Section 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the 2026A Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate; provided that any Beneficial Owner seeking to require the City to comply with this Certificate shall first provide at least 30 days' prior written notice to the City of the City's failure, giving reasonable detail of such failure, following which notice the City shall have 30 days to comply. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages under this Certificate.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, and Holders and Beneficial Owners from time to time of the 2026A 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 and the federal securities laws.

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IN WITNESS WHEREOF, The City of San Diego has executed this Continuing Disclosure Certificate as of the date first set forth herein.

THE CITY OF SAN DIEGO

By: _____

Rolando Charvel
Chief Financial Officer

APPENDIX D

INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM

The following description of DTC and its book-entry system has been provided by DTC and has not been verified for accuracy or completeness by the City or the Authority, and neither the City nor the Authority shall have any liability with respect thereto. Neither the City nor the Authority shall have any responsibility or liability for any aspects of the records maintained by DTC relating to or payments made on account of beneficial ownership, or for maintaining, supervising, or reviewing any records maintained by DTC relating to beneficial ownership, of interests in the 2026A Bonds.

The Depository Trust Company (“DTC”) will act as securities depository for the 2026A Bonds. The 2026A 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 bond will be issued for each issue of the 2026A Bonds, in the aggregate principal amount of such issue, 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, provided that nothing contained in such website is incorporated into this Official Statement.

Purchases of 2026A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2026A Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2026A 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 2026A 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 2026A Bonds, except in the event that use of the book-entry system for the 2026A Bonds is discontinued.

To facilitate subsequent transfers, all 2026A 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 2026A 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 2026A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2026A 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 2026A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2026A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture and the Master Installment Purchase Agreement. For example, Beneficial Owners of 2026A Bonds may wish to ascertain that the nominee holding the 2026A 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 2026A Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2026A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2026A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2026A 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 Authority or the Trustee, on payable dates 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 Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2026A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bonds are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bonds will be printed and delivered to DTC.

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

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