
CONTINUING COVENANT AGREEMENT

dated as of April 1, 2013,

between

SOUTH PLACER WASTEWATER AUTHORITY

and

U.S. BANK NATIONAL ASSOCIATION

Relating to

[\$60,325,000]

SOUTH PLACER WASTEWATER AUTHORITY
WASTEWATER REVENUE REFUNDING BONDS,
SERIES 2013
(VARIABLE RATE DEMAND BONDS)

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EXHIBITS

EXHIBIT A — FORM OF COMPLIANCE CERTIFICATE

CONTINUING COVENANT AGREEMENT

THIS CONTINUING COVENANT AGREEMENT, dated as of April 1, 2013 (as amended, modified or restated from time to time, this "*Agreement*"), between the SOUTH PLACER WASTEWATER AUTHORITY (the "*Authority*"), a joint exercise of powers authority duly organized and existing under and by virtue of the laws of the State of California, and U.S. BANK NATIONAL ASSOCIATION, a national banking association.

RECITALS

WHEREAS, the Authority was created by the South Placer Municipal Utility District (the "*District*"), the City of Roseville (the "*City*") and the County of Placer (the "*County*") (the District, the City and the County being referred to herein as the "*Participants*") pursuant to that certain **[Amended and Restated Joint Exercise of Powers Agreement for the South Placer Wastewater Authority, effective as of October 1, 2012]**, among the Participants;

WHEREAS, in accordance with the Marks-Roos Local Bond Pooling Act, commencing with Section 6584 of the California Government Code (the "*Bond Law*"), the Authority has issued its Wastewater Revenue Refunding Bonds, Series 2013 (Variable Rate Demand Bonds) (the "*Bonds*") pursuant to that certain Wastewater Revenue Bond Indenture dated as of April 1, 2013 (as amended and supplemented, the "*Indenture*") between the Authority and The Bank of New York Mellon Trust Company, N.A. (the "*Trustee*");

WHEREAS, the Purchaser has agreed to make a loan to the Authority by purchasing the Bonds, and as a condition to such purchase, the Purchaser has required the Authority to enter into this Agreement.

NOW, THEREFORE, to induce the Purchaser to make a loan to the Authority by purchasing the Bonds, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the Authority and the Purchaser hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01. Certain Defined Terms. In addition to the terms defined in the recitals and elsewhere in this Agreement and the Indenture, the following terms shall have the following meanings:

"*Affiliate*" means, with respect to any Person, any Person that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such first Person. A Person shall be deemed to control another Person for the purposes of this definition if such first Person possesses, directly or indirectly, the power to direct, or cause

the direction of, the management and policies of the second Person, whether through the ownership of voting securities, common directors, trustees or officers, by contract or otherwise.

“*Agreement*” has the meaning set forth in the introductory paragraph hereof.

“*Amortization End Date*” means the earliest to occur of (a) the third (3rd) anniversary of the Mandatory Tender Date, (b) the date on which the interest rate on all of the Bonds have been converted to an interest rate other than the Index Rate and (c) the date on which all Bonds are redeemed, repaid, prepaid or cancelled in accordance with the terms of the Indenture.

“*Amortization Payment*” has the meaning set forth in Section 4.01(b) hereof.

“*Amortization Payment Date*” means (a) the Initial Amortization Payment Date and each third month anniversary of the Initial Amortization Payment Date occurring thereafter which occurs prior to the Amortization End Date and (b) the Amortization End Date.

“*Amortization Period*” has the meaning set forth in Section 4.01(b) hereof.

“*Anti-Terrorism Laws*” has the meaning set forth in Section 5.20 hereof.

“*Applicable Spread*” has the meaning set forth in the Indenture.

“*Authority*” has the meaning set forth in the introductory paragraph hereof.

“*Authorized Official*” has the meaning set forth in the Indenture.

“*Bank Agreement*” means any credit agreement, liquidity agreement, standby bond purchase agreement, reimbursement agreement, direct purchase agreement, bond purchase agreement, or other agreement or instrument (or any amendment, supplement or other modification thereof) under which, directly or indirectly, any Person or Persons undertake(s) to make or provide funds to make payment of, or to purchase or provide credit enhancement for bonds or notes of the Authority secured by or payable from Revenues on a parity with the Bonds and Parity Debt.

“*Base Rate*” means, for any day, a fluctuating rate of interest per annum equal to the greatest of (a) the Prime Rate in effect at such time *plus* one percent (1.0%), (b) the Federal Funds Rate in effect at such time *plus* one percent (1.0%), (c) the SIFMA Rate in effect at such time *plus* one percent (1.0%), and (d) seven and one-half of one percent (7.5%).

“*Bond Counsel*” means Jones Hall PLC, or any other firm of attorneys nationally recognized on the subject of tax-exempt municipal finance selected by the Authority.

“*Bond Law*” has the meaning set forth in the recitals hereof.

“*Bondholder*” means the Purchaser and each Purchaser Transferee or Non-Purchaser Transferee pursuant to Section 10.13 hereof so long as such Purchaser Transferee or Non-Purchaser Transferee is an owner of Bonds.

“*Bonds*” has the meaning set forth in the recitals hereof.

“*Business Day*” has the meaning set forth in the Indenture.

“*Calculation Agent*” has the meaning assigned to such term in the Indenture.

“*Change*” means (a) any change after the Effective Date in the Risk-Based Capital Guidelines or (b) any adoption of or change in any other law, governmental or quasi-governmental rule, regulation, policy, guideline, interpretation, or directive (whether or not having the force of law) or in the interpretation, promulgation, implementation or administration thereof after the date of this Agreement which affects the amount of capital required or expected to be maintained by any Purchaser, other Bondholder or the Credit Protection Provider or any corporation controlling any such Purchaser, other Bondholder or the Credit Protection Provider. Notwithstanding the foregoing, for purposes of this Agreement, all requests, rules, guidelines or directives in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act shall be deemed to be a Change regardless of the date enacted, adopted or issued and all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Regulations and Supervisory Practices (or any successor or similar authority) pursuant to Basel III or any successor Basel accord or the United States financial regulatory authorities shall be deemed to be a Change regardless of the date adopted, issued, promulgated or implemented.

“*City*” has the meaning set forth in the recitals hereof.

“*Code*” means the Internal Revenue Code of 1986, as amended, and, where appropriate any statutory predecessor or any successor thereto.

“*Compliance Certificate*” means a certificate substantially in the form of Exhibit A hereto.

“*County*” has the meaning set forth in the recitals hereof.

“*Credit Protection Provider*” means, collectively, (a) any party, including a Bondholder, who issues a letter of credit or provides other credit protection with respect to the Bonds and (b) any party that participates in any such credit protection.

“*Debt*” of any Person means at any date, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (c) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (d) all obligations of such Person as lessee under capital leases, (e) all Debt of others secured by a lien on any asset of such Person, whether or not such Debt is assumed by such

Person, (f) all Guarantees by such Person of Debt of other Persons and (g) all obligations of such Person under any Swap Agreement.

“*Default*” means any event or condition which, with notice, the passage of time or any combination of the foregoing, would constitute an Event of Default.

“*Default Rate*” means, for any day, a rate of interest per annum equal to the sum of the Base Rate in effect on such day plus three percent (3.0%).

“*Determination of Taxability*” means and shall be deemed to have occurred on the first to occur of the following:

(a) on the date when the Authority files any statement, supplemental statement or other tax schedule, return or document which discloses that an Event of Taxability shall have in fact occurred;

(b) on the date when the Bondholder or any former Bondholder notifies the Authority that it has received a written opinion by a nationally recognized firm of attorneys of substantial expertise on the subject of tax-exempt municipal finance to the effect that an Event of Taxability shall have occurred unless, within one hundred eighty (180) days after receipt by the Authority of such notification from the Bondholder or any former Bondholder, the Authority shall deliver to the Bondholder and any former Bondholder a ruling or determination letter issued to or on behalf of the Authority by the Commissioner or any District Director of the Internal Revenue Service (or any other governmental official exercising the same or a substantially similar function from time to time) to the effect that, after taking into consideration such facts as form the basis for the opinion that an Event of Taxability has occurred, an Event of Taxability shall not have occurred;

(c) on the date when the Authority shall be advised in writing by the Commissioner or any District Director of the Internal Revenue Service (or any other government official or agent exercising the same or a substantially similar function from time to time) that, based upon filings of the Authority, or upon any review or audit of the Authority or upon any other ground whatsoever, an Event of Taxability shall have occurred; or

(d) on the date when the Authority shall receive notice from the Bondholder or any former Bondholder that the Internal Revenue Service (or any other government official or agency exercising the same or a substantially similar function from time to time) has assessed as includable in the gross income of such Bondholder or such former Bondholder the interest on the Bonds due to the occurrence of an Event of Taxability;

provided, however, no Determination of Taxability shall occur under subparagraph (c) or (d) hereunder unless the Authority has been afforded the opportunity, at its expense, to contest any such assessment, and, further, no Determination of Taxability shall occur until such contest, if made, has been finally determined; *provided further, however*, that upon demand from the

Bondholder or former Bondholder, the Authority shall promptly reimburse such Bondholder or former Bondholder for any payments, including any taxes, interest, penalties or other charges, such Bondholder (or former Bondholder) shall be obligated to make as a result of the Determination of Taxability.

“Effective Date” means April 3, 2013, subject to the satisfaction or waiver by the Purchaser of the conditions precedent set forth in Article III hereof.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, and any successor statute of similar import, and regulations thereunder, in each case as in effect from time to time. References to Sections of ERISA shall be construed also to refer to any successor Sections.

“Event of Default” with respect to this Agreement has the meaning set forth in Section 8.01 of this Agreement and, with respect to any Related Document, has the meaning assigned therein.

“Event of Taxability” means a (a) change in Law or fact or the interpretation thereof, or the occurrence or existence of any fact, event or circumstance (including, without limitation, the taking of any action by the Authority, or the failure to take any action by the Authority, or the making by the Authority of any misrepresentation herein or in any certificate required to be given in connection with the issuance, sale or delivery of the Bonds) which has the effect of causing interest paid or payable on the Bonds to become includable, in whole or in part, in the gross income of the Bondholder or any former Bondholder for federal income tax purposes or (b) the entry of any decree or judgment by a court of competent jurisdiction, or the taking of any official action by the Internal Revenue Service or the Department of the Treasury, which decree, judgment or action shall be final under applicable procedural law, in either case, which has the effect of causing interest paid or payable on the Bonds to become includable, in whole or in part, in the gross income of the Bondholder or any former Bondholder for federal income tax purposes with respect to the Bonds.

“Excess Interest Amount” has the meaning set forth in Section 4.02(d) hereof.

“Excluded Taxes” means, with respect to a Bondholder, taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the Laws of which such recipient is organized or in which its principal office is located.

“Executive Order” has the meaning set forth in Section 5.20 hereof.

“Existing Swap Agreement” has the meaning set forth in the Indenture.

“Federal Funds Rate” means, for any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; *provided that:* (a) if

such day is not a Business Day, then the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day; and (b) if no such rate is so published on such next succeeding Business Day, then the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of one-hundredth of one percent) charged to the Purchaser on such day on such transactions as determined by the Purchaser.

“*Fiscal Year*” means the twelve month period from July 1 through the following June 30.

“*Fitch*” means Fitch, Inc., and any successor rating agency.

“*FRB*” means the Board of Governors of the Federal Reserve System of the United States, together with any successors thereof.

“*Funding Agreement*” means that certain Funding Agreement relating to the South Placer Regional Wastewater Facilities, dated as of October 1, 2012, among the Authority and the Participants, as amended from time to time.

“*Generally Accepted Accounting Principles*” or “*GAAP*” means generally accepted accounting principles in effect from time to time in the United States and applicable to entities such as the Authority.

“*Governmental Approval*” means an authorization, consent, approval, license, or exemption of, registration or filing with, or report to any Governmental Authority.

“*Governmental Authority*” means any federal, state or local government (whether domestic or foreign), any political subdivision thereof or any other governmental, quasi-governmental, judicial, public or statutory instrumentality, authority, body, agency, bureau or entity (including any zoning authority, the Federal Deposit Insurance Corporation or the Federal Reserve Board, any central bank or any comparable authority), or any arbitrator with authority to bind a party at law.

“*Guarantee*” means, as to any Person, (a) any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Debt or other obligation payable or performable by another Person (the “*primary obligor*”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Debt or other obligation of the payment or performance of such Debt or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity or level of income or cash flow of the primary obligor so as to enable the primary obligor to pay such Debt or other obligation, or (iv) entered into for the purpose of assuring in any other manner the obligee in respect of such Debt or other obligation of the payment or performance thereof or to protect such obligee against loss in respect thereof (in whole or in part), or (b) any Lien on any assets of such Person securing any Debt or other obligation of any other Person, whether or not such Debt or other obligation is

assumed by such Person (or any right, contingent or otherwise, of any holder of such Debt to obtain any such Lien). The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the guaranteeing Person in good faith. The term “Guarantee” as a verb has a corresponding meaning.

“*Indemnitee*” has the meaning set forth in Section 9.01 hereof.

“*Indenture*” has the meaning set forth in the recitals hereof.

“*Index Rate*” has the meaning set forth in the Indenture.

“*Index Rate Period*” has the meaning set forth in the Indenture.

“*Initial Amortization Payment Date*” means the first Business Day of the third (3rd) full calendar month following the Mandatory Tender Date.

“*Initial Period*” has the meaning set forth in the Indenture.

“*Interest Payment Date*” shall mean with respect to the Bonds, (a) the first Business Day of each calendar month and (b) any date on which all of the Bonds are redeemed.

“*Investment Policy*” means the investment policy of the Authority delivered to the Purchaser, pursuant to Section 3.01(a)(iv) hereof.

“*Laws*” means, collectively, all international, foreign, federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case whether or not having the force of law.

“*Liabilities*” has the meaning set forth in Section 9.01 hereof.

“*Lien*” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement in the nature of a security interest of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any easement, right of way or other encumbrance on title to real property, and any financing lease having substantially the same economic effect as any of the foregoing).

“*Mandatory Tender Date*” means the date on which the Bonds are subject to mandatory tender for purchase on the last day of the Initial Period pursuant to Section 4.07(b)(i) of the Indenture.

“*Mandatory Tender Purchase Price*” means an amount equal to 100% of the principal amount of the Bonds subject to mandatory tender for purchase on the Mandatory Tender Date and accrued interest thereon, if applicable.

“*Margin Stock*” has the meaning ascribed to such term in Regulation U promulgated by the FRB, as now and hereafter from time to time in effect.

“*Material Adverse Effect*” means: (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, liabilities (actual or contingent), condition (financial or otherwise) or prospects of the Authority; (b) a material impairment of the ability of the Authority to perform its obligations under any Related Document to which it is a party; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the Authority of any Related Document to which it is a party.

“*Maximum Interest Rate*” means the maximum rate of interest on the relevant obligation permitted by applicable law.

“*Moody’s*” means Moody’s Investors Service, Inc. and any successor rating agency.

“*1933 Act*” means the Securities Act of 1933, as amended.

“*Non-Purchaser Transferee*” has the meaning set forth in Section 10.13(c) hereof.

“*Obligations*” means all amounts payable by the Authority, and all other obligations to be performed by the Authority, pursuant to this Agreement and the other Related Documents (including any amounts to reimburse the Purchaser for any advances or expenditures by it under any of such documents).

“*OFAC*” has the meaning set forth in Section 5.20 hereof.

“*Parity Debt*” has the meaning set forth in the Indenture.

“*Parity Debt Instrument*” has the meaning set forth in the Indenture.

“*Participant Net Revenues*” has the meaning set forth in the Funding Agreement.

“*Participants*” has the meaning set forth in the recitals hereof.

“*Patriot Act*” means the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Title III of Pub. L. 107-56 (signed into law October 26, 2001).

“*Person*” means any individual, corporation, not for profit corporation, partnership, limited liability company, joint venture, association, professional association, joint stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other form of entity.

“Prime Rate” means on any day, the rate of interest per annum then most recently established by the Purchaser as its “prime rate.” Any such rate is a general reference rate of interest, may not be related to any other rate, and may not be the lowest or best rate actually charged by the Purchaser to any customer or a favored rate and may not correspond with future increases or decreases in interest rates charged by other lenders or market rates in general, and that the Purchaser may make various business or other loans at rates of interest having no relationship to such rate. If the Purchaser ceases to establish or publish a prime rate from which the Prime Rate is then determined, the applicable variable rate from which the Prime Rate is determined thereafter shall be instead the prime rate reported in The Wall Street Journal (or the average prime rate if a high and a low prime rate are therein reported), and the Prime Rate shall change without notice with each change in such prime rate as of the date such change is reported.

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

“Purchase Price” has the meaning set forth in Section 2.01(a) hereof.

“Purchaser” means, initially, U.S. Bank National Association, a national banking association, and its successors and assigns.

“Purchaser Letter” has the meaning set forth in Section 10.13(c) hereof.

“Purchaser Rate” means, for any day, a rate of interest per annum equal to the sum of the Base Rate in effect on such day plus two percent (2.0%); *provided that* if an Event of Default has occurred and is continuing, the Purchaser Rate shall equal the Default Rate.

“Purchaser Transferee” has the meaning set forth in Section 10.13(b) hereof.

“Rate Stabilization Fund” means the fund of that name created and maintained by the Authority pursuant to the Funding Agreement.

“Rating Agency” means any of S&P, Moody’s and Fitch, as applicable.

“Rating Documentation” has the meaning set forth in Section 3.01(d)(iii) hereof.

“Related Documents” means this Agreement, the Indenture, the Bonds, the Funding Agreement and any other documents related to any of the foregoing or executed in connection therewith, and any and all future renewals and extensions or restatements of, or amendments or supplements to, any of the foregoing.

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

“Risk-Based Capital Guidelines” means (a) the risk-based capital guidelines in effect in the United States on the Effective Date, including transition rules, and (b) the corresponding capital regulations promulgated by regulatory authorities outside the United States including transition rules, and any amendments to such regulations adopted prior to the Effective Date.

“S&P” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, and any successor rating agency.

“SIFMA” means the Securities Industry and Financial Markets Association (formerly known as The Bond Market Association and the Public Securities Association), and any successor organization.

“SIFMA Rate” means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by SIFMA or any Person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Purchaser and effective from such date. In the event Municipal Market Data no longer produces an index satisfying the requirements of the preceding sentence, the SIFMA Rate (a/k/a, the “SIFMA Municipal Swap Index”) shall be deemed to be the S&P Weekly High Grade Index, or if either such index is not available, such other similar national index as reasonably designated by the Purchaser.

“State” means the State of California.

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

“Taxable Date” means the date on which interest on the Bonds is first includable in gross income of the Bondholder (including, without limitation, any previous Bondholder) thereof as a result of an Event of Taxability as such date is established pursuant to a Determination of Taxability.

“Taxable Period” has the meaning set forth in Section 4.02(b) hereof.

“Taxable Rate” means, with respect to a Taxable Period, the product of (a) the average interest rate on the Bonds during such period and (b) 1.54.

“Taxes” means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“Trustee” has the meaning set forth in the recitals hereof.

“Unremarketed Bonds” means Bonds with respect to which the Purchaser has not received payment of the Mandatory Tender Purchase Price, if any, on the Mandatory Tender Date.

“Wastewater System” means, collectively, the Enterprise, as that term is defined in the Indenture, and each of the Participant Systems, as that term is defined in the Funding Agreement.

Section 1.02. Computation of Time Periods. In this Agreement, in the computation of a period of time from a specified date to a later specified date, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding.”

Section 1.03. Construction. Unless the context of this Agreement otherwise clearly requires, references to the plural include the singular, to the singular include the plural and to the part include the whole. The word “including” shall be deemed to mean “including but not limited to,” and “or” has the inclusive meaning represented by the phrase “and/or.” The words “hereof,” “herein,” “hereunder” and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. The Section headings contained in this Agreement and the table of contents preceding this Agreement are for reference purposes only and shall not control or affect the construction of this Agreement or the interpretation thereof in any respect. Section, subsection and exhibit references are to this Agreement unless otherwise specified.

Section 1.04. Accounting Terms and Determinations. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared, in accordance with GAAP. If, after the Effective Date, there shall occur any change in GAAP from those used in the preparation of the financial statements referred to in Section 6.01 hereof and such change shall result in a change in the method of calculation of any financial covenant, standard or term found in this Agreement including, without limitation, a recharacterization of operating leases to the effect that certain operating leases are to be treated as capital leases, either the Authority or the Purchaser may by notice to the other party hereto, require that the Purchaser and the Authority negotiate in good faith to amend such covenants, standards, and terms so as equitably to reflect such change in accounting principles, with the desired result being that the criteria for evaluating the financial condition of the Authority shall be the same as if such change had not been made. No delay by the Authority or the Purchaser in requiring such negotiation shall limit their right to so require such a negotiation at any time after such a change in accounting principles. Until any such covenant, standard, or term is amended in accordance with this Section 1.04, financial covenants shall be computed and determined in accordance with GAAP in effect prior to such change in accounting principles.

Section 1.05. Relation to Other Documents; Acknowledgment of Different Provisions of Related Documents; Incorporation by Reference. (a) Nothing in this Agreement shall be deemed to amend, or relieve the Authority of its obligations under, any Related Document to which it is a party. Conversely, to the extent that the provisions of any Related Document allow the

Authority to take certain actions, or not to take certain actions, with regard for example to permitted liens, transfers of assets, maintenance of financial ratios and similar matters, the Authority nevertheless shall be fully bound by the provisions of this Agreement.

(b) Except as provided in subsection (c) of this Section 1.05, all references to other documents shall be deemed to include all amendments, modifications and supplements thereto to the extent such amendment, modification or supplement is made in accordance with the provisions of such document and this Agreement.

(c) All provisions of this Agreement making reference to specific Sections of any Related Document shall be deemed to incorporate such Sections into this Agreement by reference as though specifically set forth herein (with such changes and modifications as may be herein provided) and shall continue in full force and effect with respect to this Agreement notwithstanding payment of all amounts due under or secured by the Related Documents, the termination or defeasance thereof or any amendment thereto or any waiver given in connection therewith, so long as this Agreement is in effect and until all Obligations are paid in full. No amendment, modification, consent, waiver or termination with respect to any of such Sections shall be effective as to this Agreement until specifically agreed to in writing by the parties hereto with specific reference to this Agreement.

ARTICLE II

PURCHASE OF BONDS

Section 2.01. Purchase of Bonds. (a) *Purchase Price.* Upon the conditions set forth in Article III hereof and based on the representations, warranties and covenants of the Authority set forth herein, the Purchaser hereby agrees to make a loan to the Authority by purchasing from the Authority, and the Authority hereby agrees to sell to the Purchaser, all, but not less than all, of the Bonds at the purchase price of [\$60,325,000] representing the aggregate principal amount of the Bonds (the "*Purchase Price*").

(b) *Closing.* On the Effective Date, the Authority shall deliver to the Purchaser the documents described in Article III hereof. Upon delivery of such documents, the Purchaser will pay the full Purchase Price for the Bonds in immediately available federal funds payable to the Trustee on behalf of the Authority. One fully registered Bond, in the aggregate principal amount equal to the Purchase Price, shall be issued to and registered in the name of the Purchaser, or as otherwise directed by the Purchaser. The Bonds shall be so issued and registered to and held by the Purchaser, or as otherwise directed by the Purchaser.

ARTICLE III

CONDITIONS PRECEDENT TO PURCHASE OF BONDS

Section 3.01. Documentary Requirements. The obligation of the Purchaser to make a loan to the Authority by purchasing the Bonds is subject to the conditions precedent that the

Purchaser shall have received, on or before the Effective Date, the items listed below in this Section, each dated and in form and substance as is satisfactory to the Purchaser.

(a) The following Authority documents:

(i) copies of the resolutions of the governing body of the Authority approving the execution and delivery of the Related Documents to which the Authority is a party, and the other matters contemplated hereby, certified by a Authorized Official as being true and complete and in full force and effect on the Effective Date;

(ii) a copy of the Bond Law, certified by an Authorized Official to be in full force and effect as of the Effective Date;

(iii) the audited annual financial statements of the Authority for the Fiscal Year ended June 30, 2012, together with internally prepared evidence of the balance of the Rate Stabilization Fund for the most recent semi-annual period ended since the end of such Fiscal Year;

(iv) a copy of the Authority's Investment Policy in effect as of the Effective Date;

(v) operating and financial projections, including debt issuance levels and rate projections, of the Authority for the Fiscal Years ending 2014, 2015 and 2016; and

(vi) a certificate dated the Effective Date and executed by a Authorized Official certifying the names and signatures of the persons authorized to sign, on behalf of the Authority, the Related Documents to which it is a party and the other documents to be delivered by it hereunder or thereunder.

(b) The following financing documents:

(i) an executed original or certified copy, as applicable, of each of the Related Documents;

(ii) one fully registered Bond in certificated form, executed by the Authority, in the principal amount equal to the Purchase Price, issued to and registered in the name of the Purchaser, or as otherwise directed by the Purchaser; and

(iii) copies of all documentation relating to any Swap Agreement secured on a parity with the Bonds, including, without limitation, the Existing Swap Agreement.

(c) The following opinions, dated the Effective Date and addressed to the Purchaser or on which the Purchaser is otherwise expressly authorized to rely:

(i) from counsel to the Authority, opinions as to the due authorization, execution, delivery and enforceability of the Related Documents to which the Authority

is a party, and such other customary matters as the Purchaser may reasonably request; and

(ii) from Bond Counsel, opinions to the effect that the interest on the Bonds is excludable from gross income for federal income tax purposes.

(d) The following documents and other information:

(i) a certificate dated the Effective Date and executed by an Authorized Official certifying (A) that there has been no event or circumstance since June 30, 2012, that has had or could be reasonably expected to have, either individually or in the aggregate, a Material Adverse Effect, (B) that the representations and warranties contained in Article V hereof and the other Related Documents are true and correct in all material respects on the Effective Date, (C) no event has occurred and is continuing, or would result from entry into this Agreement, which would constitute a Default or Event of Default and (D) since the dated date of the Rating Documentation, the unenhanced long-term debt ratings assigned to Parity Debt has not been withdrawn, suspended or reduced;

(ii) true and correct copies of all Governmental Approvals, if any, necessary for the Authority to execute, deliver and perform the Related Documents to which it is a party;

(iii) recent evidence that the unenhanced long-term debt rating assigned by Moody's, S&P and Fitch to Parity Debt is at least "A1," "A+" and "A+" respectively (the "Rating Documentation").

Section 3.02. Litigation. The Purchaser shall have received a written description of all actions, suits or proceedings pending or threatened against the Authority in any court or before any arbitrator of any kind or before or by any governmental or non-governmental body which could reasonably be expected to result in a Material Adverse Effect, if any, and such other statements, certificates, agreements, documents and information with respect thereto as the Purchaser may reasonably request.

Section 3.03. Other Matters. All other legal matters pertaining to the execution and delivery of this Agreement and the Related Documents shall be satisfactory to the Purchaser and its counsel, and the Purchaser shall have received such other statements, certificates, agreements, documents and information with respect to the Authority and the other parties to the Related Documents and matters contemplated by this Agreement as the Purchaser may reasonably request.

Section 3.04. Payment of Fees and Expenses. On or prior to the Effective Date, the Purchaser shall have received reimbursement of the Purchaser's fees and expenses (including the legal fees and expenses of Chapman and Cutler LLP) and any other fees incurred in connection with the transaction contemplated by the Related Documents.

Section 3.05. No Bond Rating; DTC; CUSIP. The Bonds shall not be (a) assigned a separate rating by any Rating Agency, (b) registered with The Depository Trust Company or any other securities depository, (c) issued pursuant to any type of offering document or official statement or (d) assigned a CUSIP number by Standard & Poor's CUSIP Service.

ARTICLE IV

THE AUTHORITY'S OBLIGATIONS

Section 4.01. Payment Obligations. (a) The Authority hereby unconditionally, irrevocably and absolutely agrees to make prompt and full payment of all payment obligations owed to the Purchaser under the Related Documents and to pay any other Obligations owing to the Purchaser whether now existing or hereafter arising, irrespective of their nature, whether direct or indirect, absolute or contingent, with interest thereon at the rate or rates provided in such Related Documents and under such Obligations.

(b) In the event the Purchaser has not received the Mandatory Tender Purchase Price on the Mandatory Tender Date, the Authority shall cause the Unremarketed Bonds to be redeemed on the Mandatory Tender Date; *provided* that, if the Authority is required to redeem Unremarketed Bonds as set forth above and (i) no Default or Event of Default shall have occurred and be continuing and (ii) the representations and warranties set forth in Article V shall be true and correct on the Mandatory Tender Date, then the Authority shall cause the principal amount of such Bonds to be redeemed in installments payable on each Amortization Payment Date (each such payment, an "*Amortization Payment*"), with the final installment in an amount equal to the entire then-outstanding principal amount of such Bonds to be redeemed on the Amortization End Date (the period commencing on the Mandatory Tender Date and ending on the Amortization End Date is herein referred to as the "*Amortization Period*") pursuant to Section 4.01(b) of the Indenture. Each Amortization Payment shall be that amount of principal which will result in equal (as nearly as possible) aggregate Amortization Payments over the Amortization Period. During the Amortization Period, interest with respect to Unremarketed Bonds shall accrue at the Purchaser Rate, be payable monthly in arrears on the first Business Day of each calendar month and be calculated on the basis of a 360-day year and actual days elapsed.

(c) The Authority shall pay within thirty (30) days after demand:

(i) if an Event of Default shall have occurred, all costs and expenses of the Purchaser in connection with the enforcement (whether by means of legal proceedings or otherwise) of any of its rights under this Agreement, the other Related Documents and such other documents which may be delivered in connection therewith;

(ii) a fee for each amendment to this Agreement or any other Related Document or any consent or waiver by the Purchaser with respect to any Related Document, in each case, in a mutually agreeable amount plus the reasonable fees and expenses of counsel to the Purchaser;

(iii) the reasonable fees and out-of-pocket expenses for counsel or other reasonably required consultants to the Purchaser in connection with advising the Purchaser as to its rights and responsibilities under this Agreement and the other Related Documents or in connection with responding to requests from the Authority for approvals, consents and waivers; and

(iv) any amounts advanced by or on behalf of the Purchaser to the extent required to cure any Default, Event of Default or event of nonperformance hereunder or any Related Document, together with interest at the Default Rate.

In addition, if at any time any Governmental Authority shall require revenue or other documentary stamps or any other tax in connection with the execution or delivery of this Agreement or other Related Documents, then, if the Authority lawfully may pay for such stamps, taxes or fees, the Authority shall pay, when due and payable, for all such stamps, taxes and fees, including interest and penalties thereon, and the Authority agrees to save the Purchaser harmless from and against any and all liabilities with respect to or resulting from any delay of the Authority in paying, or omission of the Authority to pay, such stamps, taxes and fees hereunder.

Section 4.02. Increased Payments. (a) *Increased Costs.* (i) If, on or after the Effective Date, the adoption of any law or any governmental or quasi-governmental rule, regulation, policy, guideline or directive (whether or not having the force of law), or any change in the interpretation, promulgation, implementation or administration thereof by any governmental or quasi-governmental authority, central bank or comparable agency charged with the interpretation or administration thereof including, notwithstanding the foregoing, all requests, rules, guidelines or directives in connection with Dodd-Frank Wall Street Reform and Consumer Protection Act, or promulgated by the Bank for International Settlements, the Basel Committee on Banking Regulations and Supervisory Practices (or any successor or similar authority) pursuant to Basel III or any successor Basel accord regardless of the date enacted, adopted or issued, or compliance by the Purchaser, any other Bondholder or the Credit Protection Provider with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency:

(A) subjects the Purchaser, any other Bondholder or the Credit Protection Provider to any Taxes, or changes the basis of taxation of payments (other than with respect to Excluded Taxes) to the Purchaser, any other Bondholder or the Credit Protection Provider hereunder or with respect to the Bonds, or

(B) imposes or increases or deems applicable any reserve, assessment, insurance charge, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by the Purchaser, any other Bondholder or the Credit Protection Provider, or

(C) imposes any other condition the result of which is to increase the cost to the Purchaser, any other Bondholder or the Credit Protection Provider with respect to this Agreement, the Bonds or its making, maintenance or funding of the Bonds or any security therefor, or reduces any amount receivable by the Purchaser, any other

Bondholder or the Credit Protection Provider with respect to this Agreement, the Bonds, or the making, maintenance of funding of any loan, or requires any Purchaser to make any payment calculated by reference to any amount received with respect to this Agreement, the Bonds, or the making, maintenance or funding of any loan, by an amount deemed material by such Purchaser, other Bondholder or the Credit Protection Provider as the case may be,

and the result of any of the foregoing is to increase the cost to such Purchaser, other Bondholder or the Credit Protection Provider with respect to this Agreement, the Bonds, or the making, maintenance or funding of the purchase of the Bonds or of participating the same or to reduce the return received by such Purchaser, other Bondholder or the Credit Protection Provider, as the case may be, in connection with the same, then, to the extent permitted by law, within fifteen (15) days of demand by such Purchaser, other Bondholder or the Credit Protection Provider, as the case may be, the Authority shall pay such Purchaser, other Bondholder or the Credit Protection Provider such additional amount or amounts as will compensate such Purchaser, other Bondholder or the Credit Protection Provider for such increased cost or reduction in amount received.

(ii) If a Purchaser, other Bondholder or the Credit Protection Provider determines the amount of capital required or expected to be maintained by such Purchaser, other Bondholder or the Credit Protection Provider or any corporation controlling such Purchaser, other Bondholder or the Credit Protection Provider is increased as a result of a Change, then, within fifteen (15) days of demand by such Purchaser, other Bondholder or the Credit Protection Provider, the Authority shall, to the extent permitted by law, pay such Purchaser, other Bondholder or the Credit Protection Provider the amount necessary to compensate for any shortfall in the rate of return on the portion of such increased capital which such Purchaser, other Bondholder or the Credit Protection Provider determines is attributable to this Agreement or the Bonds, as the case may be, hereunder (after taking into account such Purchaser, other Bondholder or the Credit Protection Provider's policies as to capital adequacy).

(iii) In connection with any costs imposed upon the Authority by the Purchaser, other Bondholder or the Credit Protection Provider pursuant to this Section 4.02(a), the Purchaser, other Bondholder or the Credit Protection Provider shall (A) promptly notify the Authority of such costs and (B) provide the Authority with a certificate as to such increased cost, increased capital or reduction in return incurred by the Purchaser, other Bondholder or the Credit Protection Provider as a result of any event mentioned in clause (i) or (ii) of this Section 4.02(a) setting forth, in reasonable detail, the basis for such calculation and the amount of such calculation submitted by the Purchaser, other Bondholder or the Credit Protection Provider to the Authority which calculation shall be conclusive (absent manifest error) as to the amount thereof. In making the determinations contemplated by the above referenced certificate, the Purchaser, other Bondholder or the Credit Protection Provider may make such reasonable estimates, assumptions, allocations and the like that the Purchaser, other Bondholder or the Credit Protection Provider in good faith determines to be appropriate.

(b) *Determination of Taxability.* (i) In the event a Determination of Taxability occurs, to the extent not payable to each Bondholder (or to the Purchaser for the period that it was the

Bondholder of any of the Bonds) under the terms of the Indenture and the Bonds, the Authority hereby agrees to pay to each Bondholder (or, if applicable, the Purchaser) on demand therefor (A) an amount equal to the difference between (1) the amount of interest that would have been paid to such Bondholder (or, if applicable, the Purchaser) on the Bonds during the period for which interest on the Bonds is included in the gross income of such Bondholder (or, if applicable, the Purchaser) if the Bonds had borne interest at the Taxable Rate, beginning on the Taxable Date (the "*Taxable Period*"), and (2) the amount of interest actually paid to the Bondholder (or, if applicable, the Purchaser) during the Taxable Period, and (B) an amount equal to any interest, penalties or charges owed by such Bondholder (or, if applicable, the Purchaser) as a result of interest on the Bonds becoming included in the gross income of such Bondholder (or, if applicable, the Purchaser), together with any and all attorneys' fees, court costs, or other out-of-pocket costs incurred by such Bondholder (or, if applicable, the Purchaser) in connection therewith;

(ii) Subject to the provisions of clause (iii) below, such Bondholder (or, if applicable, the Purchaser) shall afford the Authority the opportunity, at the Authority's sole cost and expense, to contest (A) the validity of any amendment to the Code which causes the interest on the Bonds to be included in the gross income of such Bondholder (or, if applicable, the Purchaser) or (B) any challenge to the validity of the tax exemption with respect to the interest on the Bonds, including the right to direct the necessary litigation contesting such challenge (including administrative audit appeals); and

(iii) As a condition precedent to the exercise by the Authority of its right to contest set forth in clause (ii) above, the Authority shall, on demand, immediately reimburse such Bondholder (or, if applicable, the Purchaser) for any and all expenses (including attorneys' fees for services that may be required or desirable, as determined by such Bondholder (or, if applicable, the Purchaser) in its sole discretion) that may be incurred by the Bondholder (or, if applicable, the Purchaser) in connection with any such contest, and shall, on demand, immediately reimburse the Bondholder (or, if applicable, the Purchaser) for any payments, including any taxes, interest, penalties or other charges payable by such Bondholder (or, if applicable, the Purchaser) for failure to include such interest in its gross income.

(c) *Default Rate.* Upon the occurrence and during the continuance of an Event of Default, the Obligations shall bear interest at the Default Rate, which shall be payable by the Authority to each Bondholder (or, if applicable, the Purchaser) upon demand therefore and be calculated on the basis of a 360-day year and actual days elapsed.

(d) *Maximum Interest Rate.* (i) If the amount of interest payable for any period in accordance with the terms hereof or with respect to the Bonds exceeds the amount of interest that would be payable for such period had interest for such period been calculated at the Maximum Interest Rate, then interest for such period shall be payable in an amount calculated at the Maximum Interest Rate.

(ii) Any interest that would have been due and payable for any period but for the operation of the immediately preceding subclause (i) shall accrue and be payable as

provided in this subclause (ii) and shall, less interest actually paid to each Bondholder for such period, constitute the "Excess Interest Amount." If there is any accrued and unpaid Excess Interest Amount as of any date, then the principal amount with respect to which interest is payable shall bear interest at the Maximum Interest Rate until payment to each Bondholder of the entire Excess Interest Amount.

(iii) Notwithstanding the foregoing, on the date on which no principal amount with respect to the Bonds remains unpaid, the Authority shall pay to each Bondholder a fee equal to any accrued and unpaid Excess Interest Amount.

(e) *Survival.* The obligations of the Authority under clauses (a) and (b) of this Section 4.02 shall survive the termination of this Agreement and the redemption or other payment in full of the Bonds.

Section 4.03. Obligations Absolute. The payment obligations of the Authority under this Agreement shall be unconditional and irrevocable and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including without limitation the following:

(a) any lack of validity or enforceability of this Agreement, the Bonds or any of the other Related Documents;

(b) any amendment or waiver of or any consent to departure from all or any of the Related Documents;

(c) the existence of any claim, set-off, defense or other right which the Authority may have at any time against the Purchaser, any other Bondholder or any other person or entity, whether in connection with this Agreement, the other Related Documents, the transactions contemplated herein or therein or any unrelated transaction; or

(d) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

Notwithstanding this Section, the Purchaser acknowledges the Authority may have the right to bring a collateral action with respect to one or more of the foregoing circumstances. The Authority's payment obligations shall remain in full force and effect pending the final disposition of any such action. All fees payable pursuant to this Agreement shall be deemed to be fully earned when due and non-refundable when paid.

Section 4.04. Funding Indemnity. In the event the Purchaser shall incur any loss, cost, or expense (including, without limitation, any loss, cost, or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired or contracted to be acquired by the Purchaser to purchase or hold the Bonds or the relending or reinvesting of such deposits or other funds or amounts paid or prepaid to the Purchaser) as a result of any redemption or conversion of the Bonds on a date other than an Interest Payment Date for any reason, whether before or after default, and whether or not such payment is required by any provision of this

Agreement or the Indenture, then upon the demand of the Purchaser, the Authority shall pay to the Purchaser a redemption or conversion premium, as applicable in such amount as will reimburse the Purchaser for such loss, cost, or expense. If the Purchaser requests such redemption or conversion premium, as applicable, it shall provide to the Authority a certificate setting forth the computation of the loss, cost, or expense giving rise to the request for such redemption or conversion premium, as applicable in reasonable detail and such certificate shall be conclusive if reasonably determined.

Section 4.05. Optional Redemption or Conversion Fee. The Authority shall pay to the Purchaser an optional redemption or conversion fee (a "*Termination Fee*") in connection with each optional redemption of all or any portion of the Bonds or each conversion of the interest rate on all or any portion of the Bonds from the Index Rate prior to the first anniversary of the Effective Date, in an amount equal to the product of (a) the Applicable Spread in effect on the date of optional redemption or conversion, as applicable, (b) the principal amount of the Bonds to be optionally redeemed or converted to an interest rate other than the Index Rate, and (c) a fraction, the numerator of which is equal to the number of days from and including the date of such optional redemption or conversion, as applicable, to and including the first anniversary of the Effective Date, and the denominator of which is 360, payable on the date that all or any portion of the Bonds are optionally redeemed or the date on which the interest rate on all or any portion of the Bonds are converted to bear interest at a rate other than the Index Rate; *provided* that no such Termination Fee shall become payable if any increased costs have been imposed on the Authority pursuant to Section 4.02(a) hereof.

Section 4.06. Purchaser Consent to Subsequent Index Rate Period. (a) So long as the Purchaser is the Bondholder, on or before the date one hundred eighty (180) days prior to the end of the Initial Period, the Authority may provide written notice to the Purchaser of its desire to change the interest rate mode of the Bonds (including conversion to a new Index Rate Period) and requesting the Purchaser to purchase such Bonds in such new Index Rate Period or provide the liquidity or credit enhancement necessary to facilitate the conversion of the Bonds to such new interest rate mode. The Purchaser will make reasonable efforts to respond to such request within sixty (60) days after receipt of all information necessary, in the Purchaser's reasonable judgment, to permit the Purchaser to make an informed credit decision. The Purchaser may, in its sole and absolute discretion, decide to accept or reject any such request and no consent shall become effective unless the Purchaser shall have consented thereto in writing. In the event the Purchaser fails to definitively respond to such request within such sixty (60) day period, the Purchaser shall be deemed to have refused to grant such request. The consent of the Purchaser, if granted, shall be conditioned upon the preparation, execution and delivery of documentation in form and substance satisfactory to the Purchaser (which may include, but not be limited to the delivery of a "no adverse effect opinion" of Bond Counsel to the Purchaser with respect to the tax-exempt status of the Bonds as a result of such conversion and interest rate setting). In the event the Authority and the Purchaser fail to document in writing their agreement of the proposed rate(s) and terms of the succeeding period(s), the Authority shall continue to be required to repurchase the Bonds on the Mandatory Tender Date for a purchase price of 100% of the par amount plus accrued interest to the Mandatory Tender Date.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

The Authority makes the following representations and warranties to each Bondholder:

Section 5.01. Organization, Powers, Etc. The Authority (a) is validly organized and existing under and by virtue of the laws of the State, (b) has full power and authority to own its properties and carry on its business as now conducted and (c) has full power and authority to execute (or adopt, if applicable), deliver and perform its obligations under this Agreement and the Related Documents, to borrow hereunder and to execute, deliver and perform its obligations under the Bonds.

Section 5.02. Authorization, Absence of Conflicts, Etc. The execution (or adoption, if applicable), delivery and performance of the Related Documents to which the Authority is a party and the execution, delivery and performance of the Bonds (a) have been duly authorized by the Authority, (b) do not and will not, to any material extent, conflict with, or result in violation of any applicable provision of law, including the Bond Law, or any order, rule or regulation of any court or other agency of government and (c) do not and will not, to any material extent, conflict with, result in a violation of or constitute a default under, the Indenture or any other ordinance, agreement, indenture, or instrument to which the Authority is a party or by which the Authority or any of its property is bound.

Section 5.03. Governmental Consent or Approval. The execution, delivery and performance of the Related Documents to which the Authority is a party and the execution, delivery and performance of the Bonds do not and will not require registration with, or the consent or approval of, or any other action by, any Governmental Authority other than those which have been made or given and are in full force and effect; *provided* that no representation is made as to any blue sky or securities law of any jurisdiction.

Section 5.04. Binding Obligations. The Related Documents to which the Authority is a party are, and the Bonds, when executed and delivered, will be, valid and binding obligations of the Authority, enforceable against the Authority in accordance with their terms subject to any applicable bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws, judicial decisions and principles of equity relating to or affecting creditors' rights or contractual obligations generally or limitations of remedies against the Authority, assuming that the Related Documents (to which Persons other than the Authority are parties) are valid and binding obligations of the other parties thereto.

Section 5.05. Litigation. There is no action or investigation pending or, to the best knowledge of the Authority, threatened against the Authority before any court or administrative agency which questions the validity of the Bond Law, the Indenture or the validity of any proceeding taken by the Authority in connection with the execution and delivery of the Related Documents, or the Bonds or wherein an unfavorable decision, ruling or finding would in any way adversely affect the validity or enforceability of this Agreement, the Related Documents or the Bonds. There is no action pending or to the best knowledge of the Authority, threatened,

which questions the validity of the Bond Law, the Indenture or the Revenues nor is there any pending initiative or referendum qualified for the ballot, legislation, or published judicial decision which would seek to amend, annul, modify or replace the Bond Law, the Indenture or to diminish or reallocate the Revenues or impair the ability of the Authority to perform its obligations under the Related Documents.

Section 5.06. Financial Condition. The Authority's financial statements for the Fiscal Year ended 2012 and all of Authority's financial statements relating to the Revenues for the Fiscal Year ended 2012, copies of which have been furnished to the Purchaser, have been prepared in conformity with accounting principles generally accepted in the United States and applicable to governments (except as noted therein). All of such financial statements accurately present, in all material respects, the financial condition of the Authority as of the dates thereof, and other than as disclosed to the Purchaser, there has been no material adverse change in the business or affairs of the Authority.

Section 5.07. Amendments. None of the Indenture, the other Related Documents or the Bonds have been amended except by such amendments or supplements as have been delivered to the Purchaser prior to execution of this Agreement.

Section 5.08. Security. The Indenture creates, for the benefit of the owners of the Bonds, and the other Obligations a legally valid, binding and irrevocable lien on and pledge of the Revenues. The Indenture does not permit the issuance or incurrence of any Debt secured by the Revenues to rank senior to the Bonds (including Unremarketed Bonds) and the other Obligations. This Agreement constitutes a Parity Debt Instrument and the obligations of the Authority hereunder constitutes Parity Debt. The payment of the Bonds (including Unremarketed Bonds) and the other Obligations rank on a parity with the payment of the principal and purchase price of and interest on Parity Debt and is not subordinate to any payment secured by a lien on the Revenues or any other claim, and is prior as against all other Persons having claims of any kind in tort, contract or otherwise, whether or not such Persons have notice of such lien. No filing, registration, recording or publication of the Indenture or any other instrument is required to establish the pledge provided for thereunder or to perfect, protect or maintain the lien created thereby on the Revenues to secure the Bonds (including Unremarketed Bonds) and the other Obligations.

Section 5.09. No Defaults. The Authority is not in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in the Indenture or any other ordinance, agreement or instrument to which it is a party nor is the Authority in violation of any applicable law or regulation, which default or violation could reasonably be expected to result in a Material Adverse Effect.

Section 5.10. Authority for Issuance. The Authority has entered into this Agreement under the authority provided by the Bond Law.

Section 5.11. ERISA. The Authority is not subject to ERISA and has no funding liability or obligation currently due and payable with respect to any employee benefit plan which could reasonably be expected to result in a Material Adverse Effect.

Section 5.12. Not an Investment Company; Public Utility Holding Company. The Authority is not an “investment company” within the meaning of the Investment Company Act of 1940, as amended. The Authority is not a “holding company,” or a “subsidiary company” of a “holding company,” or an “affiliate” of a “holding company” or of a “subsidiary company” of a “holding company,” as such terms are defined in, and is not otherwise subject to regulation under, the Public Utility Holding Company Act of 1935, as amended.

Section 5.13. No Sovereign Immunity. The defense of sovereign immunity is not available to the Authority in any proceedings by the Purchaser to enforce any of the Obligations, and, to the extent permitted by applicable law, the Authority consents to the initiation of any such proceedings in any court of competent jurisdiction and agrees not to assert the defense of sovereign immunity in any such proceedings.

Section 5.14. Margin Stock. The Authority is not engaged in the business of extending credit for the purpose of purchasing or carrying Margin Stock, and no part of the proceeds from the issuance of the Bonds will be used to purchase or carry any such Margin Stock or extend credit to others for the purpose of purchasing or carrying any such Margin Stock.

Section 5.15. Tax-Exempt Status. The Authority has not taken any action or omitted to take any action, and has no actual knowledge of any action taken or omitted to be taken by any other Person, which action, if taken or omitted, would adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Section 5.16. Usury. None of the Related Documents or the Bonds (including Unremarketed Bonds) provide for any payments that would violate any applicable law regarding permissible maximum rates of interest.

Section 5.17. Pending Legislation and Decisions. There is no amendment, or to the knowledge of the Authority, proposed amendment to the Constitution of the State or any State law or any administrative interpretation of the Constitution of the State or any State law, or any legislation that has passed either house of the legislature of the State, or any judicial decision interpreting any of the foregoing, the effect of which will materially adversely affect the issuance of any of the Bonds, the security for any of the Bonds (including Unremarketed Bonds), or any Obligations, the creation, organization, or existence of the Authority or the titles to office of any officers executing this Agreement or any Related Documents to which the Authority is a party or the Authority’s ability to repay when due its obligations under this Agreement, any of the Bonds (including Unremarketed Bonds) or any other Obligation.

Section 5.18. Environmental Matters. The operations of the Authority are in material compliance with all of the requirements of applicable federal, state and local environmental, health and safety statutes and regulations and are not the subject of any governmental investigation evaluating whether any remedial action is needed to respond to a release of any toxic or hazardous waste or substance into the environment, where a failure to comply with any such requirement or the need for any such remedial action could reasonably be expected to result in a Material Adverse Effect.

Section 5.19. Swap Agreements. Other than the Existing Swap Agreement, the Authority has not entered into any Swap Agreement which constitutes Parity Debt (i) wherein any termination payment thereunder is senior to or on a parity with the payment of the Bonds (including Unremarketed Bonds) or the other Obligations or (ii) which requires the Authority to post cash collateral to secure its obligations thereunder.

Section 5.20. Insurance. The Authority is in compliance with the insurance requirement set forth in Section 6.07 of the Indenture.

Section 5.21. Anti-Terrorism Laws. The Authority is not in violation of any Laws relating to terrorism or money laundering ("*Anti-Terrorism Laws*"), including Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001 (the "*Executive Order*"), and the Patriot Act;

(a) The Authority is not any of the following:

(i) a Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order;

(ii) a Person owned or controlled by, or acting for or on behalf of, any Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order;

(iii) a Person with which the Purchaser is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law;

(iv) a Person that commits, threatens or conspires to commit or supports "terrorism" as defined in the Executive Order; or

(v) a Person that is named as a "specially designated national and blocked person" on the most current list published by the Office of Foreign Asset Control ("*OFAC*") or any list of Persons issued by OFAC pursuant to the Executive Order at its official website or any replacement website or other replacement official publication of such list;

(b) The Authority does not (i) conduct any business or engage in making or receiving any contribution of funds, goods or services to or for the benefit of any Person described in subsection (a)(ii) above, (ii) deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order or (iii) engage in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law.

ARTICLE VI

AFFIRMATIVE COVENANTS OF THE AUTHORITY

The Authority covenants and agrees, until the full and final payment and satisfaction of all of the Obligations, except in any instance in which the Purchaser specially agrees in writing to any performance or noncompliance, that:

Section 6.01. Information. The Authority will deliver to the Purchaser:

(a) as soon as available and in any event within two hundred ten (210) days after the end of each Fiscal Year, the audited balance sheet of the Authority as of the end of such Fiscal Year and the related statements of operations, equity and cash flows for such Fiscal Year, setting forth in each case in comparative form the figures for the previous Fiscal Year, all reported on by Maze & Associates Accountancy Corporation, or other independent public accountants of nationally recognized standing without qualification as to the scope of the audit performed or any material weakness noted in the Authority's system of internal controls;

(b) as soon as available and in any event within fifteen (15) Business Days after the end of the semi-annual period in the middle of each Fiscal Year, the unaudited balance sheet of the Authority as of the end of such quarter and the related unaudited statements of operations, equity and cash flows for such semi-annual period;

(c) simultaneously with the delivery of each set of financial statements referred to in clauses (a) and (b) above, a Compliance Certificate in the form of Exhibit A hereto executed by an Authorized Official and certifying that, to the best knowledge of such Authorized Official, after review of this Agreement and the other Related Documents no Default or Event of Default has occurred and is continuing or the remedial action the Authority proposes to take to remedy such Default or Event of Default;

(d) within five (5) Business Days after any Authorized Official obtains knowledge of any Default or Event of Default or event of default under the Indenture, a certificate of an Authorized Official setting forth the details thereof and the action which the Authority is taking or proposes to take with respect thereto;

(e) no later than thirty (30) days after adoption by the Board, the Authority's annual budget;

(f) promptly upon delivery thereof to any other holder of Master Indenture Bonds, copies of all notices, reports, statements and other information delivered by the Authority to such holder pursuant to the Indenture and not otherwise delivered to the Purchaser;

(g) promptly upon the Authority learning of, (i) notice of the failure by the Trustee to perform any of its respective obligations under the Indenture or any of the

other Related Documents, (ii) copies of any communications received by the Authority under any of the Related Documents (unless the same are required to be furnished by the sender thereof directly to the Purchaser under the terms of such Related Documents), (iii) notice of any change in the ratings or underlying ratings of any Parity Debt and (iv) any notice of any shadow rating (or changes therein) assigned to any Bonds or Parity Debt;

(h) at least twenty (20) days prior to the issuance thereof, notice of the Authority's intent to issue or incur additional Parity Debt in excess of \$10,000,000;

(i) from time to time such additional information regarding the financial position or business of the Authority as the Purchaser may reasonably request.

Section 6.02. Payment of Obligations. The Authority will pay and discharge, (a) all amounts payable by it hereunder or under any of the Related Documents according to the terms hereof or thereof and (b) at or before maturity, all its material obligations and liabilities, including, without limitation, tax liabilities, except where the same may be contested in good faith by appropriate proceedings, and will maintain, in accordance with GAAP, appropriate reserves for the accrual of any of the same.

Section 6.03. Maintenance of Existence; Water System. The Authority (a) shall maintain its existence pursuant to its authorizing legislation and the laws of the State, (b) shall at all times maintain or cause to be maintained the Wastewater System and (b) shall not sell, transfer, dispose of or abandon any material portion of the Wastewater System or condemn, or consent to any condemnation of, any material portion of the Wastewater System.

Section 6.04. Compliance with Laws. The Authority will comply in all material respects with all applicable laws, ordinances, rules, regulations, and requirements of governmental authorities (including, without limitation environmental laws) except where the necessity of compliance therewith is contested in good faith by appropriate proceedings.

Section 6.05. Maintenance of Books and Records; Inspections. The Authority will keep proper books of record and account in which full, true and correct entries shall be made of all dealings and transactions in relation to the Wastewater System, the Bonds and the Related Documents. Upon ten (10) days' written notice, the Authority will permit, or will request the Participants to permit, representatives of the Purchaser to visit and inspect the Wastewater System, and to examine and make abstracts from any such books and records and to discuss such books and records with its officers, employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired but not in excess of once each quarter; and all of the Purchaser's reasonable costs associated with the inspection of property, books and records shall be for the account of the Authority; *provided, however,* upon the occurrence and continuance of an Event of Default there shall be no limit on the number of visits and inspections or the amount of the Purchaser's costs which shall be paid by the Authority. The copying of any records shall be subject to the privacy and other requirements of State law such as those related to certain ratepayer information, and exemptions and exceptions under California's Public Records Act.

Section 6.06. Incorporation of Covenants by Reference; No Amendments. The Authority agrees that it will perform and observe each and every covenant and agreement required to be performed or observed by it, and will enforce its rights to cause the performance and observance of each and every covenant and agreement required to be performed by its Participants, in the Indenture or any other Related Document including, without limitation, all covenants and agreements relating to (a) the incurrence by the Authority of additional debt relating to the Wastewater System or to Revenues pledged to repay the Bonds (it being understood that any condition to any such incurrence of such additional debt shall, for purposes of this Agreement, be treated as if such condition were a covenant or agreement to be performed and observed hereunder by the Authority) or the incurrence of additional debt by the Participants payable from Participant Net Revenues, and (b) the setting of rates, fees, rentals or other charges for the use of the product, services and facilities of the Wastewater System, and all such provisions, and related defined terms contained therein, (x) are hereby incorporated by reference herein with the same effect as if each and every such provision were set forth herein in its entirety (without giving effect to any expiration, amendment, supplement or termination of, or waiver of compliance with, the Indenture, or the redemption or defeasance of any bonds or other securities issued thereunder (except as provided herein), and (y) shall survive and be binding upon the Authority notwithstanding any termination or expiration of any such Related Document or the redemption or defeasance of any bonds or other securities issued thereunder.

To the extent that any provision incorporated by reference herein pursuant to this Section permits the Authority or the holders of one or more Bonds or other securities issued under the Indenture or one or more holders of a series of Bonds or other securities issued under the Indenture or any Person acting on behalf of any such holder or holders to waive compliance with such provision or requires that a document, opinion or other instrument or any event or condition relating to such incorporated provision be acceptable or satisfactory to the Authority or the holders of one or more Bonds or other securities issued under the Indenture or one or more holders of a series of Bonds or other securities issued under the Indenture or any Person acting on behalf of any such holder or holders, for purposes of this Agreement, such compliance shall be waived only if it is waived by the Purchaser and such document, opinion or other instrument shall be acceptable or satisfactory only if it is acceptable or satisfactory to the Purchaser. No amendment or supplement to or termination or expiration of such covenants and agreements or defined terms made pursuant to the Indenture shall be effective to amend, supplement or terminate such covenants and agreements and defined terms as incorporated by reference herein without the consent of the Purchaser.

Without limiting the generality of the foregoing, the Authority will not amend, modify, waive or terminate, or consent to any amendment to or modification, waiver or termination of, any provision of any of the Related Documents (collectively, the "Action"), which could adversely impact the Purchaser. The Authority shall provide the Purchaser with prior written notice of any proposed Action.

Section 6.07. Maintenance of Approvals, Filings, Etc. At all times, the Authority will maintain in effect, renew and comply with all the terms and conditions of all Governmental Approvals as may be necessary or appropriate under any applicable law or regulation for its performance of this Agreement and the other Related Documents to which it is a party.

Section 6.08. Conversions and Redemptions. The Authority shall provide thirty (30) days written notice to the Purchaser prior to the date of any proposed (a) conversion of the interest rate on the Bonds to a rate of interest other than the Index Rate or (b) optional redemption or purchase in lieu of redemption of the Bonds pursuant to Section 4.02(b) or 4.02A of the Indenture.

Section 6.09. Use of Proceeds. The Authority shall use the proceeds of the Bonds only for the purposes set forth in the Indenture.

Section 6.10. Regulation U. The Authority is not engaged principally, or as one of its important activities, in the business of extending credit for the purposes of purchasing or carrying Margin Stock, and will not use the proceeds of the Bonds so as to violate Regulation U as it may be amended or interpreted from time to time by the FRB.

Section 6.11. Appointment of Successors and Replacements. The Authority shall not, without the prior written consent of the Purchaser, such consent not to be unreasonably withheld, delayed or conditioned, appoint or consent to the appointment of a successor Trustee. The Authority will replace the Trustee upon the reasonable request of the Purchaser within sixty (60) days of such request.

Section 6.12. Sovereign Immunity. The Authority hereby waives any sovereign immunity it has and consents to be sued on its contractual obligations, including this Agreement and the other Related Documents, and all contractual claims with respect hereto and thereto and to the fullest extent permitted by applicable law hereby irrevocably waives immunity on the grounds of sovereignty or other similar grounds from (a) suit, (b) the jurisdiction of any state or federal court located in the State, (c) relief by way of injunction, order for specific performance or for recovery of property consisting of monetary assets, cash or cash equivalent-type assets (whether before or after judgment, in aid of execution, or otherwise), and (d) execution or enforcement of any judgment to which it or its revenues or monetary assets, cash or cash equivalent-type assets might otherwise be entitled in any suit, action or proceedings relating to this Agreement or any other Related Document in any state or federal court located in the State, and no such immunity (whether or not claimed) may be attributed to the Authority or its revenues or monetary assets, cash or cash equivalent-type assets and such immunity (nor shall such attribution be claimed by the Authority). The foregoing waiver does not apply to any claim being made on or relief or execution being granted against any revenues or assets of the Authority other than Revenues and amounts owed to the Purchaser hereunder or under the other Related Documents or to any tort claims.

Section 6.13. Rate Stabilization Fund. The Authority agrees to maintain a minimum balance in the Rate Stabilization Fund on each January 15 and July 15, or the next Business Day thereafter, of at least \$50,000,000. The Authority shall cause the balance in the Rate Stabilization Fund to be tested on each January 15 and July 15 and the results of such test to be provided to the Purchaser within three (3) Business Days of such test. The Authority agrees to replenish the Rate Stabilization Fund within thirty (30) days after any violation of the covenant set forth in this Section 6.13.

Section 6.14. Underlying Rating. The Authority shall at all times maintain a rating on long-term unenhanced Parity Debt from at least one Rating Agency. The Authority covenants and agrees that it shall not at any time withdraw any long-term unenhanced rating on Parity Debt from any Rating Agency if the effect of such withdrawal would be to cure a Default or an Event of Default under this Agreement.

Section 6.15. Other Agreements. In the event that the Authority shall, directly or indirectly, enter into or otherwise consent to any Bank Agreement which such Bank Agreement provides such Person with different or more restrictive covenants, different or additional events of default and/or greater rights and remedies than are provided to the Purchaser in this Agreement, the Authority shall provide the Purchaser with a copy of each such Bank Agreement and such different or more restrictive covenants, different or additional events of default and/or greater rights and remedies shall automatically be deemed to be incorporated into this Agreement and the Purchaser shall have the benefits of such different or more restrictive covenants, different or additional events of default and/or greater rights and remedies as if specifically set forth herein. The Authority shall promptly enter into an amendment to this Agreement to include different or more restrictive covenants, different or additional events of default and/or greater rights and remedies; *provided* that the Purchaser shall have and maintain the benefit of such different or more restrictive covenants, different or additional events of default and/or greater rights and remedies even if the Authority fails to provide such amendment.

ARTICLE VII

NEGATIVE COVENANTS OF THE AUTHORITY

The Authority covenants and agrees, until the full and final payment and satisfaction of all of the Obligations, except in any instance in which the Purchaser specially agrees in writing to any performance or noncompliance, that:

Section 7.01. Compliance With Acts, Etc. The Authority shall not violate any laws, rules, regulations, or governmental orders to which it is subject, which violation will materially and adversely affect its financial condition or its ability to perform its obligations hereunder or under the Related Documents.

Section 7.02. Amendments. The Authority shall not, (a) consent or agree to any rescission of or amendment to the Bond Law which would reduce the amount of the Revenues or which would materially impair or materially adversely affect the rights of the Authority to the Revenues, the ability of the Authority to collect the Revenues or otherwise materially impair the security of the Purchaser; (b) agree to an amendment of the Indenture or the Funding Agreement such that payments to holders of Bonds are impaired or reduced or the priority of the obligations of the Authority to the Purchaser hereunder is adversely affected in any way; or (c) agree to an amendment of the Indenture or the Funding Agreement whatsoever which will materially and adversely affect the rights, interests, remedies or security of the Purchaser in respect thereof.

Section 7.03. Additional Debt. The Authority shall not issue and/or incur additional Parity Debt except in accordance with Article III of the Indenture.

Section 7.04. Reference to the Purchaser. The Authority shall not, refer to the Purchaser in any offering document relating to other Debt of the Authority without the Purchaser's prior written consent.

Section 7.05. Tax Status. The Authority shall not, take any action, or fail to take any action, which would result in interest on the Bonds being included in gross income of the holders thereof for purposes of federal income taxation.

Section 7.06. Funding Agreement. The Authority shall not, take any action which would result in any change in the purposes for which the Rate Stabilization Fund may be used pursuant to the Funding Agreement.

Section 7.07. Swap Agreements. Without the prior written consent of the Purchaser, the Authority will not enter into any Swap Agreement which constitutes to Parity Debt (i) wherein any termination payments thereunder are senior to or on parity with the payment of the Bonds (including Unremarketed Bonds) or the other Obligations or (ii) which requires the Authority to post cash collateral to secure its obligations thereunder.

ARTICLE VIII

EVENTS OF DEFAULT

Section 8.01. Events of Default. The occurrence of any of the following events (whatever the reason for such event and whether voluntary, involuntary, or effected by operation of Law) shall be an "Event of Default" hereunder, unless waived in writing by Purchaser:

(a) the Authority shall fail to pay the principal of or interest on any Bond (including any Unremarketed Bond) when due (whether by scheduled maturity, required prepayment, redemption or otherwise);

(b) the Authority shall fail to pay any Obligation (other than the obligation to pay the principal of or interest on the Bonds or Unremarketed Bonds) when due and such failure shall continue for three (3) Business Days;

(c) any representation or warranty made by or on behalf of the Authority in this Agreement or in any other Related Document or in any certificate or statement delivered hereunder or thereunder shall be incorrect or untrue in any material respect when made or deemed to have been made or delivered;

(d) the Authority shall default in the due performance or observance of any of the covenants set forth in Sections 6.01(a), 6.01(b), 6.01(c), 6.09, 6.13 and 6.15 or Article VII hereof;

(e) the Authority shall default in the due performance or observance of any other term, covenant or agreement contained in this Agreement or any other Related

Document and such default shall remain unremedied for a period of thirty (30) days after the occurrence thereof;

(f) the Authority shall (i) have entered involuntarily against it an order for relief under the United States Bankruptcy Code, as amended, (ii) become insolvent or shall not pay, or be unable to pay, or admit in writing its inability to pay, its debts generally as they become due, (iii) make an assignment for the benefit of creditors, (iv) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial part of its Property, (v) institute any proceeding seeking to have entered against it an order for relief under the United States Bankruptcy Code, as amended, to adjudicate it insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, marshalling of assets, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (vi) take any corporate action in furtherance of any matter described in parts (i) through (v) above, or (vii) fail to contest in good faith any appointment or proceeding described in Section 8.01(g) of this Agreement;

(g) a custodian, receiver, trustee, examiner, liquidator or similar official shall be appointed for the Authority or any substantial part of its Property, or a proceeding described in Section 8.01(f)(v) shall be instituted against the Authority and such proceeding continues undischarged or any such proceeding continues undismissed or unstayed for a period of thirty (30) or more days;

(h) a debt moratorium, debt restructuring, debt adjustment or comparable restriction is imposed on the repayment when due and payable of the principal of or interest on any Debt of the Authority by the Authority or any Governmental Authority with appropriate jurisdiction;

(i) (i) any provision of this Agreement or any Related Document related to (A) payment of principal of or interest on the Bonds (including Unremarketed Bonds) or (B) the validity or enforceability of the pledge of Revenues created by the Indenture shall at any time for any reason cease to be valid and binding on the Authority as a result of any legislative or administrative action by a Governmental Authority with competent jurisdiction, or shall be declared, in a final nonappealable judgment by any court of competent jurisdiction, to be null and void, invalid or unenforceable; or

(ii) the validity or enforceability of any material provision of this Agreement or any Related Document related to (A) payment of principal of or interest on the Bonds (including Unremarketed Bonds), or (B) the validity or enforceability of the pledge of the Revenues or any other pledge or security interest created by the Indenture shall be publicly contested by the Authority; or

(iii) any other material provision of this Agreement or any other Related Document, other than a provision described in clause (i) above, shall at

any time for any reason cease to be valid and binding on the Authority as a result of any legislative or administrative action by a Governmental Authority with competent jurisdiction or shall be declared in a final non-appealable judgment by any court with competent jurisdiction to be null and void, invalid, or unenforceable, or the validity or enforceability thereof shall be publicly contested by the Authority;

(j) dissolution or termination of the existence of the Authority;

(k) the Authority shall (i) default on the payment of the principal of or interest on any Parity Debt including, without limitation, any regularly scheduled payments on Swap Agreements which constitute Parity Debt, beyond the period of grace, if any, provided in the instrument or agreement under which such Parity Debt was created or incurred; or (ii) default in the observance or performance of any agreement or condition relating to any other Parity Debt or contained in any instrument or agreement evidencing, securing or relating thereto, or any other default, event of default or similar event shall occur or condition exist, the effect of which default, event of default or similar event or condition is to cause (determined without regard to whether any notice is required) any such Parity Debt to become immediately due and payable in full as the result of the acceleration, mandatory redemption or mandatory tender of such Parity Debt;

(l) the Authority shall (i) default on the payment of the principal of or interest on any Debt (other than the Bonds or Parity Debt) including, without limitation, any regularly scheduled payments on Swap Agreements, beyond the period of grace, if any, provided in the instrument or agreement under which such Debt (other than the Bonds or Parity Debt) was created or incurred; or (ii) default in the observance or performance of any agreement or condition relating to any Debt (other than the Bonds or Parity Debt), or contained in any instrument or agreement evidencing, securing or relating thereto, or any other default, event of default or similar event shall occur or condition exist, the effect of which default, event of default or similar event or condition is to permit (determined without regard to whether any notice is required) any such Debt to become immediately due and payable in full as the result of the acceleration, mandatory redemption or mandatory tender of such Debt;

(m) any final, unappealable judgment or judgments, writ or writs or warrant or warrants of attachment, or any similar process or processes, which are not covered in full by insurance, with written acknowledgement of such coverage having been provided by the provider of such insurance coverage to the Purchaser, in an aggregate amount not less than \$10,000,000 shall be entered or filed against the Authority or against any of its Property and remain unpaid, unvacated, unbonded or unstayed for a period of thirty (30) days;

(n) any "event of default" under any Related Document (as defined respectively therein) shall have occurred; or

(o) any of Moody's, Fitch or S&P shall have downgraded its rating of any long-term unenhanced Parity Debt of the Authority to below "Baa3" (or its equivalent), "BBB-" (or its equivalent) or "BBB-" (or its equivalent) respectively, or suspended or withdrawn its rating of the same.

Section 8.02. Consequences of an Event of Default. If an Event of Default specified in Section 8.01 hereof shall occur and be continuing, the Purchaser may take one or more of the following actions at any time and from time to time (regardless of whether the actions are taken at the same or different times):

(a) (i) by written notice to the Trustee and the Authority, declare the outstanding amount of the Obligations under this Agreement to be immediately due and payable without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived, and an action therefor shall immediately accrue;

(ii) deliver a written notice to the Trustee and the Authority that an Event of Default has occurred and is continuing and direct the Trustee and the Authority, as applicable, to cause a mandatory tender or acceleration of the Bonds or take such other remedial action as is provided for in the Indenture;

(iii) either personally or by attorney or agent without bringing any action or proceeding, or by a receiver to be appointed by a court in any appropriate action or proceeding, take whatever action at law or in equity may appear necessary or desirable to collect the amounts due and payable under the Related Documents or to enforce performance or observance of any obligation, agreement or covenant of the Authority under the Related Documents, whether for specific performance of any agreement or covenant of the Authority or in aid of the execution of any power granted to the Purchaser in the Related Documents;

(iv) cure any Default, Event of Default or event of nonperformance hereunder or under any Related Document; *provided, however,* that the Purchaser shall have no obligation to effect such a cure; and

(v) exercise, or cause to be exercised, any and all remedies as it may have under the Related Documents (other than as provided for in clause (ii) of this Section 8.02(a)) and as otherwise available at law and at equity.

(b) Notwithstanding the provisions of Section 8.02(a)(i) or 8.02(a)(ii), (x) the Purchaser shall not cause a mandatory tender or acceleration of the Bonds as described in Section 8.02(a)(i) or 8.02(a)(ii) until seven (7) days after the occurrence of an Event of Default specified in Section 8.01(a), 8.01(f), 8.01(g), 8.01(h), 8.01(i)(i), 8.01(i)(ii), 8.01(j) or 8.01(k) and (y) the Purchaser shall notify the Authority of a mandatory tender or acceleration at least one hundred eighty (180) days prior thereto in the case of any Event of Default not specified in the immediately preceding clause (x). Notwithstanding the foregoing sentence of this Section 8.02(b), if any other holder or credit enhancer of Debt or any counterparty under any Swap Agreement related thereto causes any such

Debt or other obligations of the Authority to become immediately due and payable, the Purchaser may immediately, without notice, avail itself of the remedies set forth in Section 8.02(a)(i) or 8.02(a)(ii) hereof and/or declare or cause to be declared the unpaid principal amount of all outstanding Bonds, all interest accrued and unpaid with respect thereto, and all other amounts owing or payable hereunder to be immediately due and payable.

Section 8.03. Remedies Cumulative; Solely for the Benefit of Purchaser. To the extent permitted by, and subject to the mandatory requirements of, applicable Law, each and every right, power and remedy herein specifically given to the Purchaser in the Related Documents shall be cumulative, concurrent and nonexclusive and shall be in addition to every other right, power and remedy herein specifically given or now or hereafter existing at law, in equity or by statute, and each and every right, power and remedy (whether specifically herein given or otherwise existing) may be exercised from time to time and as often and in such order as may be deemed expedient by the Purchaser, and the exercise or the beginning of the exercise of any power or remedy shall not be construed to be a waiver of the right to exercise at the same time or thereafter any other right, power or remedy.

The rights and remedies of the Purchaser specified herein are for the sole and exclusive benefit, use and protection of the Purchaser, and the Purchaser is entitled, but shall have no duty or obligation to the Authority, the Trustee or any other Person or otherwise, to exercise or to refrain from exercising any right or remedy reserved to the Purchaser hereunder or under any of the other Related Documents.

Section 8.04. Waivers or Omissions. No delay or omission by the Purchaser in the exercise of any right, remedy or power or in the pursuit of any remedy shall impair any such right remedy or power or be construed to be a waiver of any default on the part of the Purchaser or to be acquiescence therein. No express or implied waiver by the Purchaser of any Event of Default shall in any way be a waiver of any future or subsequent Event of Default.

Section 8.05. Discontinuance of Proceedings. In case the Purchaser shall proceed to invoke any right, remedy or recourse permitted hereunder or under the Related Documents and shall thereafter elect to discontinue or abandon the same for any reason, the Purchaser shall have the unqualified right so to do and, in such event, the Authority and the Purchaser shall be restored to their former positions with respect to the Obligations, the Related Documents and otherwise, and the rights, remedies, recourse and powers of the Purchaser hereunder shall continue as if the same had never been invoked.

ARTICLE IX

INDEMNIFICATION

Section 9.01. Indemnification. In addition to any and all rights of reimbursement, indemnification, subrogation or any other rights pursuant hereto or under law or equity, the Authority hereby agrees (to the extent permitted by law) to indemnify and hold harmless each Bondholder or Credit Protection Provider and its officers, directors and agents (each, an

“*Indemnatee*”) from and against any and all claims, damages, losses, liabilities, reasonable costs or expenses whatsoever (including reasonable attorneys’ fees) which may incur or which may be claimed against an Indemnatee by any Person or entity whatsoever (collectively, the “*Liabilities*”) by reason of or in connection with (a) the execution and delivery or transfer of, or payment or failure to pay under, any Related Document; (b) the issuance and sale of the Bonds; and (c) the use of the proceeds of the Bonds; *provided* that the Authority shall not be required to indemnify an Indemnatee for any claims, damages, losses, liabilities, costs or expenses to the extent, but only to the extent, caused by the willful misconduct or gross negligence of such Indemnatee. If any proceeding shall be brought or threatened against an Indemnatee by reason of or in connection with the events described in clause (a), (b) or (c) as a condition of indemnity hereunder each Indemnatee shall promptly notify the Authority in writing and the Authority shall assume the defense thereof, including the employment of counsel satisfactory to such Indemnatee and the payment of all reasonable costs of litigation. Notwithstanding the preceding sentence, each Indemnatee shall have the right to employ its own counsel and to determine its own defense of such action in any such case, but the fees and expenses of such counsel shall be at the expense of such Indemnatee unless (i) the employment of such counsel shall have been authorized in writing by the Authority, or (ii) the Authority, after due notice of the action, shall not have employed counsel satisfactory to such Indemnatee to have charge of such defense, in either of which events the reasonable fees and expenses of counsel for such Indemnatee shall be borne by the Authority. The Authority shall not be liable for any settlement of any such action effected without its consent. Nothing under this Section 9.01 is intended to limit the Authority’s payment of the Obligations.

Section 9.02. Survival. The obligations of the Authority under this Article IX shall survive the payment of the Bonds and the termination of this Agreement.

ARTICLE X

MISCELLANEOUS

Section 10.01. Patriot Act Notice. The Purchaser hereby notifies the Authority that pursuant to the requirements of the Patriot Act it is required to obtain, verify and record information that identifies the Authority, which information includes the name and address of the Authority and other information that will allow the Purchaser to identify the Authority in accordance with the Patriot Act. The Authority hereby agrees that it shall promptly provide such information upon request by the Purchaser.

Section 10.02. Further Assurances. From time to time upon the request of either party hereto, the other shall promptly and duly execute, acknowledge and deliver any and all such further instruments and documents as the requesting party may in its reasonable discretion deem necessary or desirable to confirm this Agreement, and the other Related Documents, to carry out the purpose and intent hereof and thereof or to enable the requesting party to enforce any of its rights hereunder or thereunder. At any time, and from time to time, upon request by the Purchaser, the Authority will, at the Authority’s expense, correct any defect, error or omission which may be discovered in the form or content of any of the Related Documents. Upon any failure by the Authority to do so, the Purchaser or the Trustee may make, execute and record any

and all such instruments, certificates and other documents for and in the name of the Authority, all at the sole expense of the Authority, and the Authority hereby appoints the Purchaser and the Trustee the agent and attorney-in-fact of the Authority to do so, this appointment being coupled with an interest and being irrevocable. In addition, at any time, and from time to time, upon request by the Purchaser or the Trustee, the Authority will, at the Authority's expense, provide any and all further instruments, certificates and other documents as may, in the opinion of the Purchaser or the Trustee, be necessary or desirable in order to verify the Authority's identity and background in a manner satisfactory to the Purchaser or the Trustee, as the case may be.

Section 10.03. Amendments and Waivers; Enforcement. The Purchaser and the Authority may from time to time enter into agreements amending, modifying or supplementing this Agreement or the other Related Documents or changing the rights of the Purchaser or the Authority hereunder or thereunder, and the Purchaser may from time to time grant waivers or consents to a departure from the due performance of the obligations of the Authority hereunder or thereunder. Any such agreement, waiver or consent must be in writing and shall be effective only to the extent specifically set forth in such writing. In the case of any such waiver or consent relating to any provision hereof, any Default or Event of Default so waived or consented to shall be deemed to be cured and not continuing, but no such waiver or consent shall extend to any other or subsequent Default or Event of Default or impair any right consequent thereto.

Section 10.04. No Implied Waiver; Cumulative Remedies. No course of dealing and no delay or failure of the Purchaser in exercising any right, power or privilege under this Agreement or the other Related Documents shall affect any other or future exercise thereof or exercise of any right, power or privilege; nor shall any single or partial exercise of any such right, power or privilege or any abandonment or discontinuance of steps to enforce such a right, power or privilege preclude any further exercise thereof or of any other right, power or privilege. The rights and remedies of the Purchaser under this Agreement are cumulative and not exclusive of any rights or remedies which the Purchaser would otherwise have under any Related Document, at law or in equity.

Section 10.05. Notices. All notices, requests, demands, directions and other communications (collectively "notices") under the provisions of this Agreement shall be in writing (including facsimile communication), unless otherwise expressly permitted hereunder, and shall be sent by first-class mail or overnight delivery and shall be deemed received as follows: (a) if by first class mail, five (5) days after mailing; (b) if by overnight delivery, on the next Business Day; (c) if by telephone, when given to a person who confirms such receipt; and (d) if by facsimile, when confirmation of receipt is obtained. All notices shall be sent to the applicable party at the following address or in accordance with the last unrevoked written direction from such party to the other parties hereto:

The Authority:	South Placer Wastewater Authority City of Roseville 2005 Hilltop Circle Roseville, California 95747 Attention: Director of Environmental Utilities
----------------	--

The Purchaser: U.S. Bank National Association
Government Banking - Credit Origination
633 W. Fifth Street, 25th Floor
Los Angeles, California 90071
Attention: Ashley Martin
Facsimile: (213) 615-6199
Telephone: (213) 615-6241

with a copy to: U.S. Bank National Association
Government and Non-profit Banking Division
15910 Ventura Boulevard, Suite 1712
Encino, California 91436
Attention: Ken Haber
Facsimile: (818) 789-3041
Email: kennethhaber@usbank.com

The Trustee: The Bank of New York Mellon Trust Company, N.A.
100 Pine Street, Suite 3100
San Francisco, California 94111
Attention: Corporate Trust Services
Telephone: (415) 263-2412
Facsimile: (415) 263-2064

The Purchaser may rely on any notice (including telephone communication) purportedly made by or on behalf of the other, and shall have no duty to verify the identity or authority of the Person giving such notice, unless such actions or omissions would amount to gross negligence or intentional misconduct.

Section 10.06. Right of Setoff. (a) Upon the occurrence of an Event of Default, a Bondholder may, at any time and from time to time, without notice to the Authority or any other Person (any such notice being expressly waived), set off and appropriate and apply against and on account of any obligations of the Authority to such Bondholder arising under or connected with this Agreement or the other Related Documents, without regard to whether or not such Bondholder shall have made any demand therefor, and although such obligations and liabilities may be contingent or unmatured, any and all deposits (general or special, including but not limited to deposits made pursuant to this Agreement and indebtedness evidenced by certificates of deposit, whether matured or unmatured, but not including trust accounts) and any other indebtedness at any time held or owing by such Bondholder to or for the credit or the account of any or all of the Authority.

(b) Each Bondholder agrees promptly to notify the Authority after any such set-off and application referred to in subsection (a) above, *provided* that the failure to give such notice shall not affect the validity of such set-off and application. Subject to the provisions of subsection (a) above, the rights of a Bondholder under this Section 10.06 are in addition to other rights and

remedies (including, without limitation, other rights of set-off) which such Bondholder may have.

Section 10.07. No Third-Party Rights. Nothing in this Agreement, whether express or implied, shall be construed to give to any Person other than the parties hereto and the Bondholders any legal or equitable right, remedy or claim under or in respect of this Agreement, which is intended for the sole and exclusive benefit of the parties hereto.

Section 10.08. Severability. The provisions of this Agreement are intended to be severable. If any provision of this Agreement shall be held invalid or unenforceable in whole or in part in any jurisdiction, such provision shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without in any manner affecting the validity or enforceability thereof in any other jurisdiction or the remaining provisions hereof in any jurisdiction.

Section 10.09. Governing Law; Consent to Jurisdiction and Venue; Waiver of Jury Trial.
(a) THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA WITHOUT GIVING EFFECT TO CONFLICTS OF LAWS PROVISIONS.

(b) EACH PARTY HERETO CONSENTS TO AND SUBMITS TO IN PERSONAM JURISDICTION AND VENUE IN THE STATE OF CALIFORNIA AND IN THE FEDERAL DISTRICT COURTS WHICH ARE LOCATED IN THE STATE OF CALIFORNIA. EACH PARTY ASSERTS THAT IT HAS PURPOSEFULLY AVAILED ITSELF OF THE BENEFITS OF THE LAWS OF THE STATE OF CALIFORNIA AND WAIVES ANY OBJECTION TO IN PERSONAM JURISDICTION ON THE GROUNDS OF MINIMUM CONTACTS, WAIVES ANY OBJECTION TO VENUE, AND WAIVES ANY PLEA OF FORUM NON CONVENIENS. THIS CONSENT TO AND SUBMISSION TO JURISDICTION IS WITH REGARD TO ANY ACTION RELATED TO THIS AGREEMENT. REGARDLESS OF WHETHER THE PARTY'S ACTIONS TOOK PLACE IN THE STATE OF CALIFORNIA OR ELSEWHERE IN THE UNITED STATES, THIS SUBMISSION TO JURISDICTION IS NONEXCLUSIVE, AND DOES NOT PRECLUDE EITHER PARTY FROM OBTAINING JURISDICTION OVER THE OTHER IN ANY COURT OTHERWISE HAVING JURISDICTION.

(c) TO THE EXTENT PERMITTED BY APPLICABLE LAWS, EACH OF THE PARTIES HERETO HEREBY WAIVES ITS RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT, THE RELATED DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. IF AND TO THE EXTENT THAT THE FOREGOING WAIVER OF THE RIGHT TO A JURY TRIAL IS UNENFORCEABLE FOR ANY REASON IN SUCH FORUM, EACH OF THE PARTIES HERETO HEREBY CONSENTS TO THE ADJUDICATION OF ALL CLAIMS PURSUANT TO JUDICIAL REFERENCE AS PROVIDED IN CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 638, AND THE JUDICIAL REFEREE SHALL BE EMPOWERED TO HEAR AND DETERMINE ALL ISSUES IN SUCH REFERENCE, WHETHER FACT OR LAW. EACH OF THE PARTIES HERETO REPRESENTS THAT EACH HAS REVIEWED THIS WAIVER AND CONSENT AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS AND CONSENTS TO JUDICIAL REFERENCE FOLLOWING CONSULTATION WITH LEGAL COUNSEL ON SUCH MATTERS. IN THE EVENT OF LITIGATION, A COPY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY

THE COURT OR TO JUDICIAL REFERENCE UNDER CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 638 AS PROVIDED HEREIN.

(d) The covenants and waivers made pursuant to this Section 10.09 shall be irrevocable and unmodifiable, whether in writing or orally, and shall be applicable to any subsequent amendments, renewals, supplements or modifications of this Agreement. In the event of litigation, this Agreement may be filed as a written consent to a trial by the court.

Section 10.10. Prior Understandings. This Agreement and the other Related Documents supersede all other prior understandings and agreements, whether written or oral, among the parties hereto relating to the transactions provided for herein and therein.

Section 10.11. Duration. All representations and warranties of the Authority contained herein or made in connection herewith shall survive the making of and shall not be waived by the execution and delivery of this Agreement or the other Related Documents. All covenants and agreements of the Authority contained herein shall continue in full force and effect from and after the date hereof until the Obligations have been fully discharged.

Section 10.12. Counterparts. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute but one and the same instrument.

Section 10.13. Successors and Assigns.

(a) *Successors and Assigns Generally.* This Agreement is a continuing obligation and shall be binding upon the Authority, its successors, transferees and assigns and shall inure to the benefit of the Bondholders and their respective permitted successors, transferees and assigns. The Authority may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Purchaser. Each Bondholder may, in its sole discretion and in accordance with applicable Law, from time to time assign, sell or transfer in whole or in part, this Agreement, its interest in the Bonds and the Related Documents in accordance with the provisions of paragraph (b) or (c) of this Section. Each Bondholder may at any time and from time to time enter into participation agreements in accordance with the provisions of paragraph (d) of this Section. Each Bondholder may at any time pledge or assign a security interest subject to the restrictions of paragraph (e) of this Section. U.S. Bank National Association shall be the Purchaser hereunder notwithstanding the sale or transfer of any Bond to a Non-Purchaser Transferee as herein provided.

(b) *Sales and Transfers by Bondholder to a Purchaser Transferee.* Without limitation of the foregoing generality, a Bondholder may at any time sell or otherwise transfer to one or more transferees all or a portion of the Bonds to a Person that is (i) an Affiliate of the Purchaser or (ii) a trust or other custodial arrangement established by the Purchaser or an Affiliate of the Purchaser, the owners of any beneficial interest in which are limited to “qualified institutional buyers” as defined in Rule 144A promulgated under the 1933 Act (each, a “*Purchaser Transferee*”). From and after the date of such sale or transfer, U.S. Bank National Association

(and its successors) shall continue to have all of the rights of the Purchaser hereunder and under the other Related Documents as if no such transfer or sale had occurred; *provided, however*, that (A) no such sale or transfer referred to in clause (b)(i) or (b)(ii) hereof shall in any way affect the obligations of the Purchaser hereunder, (B) the Authority and the Trustee shall be required to deal only with the Purchaser with respect to any matters under this Agreement and (C) in the case of a sale or transfer referred to in clause (b)(i) or (b)(ii) hereof, only the Purchaser shall be entitled to enforce the provisions of this Agreement against the Authority.

(c) *Sales and Transfers by Bondholder to a Non-Purchaser Transferee.* (i) Without limitation of the foregoing generality, a Bondholder may at any time sell or otherwise transfer to one or more transferees which are not Purchaser Transferees but each of which constitutes a “qualified institutional buyer” as defined in Rule 144A promulgated under the 1933 Act (each a “*Non-Purchaser Transferee*”) all or a portion of the Bonds if (A) written notice of such sale or transfer, including that such sale or transfer is to a Non-Purchaser Transferee, together with addresses and related information with respect to the Non-Purchaser Transferee, shall have been given to the Authority, the Trustee and the Purchaser (if different than the Bondholder) by such selling Bondholder and Non-Purchaser Transferee, and (B) the Non-Purchaser Transferee shall have delivered to the Authority, the Trustee and the selling Bondholder, an investment letter in substantially the form attached as Exhibit B to the Indenture (the “*Purchaser Letter*”).

(ii) From and after the date the Authority, the Trustee and the selling Bondholder have received written notice and an executed Purchaser Letter, (A) the Non-Purchaser Transferee thereunder shall be a party hereto and shall have the rights and obligations of a Bondholder hereunder and under the other Related Documents, and this Agreement shall be deemed to be amended to the extent, but only to the extent, necessary to effect the addition of the Non-Purchaser Transferee, and any reference to the assigning Bondholder hereunder and under the other Related Documents shall thereafter refer to such transferring Bondholder and to the Non-Purchaser Transferee to the extent of their respective interests, and (B) if the transferring Bondholder no longer owns any Bonds, then it shall relinquish its rights and be released from its obligations under this Agreement and the other Related Documents; *provided, however*, that (1) the Authority and the Trustee shall be required to deal only with the Purchaser with respect to any matters under this Agreement; (2) only the Purchaser shall be entitled to enforce the provisions of this Agreement against the Authority and (3) in the event the Purchaser, any Purchaser Transferee or any combination thereof ceases to be the owner of a majority of the aggregate principal amount of the Bonds, no Non-Purchaser Transferee shall constitute a Bondholder hereunder or have the benefits of the terms and provisions of this Agreement except to the extent necessary to give meaning and effect to the provisions of the Indenture.

(d) *Participations.* The Purchaser shall have the right to grant participations in all or a portion of the Purchaser’s interest in the Bonds, this Agreement and the other Related Documents to one or more other banking institutions; *provided, however*, that (i) no such participation by any such participant shall in any way affect the obligations of the Purchaser hereunder and (ii) the Authority and the Trustee shall be required to deal only with the Purchaser, with respect to any matters under this Agreement, the Bonds and the other Related Documents and no such participant shall be entitled to enforce any provision hereunder against the Authority.

(e) *Certain Pledges.* The Purchaser may at any time pledge or grant a security interest in all or any portion of its rights under the Bonds, this Agreement and the Related Documents to secure obligations of the Purchaser, including any pledge or assignment to secure obligations to a Federal Reserve Bank; *provided* that no such pledge or assignment shall release the Purchaser from any of its obligations hereunder or substitute any such pledgee or assignee for the Purchaser as a party hereto.

Section 10.14. Headings. Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

Section 10.15. Acknowledge and Appointment as the Calculation Agent. The Purchaser hereby acknowledges and accepts its appointment as Calculation Agent during the Initial Period pursuant to the Indenture and acknowledges, accepts and agrees to all the duties and obligations of the Calculation Agent set forth in the Indenture.

Section 10.16. No Fiduciary Relationship. The Authority acknowledges and agrees that its dealing with the Purchaser are solely in the nature of a debtor/creditor relationship and that in no event shall the Purchaser be considered to be a partner or joint venturer of the Authority. Also, the Authority represents and warrants that it has independently evaluated the business transaction and has not relied upon, nor will it rely upon, the expertise, advice or other comments or statements of the Purchaser (including agents of the Purchaser), if any, in deciding to pursue such undertaking. As the Authority is experienced in business, in no event shall the Purchaser owe any fiduciary or similar obligations to it in connection with the subject transaction.

Section 10.17. Electronic Signatures. The parties agree that the electronic signature of a party to this Agreement shall be as valid as an original signature of such party and shall be effective to bind such party to this Agreement. The parties agree that any electronically signed document (including this Agreement) shall be deemed (a) to be “written” or “in writing,” (b) to have been signed and (c) to constitute a record established and maintained in the ordinary course of business and an original written record when printed from electronic files. Such paper copies or “printouts,” if introduced as evidence in any judicial, arbitral, mediation or administrative proceeding, will be admissible as between the parties to the same extent and under the same conditions as other original business records created and maintained in documentary form. Neither party shall contest the admissibility of true and accurate copies of electronically signed documents on the basis of the best evidence rule or as not satisfying the business records exception to the hearsay rule. For purposes hereof, “electronic signature” means a manually-signed original signature that is then transmitted by electronic means; “transmitted by electronic means” means sent in the form of a facsimile or sent via the internet as a “pdf” (portable document format) or other replicating image attached to an e-mail message; and, “electronically signed document” means a document transmitted by electronic means and containing, or to which there is affixed, an electronic signature.

[SIGNATURES BEGIN ON THE FOLLOWING PAGE.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the Effective Date.

U.S. BANK NATIONAL ASSOCIATION

By _____
Name: Ashley Martin
Title: Assistant Vice President

SOUTH PLACER WASTEWATER AUTHORITY

By _____
Treasurer

Attest:

By _____
Secretary

EXHIBIT A

FORM OF COMPLIANCE CERTIFICATE

This Compliance Certificate (this "*Certificate*") is furnished to U.S. Bank National Association (the "*Purchaser*") pursuant to that certain Continuing Covenant Agreement dated as of April 1, 2013 (the "*Agreement*"), between South Placer Wastewater Authority (the "*Authority*") and Purchaser. Unless otherwise defined herein, the terms used in this Certificate shall have the meanings assigned thereto in the Agreement.

THE UNDERSIGNED HEREBY CERTIFIES THAT:

1. I am a duly authorized officer of the Authority;
2. I have reviewed the terms of the Agreement and I have made, or have caused to be made under my supervision, a detailed review of the transactions and conditions of the Authority during the accounting period covered by the attached financial statements;
3. The examinations described in paragraph 2 did not disclose, and I have no knowledge of, the existence of any condition or the occurrence of any event which constitutes a Default or Event of Default during or at the end of the accounting period covered by the attached financial statements or as of the date of this Certificate, except as set forth below;
4. To the best of my knowledge the financial statements required by Section 6.01 of the Agreement and being furnished to you concurrently with this certificate fairly represent the financial condition of the Authority in accordance with GAAP (subject to year end adjustments) as of the dates and for the periods covered thereby; and

Described below are the exceptions, if any, to paragraph 3 by listing, in detail, the nature of the condition or event, the period during which it has existed and the action which the Authority has taken, is taking, or proposes to take with respect to each such condition or event:

The foregoing certifications and the financial statements delivered with this Certificate in support hereof, are made and delivered this _____ day of _____, 20__.

SOUTH PLACER WASTEWATER AUTHORITY

By _____
Name: _____
Title: _____

RESOLUTION NO. 2013-05

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE SOUTH PLACER
WASTEWATER AUTHORITY APPROVING REFUNDING BOND FINANCING
OF WASTEWATER REVENUE BONDS, AUTHORIZING EXECUTION OF
INDENTURE OF TRUST THEREFOR AND OTHER DOCUMENTS, AND
RELATED MATTERS**

WHEREAS, the City of Roseville (the "City"), together with the County of Placer (the "County") and the South Placer Municipal Utility District (the "District"), have formed a joint powers agency, known as the South Placer Wastewater Authority (the "Authority") for the purpose of jointly financing the Pleasant Grove Wastewater Treatment Plant, improvements to the Dry Creek Wastewater Treatment Plant, and Related Regional Infrastructure (together, the "Project"), and other future regional wastewater facilities, including to issue bonds for such purpose; and

WHEREAS, the Authority has previously issued its Wastewater Revenue Refunding Bonds, Series 2011A (Variable Rate Demand Bonds) (the "2011A Bonds") issued hereunder in the original principal amount of \$30,165,000, and its Wastewater Revenue Refunding Bonds, Series 2011B (Variable Rate Demand Bonds) (the "2011B Bonds" and, together with the 2011A Bonds, the "2011 Bonds") in the original principal amount of \$30,160,000 to refinance the Project; and

WHEREAS, the Authority, after due investigation and deliberation, has determined that due to the approaching expiration of the letters of credit provided for the 2011 Bonds, that it is in the best interests of the Authority and the City, County and District (together, the "Participants"), that the Authority at this time provide for the refunding of the 2011 Bonds through the issuance of a series of refunding revenue bonds (the "Refunding Bonds") under the provisions of Article 4 of the Joint Exercise of Powers Law (commencing with Section 6584 of the California Government Code) (the "Bond Law"); and

WHEREAS, in order to provide for the issuance of the Refunding Bonds, the Authority desires to enter into that certain Wastewater Revenue Bond Indenture (the "Indenture") dated as of April 1, 2013, between The Bank of New York Mellon Trust Company, N.A. (the "Trustee") and the Authority; and

WHEREAS, the Authority, at the direction of the Participants, proposes to sell the Refunding Bonds on a direct purchase basis to U.S. Bank National Association (the "Bank"); and

WHEREAS, the Indenture provides that the Refunding Bonds will be issued as variable rate bonds initially bearing interest at an Index Rate, with the option of the Authority to convert the interest rate to other modes, all as described in the Indenture and will be secured by certain revenues of the Authority on parity with the security provided for the Authority's Wastewater Revenue Refunding Bonds, Series 2011C in the original principal amount of \$67,040,000, and its Wastewater Revenue Refunding Bonds, Series 2011D (SIFMA Index Bonds) in the original principal amount of \$30,000,000 issued to refinance the Project; and

WHEREAS, the Authority has previously entered into a swap agreement with respect to the 2011B Bonds, which swap agreement is expected to remain outstanding, and payments thereunder will be secured on a parity with the Refunding Bonds; and

WHEREAS, the Board of Directors of the Authority (the "Board") wishes at this time to authorize all proceedings relating to the Authority's refunding the 2011 Bonds and issuing the Refunding Bonds;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the South Placer Wastewater Authority as follows:

Section 1. Recitals True and Correct. The Board hereby determines that the foregoing recitals are true and correct.

Section 2. Definitions. Except as otherwise defined herein, all initially capitalized terms shall have the definitions given to them in that certain Funding Agreement relating to the South Placer Regional Wastewater Facilities, dated as of October 1, 2012, among the Authority and the Participants (the "Funding Agreement"), as it may be amended from time to time.

Section 3. Issuance of the Refunding Bonds; Approval of Documents. The Board hereby authorizes the issuance of the Refunding Bonds under and pursuant to the Act and the Indenture in the aggregate principal amount of not to exceed \$60,325,000 for the purposes of refunding the 2011 Bonds, which bonds were issued to provide refinancing for the acquisition and construction of a portion of the Project. The Board hereby approves the execution and delivery of the following agreements (collectively, the "Agreements"), including the parity pledge of Revenues described in the Indenture for payment of the Refunding Bonds, in substantially the form on file with the Secretary, together with such changes, insertions and omissions as may be approved by the Treasurer, Executive Director, or Chair, of the Authority (each, an "Authorized Officer"), such approval to be conclusively evidenced by the execution and delivery thereof:

(a) the Indenture; and

(b) the Continuing Covenant Agreement dated as of April 1, 2013, between the Authority and the Bank.

Each Authorized Officer is authorized and directed to execute, and the Secretary is hereby authorized and directed to attest, the final form of the Agreements, for and in the name and on behalf of the Authority. The Board hereby authorizes the delivery and performance of the Agreements.

Section 4. Sale of the Refunding Bonds. The Board hereby approves the sale of the Refunding Bonds by the Authority to the Bank pursuant to the terms of the Bank's term sheet dated January 28, 2013 (the "Term Sheet") and authorizes each Authorized Officer, acting alone, to execute a sale document consistent with the Indenture and the Term Sheet, with such terms of sale as are deemed advisable by the Authorized Officers to accomplish the issuance of the Refunding Bonds, whose execution of any such agreement shall be conclusive evidence of approval.

Section 5. Official Actions. The Chair, the Vice Chair, the Executive Director, the Treasurer, the Secretary and any and all other officers of the Authority are hereby authorized

and directed, for and in the name and on behalf of the Authority, to do any and all things and take any and all actions, including the selection of the Trustee, payment of costs of issuance not to exceed \$157,520, execution and delivery of an arbitrage certificate and continuing disclosure agreement(s), documentation relating to the swap agreement, any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they, or any of them, may deem necessary or advisable in order to consummate any of the transactions contemplated by the documents approved pursuant to this Resolution, including but not limited to an escrow agreement pertaining to refunding the 2011 Bonds and a bond purchase agreement consistent with the Indenture and the Term Sheet.

Section 6. Effective Date. This Resolution shall take effect from and after the date of its passage and adoption.

* * * * *

PASSED AND ADOPTED this 11th day of March, 2013, by the following vote:

AYES:

NOES:

ABSENT:

Chairperson

Attest:

Secretary

AUTHORITY COMMUNICATION

TO: South Placer Wastewater Authority
Board of Directors

DATE: February 25, 2013

FROM: Sandra Ikeda, Accounting Manager

AUTHORITY COMMUNICATION NO.: 13-10

SUBJECT: Audited Financial Statement and Memorandum of Internal Control as of June 30, 2012

For SPWA Board Meeting of 3/11/13

ACTION REQUESTED

This communication is informational only. No action is required of the board.

The attached audited financial statement and memorandum of internal control are for the period of July 1, 2011 to June 30, 2012.

Submitted by:

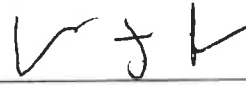


Sandra Ikeda
Accounting Manager

Approved:



Russ Branson
Treasurer



Ken Glotzbach
Interim Executive Director

SOUTH PLACER WASTEWATER AUTHORITY

CITY OF ROSEVILLE

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

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**SOUTH PLACER WASTEWATER AUTHORITY
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of the
South Placer Wastewater Authority
Roseville, California

We have audited the basic financial statements of the South Placer Wastewater Authority, as of and for the year ended June 30, 2012, as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2012, and the change in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The Supplemental Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements. The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated in all material respects in relation to the financial statements as a whole.

Mane & Associates

January 17, 2013

**SOUTH PLACER WASTEWATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

THE AUTHORITY

The Authority is a regional joint venture created by the City of Roseville, Placer County and South Placer Municipal Utilities District (the Members) to finance the construction of the Pleasant Grove Wastewater Treatment Plant and other improvements located in the City of Roseville. The Authority issued \$180 million of debt for this purpose in December 2000.

Members contribute Connection Fees they collect from developers as the properties to be served by the Authority are developed. These Connection Fees are expected to be sufficient to fund the entire cost of the debt service on the Plant's construction, including principal and interest.

Now that construction is substantially complete, the Authority is responsible for collecting contributions of Connection Fees from members and for making all debt service payments on the Revenue Bonds until they are retired.

The Authority's accounting is similar to private business enterprises: capital construction costs, including interest costs, are capitalized; interest income on unexpended bond proceeds and other incidental income are netted against these costs. Under the terms of the agreements creating and governing the Authority (the Agreements), these net capital costs are transferred to the City of Roseville, which will own and operate the improvements when they are complete.

THE BASIC FINANCIAL STATEMENTS

The Authority's Basic Financial Statements include the Statement of Net Assets, Statement of Activities and Statement of Cash Flows. Together with this report, the Basic Financial Statements provide information about the significant events, assumptions and decisions that resulted in the financial performance reflected in those statements.

The Statement of Net Assets provides information regarding the financial position of the Authority, including its debt.

The Statement of Activities normally provides information regarding the revenues generated by the Authority's operations, and expenses incurred in generating those revenues. The Authority's only operating resources are provided by contributions from members and the only costs it incurs are capital construction costs, which are contributed to the City of Roseville as they are incurred, and debt service payments.

The Statement of Cash Flows provides information regarding the sources and uses of all the cash that flowed into and out of the Authority, regardless of how these transactions were accounted for.

FINANCIAL ACTIVITIES AND FISCAL YEAR 2012 HIGHLIGHTS

Statement of Net Assets

The Authority's net assets increased \$1.7 million in 2012 as shown in Table 1 below, as the infrastructure has been transferred to the City of Roseville.

Table 1
Net Assets
As of June 30, 2012 and 2011
(In Millions)

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets:		
Cash and investments	\$100.8	\$103.1
Other current assets	1.0	0.7
Noncurrent Assets	<u>18.9</u>	<u>12.7</u>
Total Assets	<u>120.7</u>	<u>116.5</u>
Liabilities		
Current Liabilities	3.7	3.7
Long-term liabilities	<u>172.6</u>	<u>170.1</u>
Total Liabilities	<u>176.3</u>	<u>173.8</u>
Net Assets		
Restricted	102.0	103.4
Unrestricted (deficit)	<u>(157.6)</u>	<u>(160.7)</u>
Total Net Assets	<u>(\$55.6)</u>	<u>(\$57.3)</u>

The Authority's Net Assets at June 30, 2012 are discussed below:

- Investments of member contributions and debt service reserves totaled \$100.8 million, all of which were invested in accordance with applicable Authority resolutions and bond indentures.
- Long-term liabilities increased net \$1.5 million due to the bond principal retirements being offset by an increase in the negative fair value of the derivative.
- Other assets and liabilities included normal business receivables and payables.
- Net assets restricted for rate stabilization totaled \$92.6 million; these net assets are restricted by the Members for use in the funding of debt service payments required under the Authority's bond indentures and future capital expansion. A separate analysis of net assets restricted for rate stabilization by Member is presented as supplementary information to the financial statements.
- Net assets restricted for debt service totaled \$9.4 million; this amount is restricted under the Authority's Revenue Bond indentures to the payment of debt service in the event other resources of the Authority are not adequate.

- The deficit unrestricted net assets totaling \$157.6 million represents net capital construction costs incurred to date in constructing various regional wastewater improvements. The construction in progress has been transferred to the City of Roseville in this amount, as required by the Agreements.

Statement of Activities

The Authority's net assets decreased \$1.7 million in fiscal 2012 as shown in Table 2 below.

Table 2
Changes in Net Assets
As of June 30, 2012 and 2011
(In Millions)

	2012	2011
Operating Costs		
Personnel services and administration	\$0.2	\$0.3
Construction costs	0.5	7.6
Net cost of capital assets	0.7	7.9
Debt service interest, variable bond interest expense and fiscal agent fees	7.0	4.9
Operating loss	<u>(7.7)</u>	<u>(12.8)</u>
Nonoperating Income (Expense)		
Connection fees contributed by members	5.5	5.9
Interest earned on connection fees	0.7	0.7
Interest earned on investments with fiscal agent	0.3	0.3
Net increase/(decrease) in the fair value of investments	(0.1)	(0.2)
Other non-program revenues	3.0	1.8
Total nonoperating income	<u>9.4</u>	<u>8.5</u>
Net Income	1.7	(4.3)
Net Assets at Beginning of Year	<u>(57.3)</u>	<u>(53.0)</u>
Net Assets at End of Year	<u><u>(\$55.6)</u></u>	<u><u>(\$57.3)</u></u>

Prior to the completion of the Pleasant Grove Plant, capital costs of the Authority, as defined by the Agreements, include personnel services and administration, debt service, and construction costs. Construction costs include interest on construction financing costs, net of interest income on unexpended bond proceeds. Subsequent to the completion of the Plant, debt service costs are a program expense of the Authority, and not a component of capital costs.

Net capital costs were \$0.7 million at June 30, 2012. The following is the breakdown of capital costs:

- Personnel services, administration expenditures, and miscellaneous of \$195 thousand incurred in fiscal 2012 compared to \$260 thousand in fiscal 2011.

- Actual construction payments to contractors in fiscal 2012 were \$0.5 million, compared to \$7.6 million in fiscal 2011, as work on various wastewater improvements is continuing to wind down for the current phase of the system.

Debt service expenditures in this fiscal year were \$9.7 million, including \$2.7 million for principal repayment, \$7.0 million in interest expense and fiscal agent fees.

Included in Other Non-Program Revenues is a reimbursement of \$3 million from the City of Roseville for improvements to the City's system in the prior year that were included in the Authority's projects.

The Authority received contributions of \$5.5 million from Members in fiscal 2012, representing Connection Fees collected by them from developers of properties in the area to be served by the Authority. This was down slightly from fiscal 2011 by \$0.4 million, which continues to reflect a slowdown of development in the area.

Analysis of Rate Stabilization Restricted Net Assets Schedule

The Schedule presented as supplementary information to the financial statements, shows that in fiscal 2012 interest income of \$0.7 million was added to Members' balances, basically equal to fiscal 2011.

DEBT ADMINISTRATION

At June 30, 2012, the Authority's debt is comprised of 2011 South Placer Wastewater Authority Variable Rate Demand Refunding Wastewater Revenue Bonds, Series A, and Series B, 2011 South Placer Wastewater Authority Refunding Wastewater Revenue Bonds, Series C, and the 2011 South Placer Wastewater Authority SIFMA Index Refunding Wastewater Revenue Bonds, Series D, which are discussed in detail in Note 4 to the financial statements. In addition, the Authority has a swap with Morgan Stanley to synthetically fix the Series A, B, and D bonds.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The economic outlook is uncertain as development continues to be slow in the area. Even with the development slowdown, the City and the District are still generating connection revenues. Development in the County has been slower and it has a sizeable negative balance in the Rate Stabilization Fund. All three partners have met to resolve this issue and amended the funding agreement in fiscal 2013. However, the Rate Stabilization Fund still has a healthy balance (11.0 times current debt service) and the mechanics of the funding agreement are working as intended.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

These financial statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the Authority's finances. Questions about this Report should be directed to the City of Roseville Finance Department, at 311 Vernon Street, Roseville, CA 95678.

SOUTH PLACER WASTEWATER AUTHORITY

**STATEMENT OF NET ASSETS
AND
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS**

SOUTH PLACER WASTEWATER AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS

Current Assets:	
Investments in City of Roseville Treasury (Note 2)	\$8,737,291
Investments (Note 2)	82,319,861
Restricted investments with fiscal agent (Note 2)	9,804,924
Accrued interest receivable	213,949
Due from other governments	802,818
Noncurrent Assets:	
Deferred receivable	1,377,933
Deferred out-flow asset (Note 4C)	16,427,150
Unamortized bond origination costs, net	<u>1,046,671</u>
 Total Assets	 <u>120,730,597</u>

LIABILITIES

Current Liabilities:	
Accounts payable and other liabilities	679,280
Long-term debt (Note 4)	
Due in one year	3,040,000
Long-term liabilities:	
Derivative at fair value (Note 4C)	16,427,150
Long-term debt (Note 4)	
Due in more than one year	<u>156,220,823</u>
 Total Liabilities	 <u>176,367,253</u>

NET ASSETS (Note 5)

Restricted for:	
Rate stabilization	92,596,392
Debt service	9,392,947
Unrestricted (deficit)	<u>(157,625,995)</u>
 Total Net Assets (Deficit)	 <u><u>(\$55,636,656)</u></u>

See accompanying notes to financial statements

SOUTH PLACER WASTEWATER AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

PROGRAM EXPENSES:

Cost of capital assets contributed to City of Roseville (Note 3):	
Construction costs	\$539,123
Personnel services and administration	<u>195,599</u>
Cost of capital assets contributed to City of Roseville	734,722
Debt service interest, variable bond interest and fiscal agent fees	6,977,292
Miscellaneous expense	<u>25,712</u>
Total program expenses	<u>7,737,726</u>

PROGRAM REVENUES:

Connection fees contributed by members	5,500,566
Project reimbursement from City of Roseville	3,000,000
Miscellaneous revenue	25,712
Interest earned on connection fees	700,978
Interest earned on investments with fiscal agent	243,264
Net (decrease) in the fair value of investments	<u>(96,677)</u>
Total program revenues	<u>9,373,843</u>
Change in net assets	1,636,117
Net Assets (Deficit) at beginning of year	<u>(57,272,773)</u>
Net Assets (Deficit) at end of year	<u><u>(\$55,636,656)</u></u>

See accompanying notes to financial statements

SOUTH PLACER WASTEWATER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to contractors	(\$883,768)
Payments to City of Roseville for personnel services and administration	(195,599)
Interest paid on long-term debt	<u>(7,259,080)</u>
Net cash used by operating activities	<u>(8,338,447)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipts from members	7,891,894
Principal payments on capital debt	(2,690,000)
Other receipts	<u>25,712</u>
Cash Flows from Capital and Related Financing Activities	<u>5,227,606</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>858,485</u>
Cash Flows from Investing Activities	<u>858,485</u>
Net decrease in cash and cash equivalents	(2,252,356)
Cash and investments at beginning of year	<u>103,114,432</u>
Cash and investments at end of year	<u><u>\$100,862,076</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	(\$7,737,726)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Amortization of bond issuance costs	45,771
Amortization of deferred bond premium	(327,559)
Change in assets and liabilities:	
Accounts payable and other liabilities	<u>(318,933)</u>
Net cash used by operating activities	<u><u>(\$8,338,447)</u></u>
NONCASH CAPITAL FINANCING ACTIVITIES	
Contribution of construction in progress to the City of Roseville (Note 3)	<u>(\$734,722)</u>
Amortization of bond issuance costs	<u>\$45,771</u>
Amortization of deferred bond premium	<u><u>(\$327,559)</u></u>

See accompanying notes to financial statements

**SOUTH PLACER WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Organization and Purpose*

The South Placer Wastewater Authority (the Authority) is a Joint Powers Agreement created in October, 2000 which is financing the construction of the Pleasant Grove Wastewater Treatment Plant and improvements to the Dry Creek Wastewater Treatment Plant, referred to collectively as the Regional Wastewater Facilities.

The members of the Authority are the City of Roseville, South Placer Municipal Utilities District and the County of Placer. The Authority's Governing Board is comprised of five directors as appointed by the member agencies. Two directors are appointed by the City, one director is appointed by the District, and two directors are appointed by the County. Each representative of the governing board has one vote.

In addition, the members entered into a Funding Agreement and Operations Agreement to provide for the funding and operation of the Regional Wastewater Facilities. Under the Funding Agreement the members agreed that the City of Roseville will own and operate the Regional Wastewater Facilities and that the other members will have an interest in the capacity of those facilities. Capital construction costs are transferred to the City of Roseville annually.

Members contribute connection fees they collect from developers as the properties to be served by the Plant are developed. These connection fees are expected to be sufficient to fund the entire cost of the debt service on the Plant's construction, including principal and interest. These contributions are made monthly.

The Authority may not be terminated, and no member agency may withdraw its membership, until all bonds or other indebtedness issued by the Authority have been paid in full.

The Authority has no employees and substantially all staff services are performed by City of Roseville personnel. Costs incurred by the City of Roseville to provide such services are reimbursed by the Authority.

The Authority is considered to be a separate legal entity and is not a component unit of the above members.

The accounting records of the Authority are maintained by the City of Roseville.

B. *Basis of Presentation*

The Authority's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These Standards require that the financial statements described below be presented.

SOUTH PLACER WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Net Assets and the Statement of Activities display information about the primary government (the Authority). These statements include the financial activities of the Authority overall. Eliminations have been made to minimize the double counting of internal activities. These statements display the *business-type activities* of the Authority. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Authority's business type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

C. *Basis of Accounting*

The Authority is a proprietary entity; it uses an enterprise fund format to report its activities for financial statement purposes. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs and expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

An enterprise fund is used to account for activities similar to those in the private sector, where the proper matching of revenues and costs is important and the full accrual basis of accounting is required. With this measurement focus, all assets and all liabilities of the enterprise are recorded on its statement of net assets and, under the full accrual basis of accounting, all revenues are recognized when earned and all expenses, including depreciation, are recognized when incurred.

The Authority has only fund which is the general operating fund of the Authority. It is used to account for all financial resources of the Authority. This fund is used to pay all administrative, operating, construction and other expenses incurred by the Authority, and to account for member contributions and charges.

D. *Interest Income Allocation*

Interest income is credited to capital construction costs and member contributions based on the source of the interest earned. Interest earned on restricted investments with fiscal agents is credited to capital construction costs and all other interest is accounted for as interest on contributions.

E. *Issuance Costs*

Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as unamortized bond origination costs.

**SOUTH PLACER WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH AND INVESTMENTS

The Authority pools cash from all sources and all funds except cash with fiscal agents so that it can be invested at the maximum yield, consistent with safety and liquidity.

The Authority and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. Individual investments are generally made by the Authority's fiscal agents as required under its debt issues. In order to maximize security, the Authority employs the Trust Department of a bank as the custodian of all Authority managed investments, regardless of their form.

A. Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of Authority debt instruments or agreements.

Investments in City of Roseville Treasury	\$8,737,291
Investments	82,319,861
Restricted investments with fiscal agent	<u>9,804,924</u>
Total Investments	<u><u>\$100,862,076</u></u>

B. Investments Authorized by the California Government Code and the Authority's Investment Policy

The Authority's investment policy and the California Government Code allow the Authority to invest in the following, provided the credit ratings of the issuers are acceptable to the Authority and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code, or the Authority's Investment Policy where the Authority's Investment Policy is more restrictive.

**SOUTH PLACER WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012**

NOTE 2 - CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage Allowed	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 Years	None	No Limit	No Limit
U.S. Agency or Government Sponsored Enterprise Securities	5 Years	None	No Limit	No Limit
Mortgage Pass-Through Securities	5 Years	None	20%	No Limit
Forward Delivery Agreements	N/A	A	No Limit	No Limit
State of California or California Local Agency Bonds	5 Years	One of two highest rating categories	No Limit	No Limit
Registered State Treasury Notes or Bonds of the other 49 States	5 Years	None	No Limit	No Limit
Repurchase Agreements	30 days	None	No Limit	No Limit
Bankers' Acceptances	180 days	None	40%	30%
Commercial Paper	270 days	A-1	25%	10%
Medium-Term Notes	5 Years	AA	30%	No Limit
Collateralized Time Deposits	5 Years	None	30%	No Limit
Negotiable Certificates of Deposit	5 Years	AA	30%	No Limit
Local Agency Investment Fund (LAIF)	N/A	None	\$50 million	No Limit
Insured Saving Accounts	N/A	None	No Limit	No Limit
Money Market Mutual Funds	N/A	(A)	20%	10%
Shares in a California Common Law Trust	N/A	None	No Limit	No Limit
Interest Rate Swaps	N/A	None	No Limit	No Limit
City of Roseville Pooled Investment Fund	N/A	None	No Limit	No Limit

(A) Have attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations or (2) have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience managing money market mutual funds and with assets under management in excess of \$500,000,000.

C. Investments Authorized by Debt Agreements

The Authority must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the Authority fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with Authority ordinance, bond indentures or State statute. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

SOUTH PLACER WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 2 - CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage Allowed	Maximum Investment In One Issuer
U.S. Treasury Obligations	N/A	None	None	None
U.S. Agency Securities of Certain Agencies (A) (B)	N/A	None AAAm-G or	None	None
Money Market Funds	N/A	AAAm	None	None
Certificates of Deposit	360 days	A-1+	None	None
Savings Accounts, Deposit Accounts (fully insured)	N/A	None	None	None
Investment Agreements	N/A	AA One of two highest rating	None	None
State or Municipality Bonds/Notes	N/A	categories	None	None
Federal Funds or Bankers' Acceptances	360 days	A-1+	None	None
Commercial Paper	270 days	A-1+	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None	\$50 million/account
California Asset Management Program	N/A	None	None	None

(A) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by the Agency, provided they are backed by the full faith and credit of the United States of America, as follows:

- a. Certificates of beneficial ownership of the Farmers Home Administration
- b. Federal Housing Administration debentures
- c. Participations certificates of the General Services Administration
- d. Guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association
- e. Guaranteed Title XI financings of the U.S. Maritime Administration
- f. Project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development

(B) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit of the U.S. government agencies:

- a. Senior debt obligations of the Federal Home Loan Bank System
- b. Participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation
- c. Mortgage-backed securities and senior debt obligations of the Federal National Mortgage Association
- d. Senior debt obligations of the Student Loan Marketing Association
- e. Obligations of the Resolution Funding Corporation
- f. Consolidated system-wide bonds and notes of the Farm Credit System.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority generally manages its interest rate risk by holding investments to maturity.

SOUTH PLACER WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 2 - CASH AND INVESTMENTS (Continued)

Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity or earliest call date:

	Remaining Maturity (in Months)			Total
	12 Months Or Less	13 to 24 Months	25-60 Months	
City of Roseville Investment Pool	\$8,737,291			\$8,737,291
U.S. Treasury Notes			\$6,272,319	6,272,319
Federal Agency Securities		\$11,517,943	8,619,707	20,137,650
Corporate Notes		1,802,210		1,802,210
Forward Delivery Agreements			4,604,296	4,604,296
Certificates of Deposit	1,999,831	2,003,522		4,003,353
Money Market Mutual Funds (U.S. Securities)	321,393			321,393
California Asset Management Pool	4,922,582			4,922,582
Local Agency Investment Fund	50,060,982			50,060,982
Total Investments	<u>\$66,042,079</u>	<u>\$15,323,675</u>	<u>\$19,496,322</u>	<u>\$100,862,076</u>

The Authority is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Authority reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2012, these investments had an average maturity of 268 days.

Money market mutual funds were available for withdrawal on demand and at June 30, 2012, had an average maturity of 57 days for the Dreyfus U.S. Treasury Money Market Fund, and 40 days for the HighMark U.S. Treasury Money Market Funds.

SOUTH PLACER WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 2 - CASH AND INVESTMENTS (Continued)

E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2012, for each investment type as provided by Standard and Poor's investment rating system:

	AAA/AAAm	AA+	AA-	A+	A-1+	Total
<i>Investments:</i>						
Federal Agency Securities		\$20,137,650				\$20,137,650
Corporate Notes			\$1,048,154	\$754,056		1,802,210
Forward Delivery Agreements			4,604,296			4,604,296
Certificates of Deposit			1,000,052		\$3,003,301	4,003,353
California Asset Management Pool	\$4,922,582					4,922,582
Money Market Mutual Funds (U.S. Securities)	321,393					321,393
Totals	<u>\$5,243,975</u>	<u>\$20,137,650</u>	<u>\$6,652,502</u>	<u>\$754,056</u>	<u>\$3,003,301</u>	35,791,484
<i>Exempt from Credit Rating Disclosure:</i>						
U.S. Treasury Notes						6,272,319
<i>Not Rated:</i>						
Local Agency Investment Fund						50,060,982
City of Roseville Investment Pool						8,737,291
Total Investments						<u>\$100,862,076</u>

F. Concentration of Credit Risk

The California Government Code stipulates certain percentage limitations on the amount that can be invested in any one issuer as noted on the table at Section B above. The Authority's Investment Policy does not place any further restrictions on the maximum investment in any one issuer. Investments in any one issuer, other than U. S. Treasury securities, money market mutual funds, and the California Local Agency Investment Fund, that represent 5% or more of total Authority investments are as follows at June 30, 2012:

Issuer	Investment Type	Amount
Federal Home Loan Mortgage Corporation	Federal Agency Securities	\$5,977,346
Federal National Mortgage Association	Federal Agency Securities	10,399,391

SOUTH PLACER WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 3 - CAPITAL ASSETS CONTRIBUTED TO THE CITY OF ROSEVILLE

Capital construction costs incurred by the Authority are transferred annually, in the form of construction in progress, to the City of Roseville, which owns and operates the Regional Wastewater Facilities. Capital construction costs of the Authority, as defined by the Funding Agreement, include personnel services and administration, debt service, and construction costs. Construction costs include interest on construction financing costs, net of interest income on unexpended bond proceeds. Since the Regional Wastewater Facilities construction project was accepted as complete at the end of fiscal year 2004-2005, the debt service and interest income on unexpended bond proceeds are no longer a component of the capital construction costs of the Authority.

Costs incurred by the Authority in fiscal year 2011-2012 totaling \$734,772 were transferred as construction in progress to the City of Roseville as of June 30, 2012.

NOTE 4 - LONG-TERM DEBT

A. Current Year Transactions and Balances

	<u>Original Issue Amount</u>	<u>Balance June 30, 2011</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>	<u>Current Portion</u>
Revenue Bonds					
2011 Variable Rate Demand Refunding Wastewater Revenue Bonds, Series A variable rate, due 11/1/35	\$30,165,000	\$30,165,000		\$30,165,000	
2011 Variable Rate Demand Refunding Wastewater Revenue Bonds, Series B variable rate, due 11/1/35	30,160,000	30,160,000		30,160,000	
2011 Refunding Wastewater Revenue Bonds, Series C 1.00-5.25%, due 11/1/25	67,040,000	67,040,000	\$2,690,000	64,350,000	\$3,040,000
Add: deferred bond premium cost	5,240,941	4,913,382	327,559	4,585,823	
2011 Refunding Wastewater Revenue Bonds, Series D variable rate (SIFMA rate plus 0.83%), due 11/1/14	30,000,000	<u>30,000,000</u>		<u>30,000,000</u>	
TOTAL		<u>\$162,278,382</u>	<u>\$3,017,559</u>	<u>\$159,260,823</u>	<u>\$3,040,000</u>

SOUTH PLACER WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 4 - LONG-TERM DEBT (Continued)

B. 2011 South Placer Wastewater Authority Wastewater Refunding Revenue Bonds, Series A, B, C, and D

On April 7, 2011, the Authority issued Variable Rate Demand Refunding Wastewater Revenue Bonds Series 2011A and 2011B in the original principal amounts of \$30,165,000 and \$30,160,000, respectively, and Revenue Refunding Bonds Series 2011C and 2011D (SIFMA Index Bonds) in the original principal amount of \$67,040,000 and \$30,000,000, respectively.

The Series 2011ABCD Bonds were issued to refund the remaining outstanding balance of the 2008 South Placer Wastewater Authority Refunding Wastewater Revenue Bonds Series A and Series B.

As of June 30, 2012, the total principal and interest remaining to be paid on the Series A, Series B, Series C, and Series D Bonds was \$206,889,383. As disclosed in the official statement, net revenues of the respective systems of the members are expected to provide coverage over debt service of 110% over the lives of the Bonds, however the Funding Agreement established a Rate Stabilization Account to be used for the payment of debt service on the Bonds and other costs of the Authority. As discussed in Note 1A, the members' monthly contributions of regional connection fees are deposited into the Rate Stabilization Account, and the Authority pays the debt service and other costs from the Account, based on each member's proportionate share. For fiscal year 2012, \$9,934,080 in debt service was paid from the Rate Stabilization Account.

Interest rates on the 2011 Series A and Series B Bonds are reset periodically, using the "put" mechanism described below. The Bonds are periodically subject to repurchase at a purchase price equal to the principal amount thereof plus accrued interest, referred to as a "put". Once a put occurs, a remarketing agent resells Bonds at par by setting new interest rates and repurchase dates. The interest rate at June 30, 2012 was .14%. The Authority has obtained Letters of Credit in the amounts of \$30,165,000 and \$30,160,000 to be used in the event the remarketing agent is unable to resell any 2011A or 2011B Bonds and to ensure the City will not be required to repurchase the 2011A or 2011B Bonds before they mature. The Letters of Credit expire April 7 2013. The Authority paid \$780,950 in fees for the Letters of Credit during the year ended June 30, 2012.

The Authority has the option to convert the 2011 Series A and Series B Bonds to a term loan on the maturity date of the letters of credit. The term loan is payable in twelve equal quarterly installments of principal, plus accrued interest. The first payment would be due July 7, 2013.

The interest rate of the 2011 Bonds cannot exceed 12% per year and may be converted by the Authority into commercial paper rate, daily rate, auction rate, or long-term rate, subject to certain conditions defined in the indenture agreements. The Bonds may be prepaid, at a purchase price equal to the principal amount thereof plus accrued interest, at any time provided the interest rate mode are either the weekly rate or daily rate. The Bonds are subject to mandatory prepayment, once the interest rate has been converted to a commercial paper rate, auction rate, or long-term rate, subject to certain conditions defined in the indenture.

SOUTH PLACER WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 4 - LONG-TERM DEBT (Continued)

Interest rates on the Series 2011D Bonds will be a per annum rate equal to the Adjusted SIFMA Rate (the sum of the SIFMA Index Rate and an additional interest rate of 0.832%), applied on the basis of the actual number of days in the applicable Interest Period divided by 365 or 366, as applicable. "SIFMA Index" is defined under the Indenture to mean the SIFMA Municipal Swap Index (formerly The Bond Market Association Municipal Swap Index), a seven-day high-grade market index composed of selected tax-exempt variable-rate demand obligations meeting specific criteria. The SIFMA Index is calculated weekly and released each Wednesday afternoon. If at any time the SIFMA Index is not available, there will be used in its place such index as the Trustee, following consultation with the Authority and the Calculation Agent, as applicable for the applicable Interest Rate Period, from time to time determines most closely approximates the SIFMA Index. The interest rate at June 30, 2012 was 1.012%.

The Authority originally entered into a 19 year interest rate swap agreement for the entire amount of the 2008 B Bonds, and as part of the issuance of the 2011 ABCD Bonds, the swap agreement was amended and remains in effect, but the notional amount of the swap is based on the notional amount of the 2008 B Bonds. The combination of the variable rate bonds and the floating rate swap creates a synthetic fixed-rate debt for the Authority. The synthetic fixed rate for the A and B Bonds at June 30, 2012 was 3.39% and the rate for the D Bonds was 1.012%.

C. Interest Rate Swap Agreement

The Authority entered into an interest swap agreement in connection with the 2008 Refunding Wastewater Revenue Bonds, Series B. The Authority amended the swap with the issuance of the 2011 ABCD Bonds, but the swap continues to be based on the notional amount of the 2008 B Bonds.

The combination of variable rate bonds and a floating swap effectively changes the Authority's variable interest rate on the bonds to a synthetic rate, protecting the Authority against increases in short-term interest rates. The terms, fair value and credit risk of the swap agreement are disclosed below.

Terms. The terms, including the counterparty credit rating of the outstanding swap, as of June 30, 2012, is included below. The Authority's swap agreement contains scheduled reductions to the outstanding notional amount, which is based on the notional amount of the 2008 Refunding Wastewater Revenue Bonds, Series B.

<u>Notional Amount</u>	<u>Effective Date</u>	<u>Counterparty</u>	<u>Credit Rating</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Maturity/Termination Date</u>
\$86,725,000	9/17/2003, amended 4/10/2008	Morgan Stanley Capital Services Inc.	A-	3.665%	62% of 1m LIBOR plus 26 bps	11/1/2027

Based on the swap agreement, the Authority owes interest calculated at a fixed rate to the counterparty of the swap. In return, the counterparty owes the Authority interest based on the variable rate that approximates the rate required by the Bonds. Debt principal is not exchanged; it is only the basis on which swap receipts and payments are calculated.

SOUTH PLACER WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 4 - LONG-TERM DEBT (Continued)

Fair value. Fair value of the swap takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. Fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. The Authority has accounted for the change in fair value of the swap as a deferred outflow. As of June 30, 2012, the fair value of the swap was not in favor of the Authority as follows:

Related Bond Issue	Fair Value	
	2012	2011
2011 Refunding Wastewater Revenue Bonds, series A, B, C and D (based on notional amount of 2008 Refunding Wastewater Revenue Bonds, Series B)	<u>(\$16,427,150)</u>	<u>(\$10,493,981)</u>

Credit risk. The Authority would be exposed to credit risk on the outstanding swap if the swaps had positive fair values. These amounts may increase if interest rates increase in the future. However, if interest rates decline and fair values of the swaps were to become negative, the Authority would no longer be exposed to credit risk. The Authority will be exposed to interest rate risk only if the counterparty to a swap defaults or if the swap is terminated.

Basis risk. Basis risk is the risk that the interest rate paid by the Authority on underlying variable rate bond to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The Authority bears basis risk on the swap. The swap has basis risk since the Authority receives a percentage of LIBOR index to offset the actual variable bond rate the Authority pays on its bonds. The Authority is exposed to the basis risk should the floating rate that it receives on a swap be less than the actual variable rate the Authority pays on the underlying bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

A portion of this basis risk is tax risk. The Authority is exposed to tax risk when the relationship between the taxable LIBOR based swaps and tax-exempt variable rate bonds changes as a result of a reduction in federal and state income tax rates. Should the relationship between LIBOR and the underlying tax-exempt variable rate bonds converge the Authority is exposed to this basis risk.

Termination risk. The Authority may terminate if the other party fails to perform under the terms of the contract. The Authority will be exposed to variable rates if the counterparty to the swap contract defaults or if the swap contract is terminated. A termination of the swap contract may also result in the Authority's making or receiving a termination payment based on market interest rates at the time of the termination. If at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

SOUTH PLACER WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 4 - LONG-TERM DEBT (Continued)

Rollover Risk. Rollover risk is the risk that the swap associated with a debt issue matures or may be terminated prior to the maturity of the associated debt. When the swap terminates or a termination option is exercised by the counterparty, the Authority will be re-exposed to the risks being hedged by the swap. The swap based on the 2008 Refunding Wastewater Revenue Bonds, Series B, associated with the 2011 A and B Variable Rate Demand Refunding Wastewater Revenue Bonds and 2011 C and D Refunding Wastewater Revenue Bonds, exposes the Authority to rollover risk because the swap terminates on November 1, 2027 while the 2011 A and B mature on November 1, 2035, the 2011 C Bonds mature on November 1, 2025 and the 2011 D Bonds mature on November 1, 2014.

Swap payments and associated debt. Using rates as of June 30, 2012, debt service requirements of the Bonds and net swap payments are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

For the Year Ending June 30	Variable-Rate and Fixed-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2013	\$3,040,000	\$3,707,705	\$2,732,745	\$9,480,450
2014	3,225,000	3,395,205	2,596,934	9,217,139
2015	33,460,000	3,041,805	2,455,702	38,957,507
2016	3,710,000	2,769,905	2,309,320	8,789,225
2017	3,985,000	2,586,081	2,158,058	8,729,139
2018 - 2022	24,730,000	9,513,775	8,312,901	42,556,676
2023 - 2027	22,200,000	2,497,599	3,598,027	28,295,626
2028 - 2032	24,075,000	368,486	75,902	24,519,388
2033 - 2036	36,250,000	94,233		36,344,233
Totals	\$154,675,000	\$27,974,794	\$24,239,589	\$206,889,383

SOUTH PLACER WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 4 - LONG-TERM DEBT (Continued)

D. Debt Service Requirements

Annual debt service requirements are shown below for all long-term debt:

For the Year Ending June 30	Principal	Interest
2013	\$3,040,000	\$6,440,450
2014	3,225,000	5,992,139
2015	33,460,000	5,497,507
2016	3,710,000	5,079,225
2017	3,985,000	4,744,139
2018 - 2022	24,730,000	17,826,676
2023 - 2027	22,200,000	6,095,626
2028 - 2032	24,075,000	444,388
2033 - 2036	36,250,000	94,233
Total	154,675,000	\$52,214,383

Reconciliation of long-term debt

Add deferred bond premium costs	4,585,823
Net long-term debt	\$159,260,823

E. Bond Issuance Costs and Original Issue Discounts and Premiums

For proprietary fund types, bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as long-term assets. Any differences between proprietary refunded debt and the debt issued to refund it is amortized over the remaining life of either the refunded debt or the refunding debt, whichever is shorter.

SOUTH PLACER WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 5 – NET ASSETS

Net Assets is the excess of all the Authority's assets over all its liabilities, regardless of fund. The Authority's net assets are divided into two segments.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Authority cannot unilaterally alter. At June 30, 2012, restrictions included:

Restricted for **rate stabilization** represents the portion of net assets restricted for future use in the event development fees are not adequate to meet the required ratio of revenue to expenses required under bond indentures.

Restricted for **debt service** represents the portion of net assets held in reserve in the event other resources of the Authority are not adequate to make required debt service payments.

Unrestricted describes the portion of Net Assets which is not legally or contractually restricted as to use.

NOTE 6 - RISK MANAGEMENT

The Authority has purchased commercial insurance for general, property and public officials liability. During the fiscal year ended June 30, 2012, the Authority paid \$17,097 for current year coverage.

The following types of loss risks are covered by the above commercial insurance policies as follows:

Type of Coverage	Coverage Limit	Deductible
Bodily Injury	\$1,000,000	\$2,500
Property	1,000,000	2,500
Personal Injury	1,000,000	2,500
Automobile Liability	1,000,000	2,500
Public Official Bond	1,000,000	2,500
Crime Bond	10,000,000	2,500
Fire	1,000,000	2,500
Employment Practices Liability	1,000,000	10,000

The Authority has not had any claims as of June 30, 2012.

NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES

The Authority is subject to litigation arising in the normal course of business. In the opinion of the Authority Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the Authority.

SOUTH PLACER WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 8 – SUBSEQUENT EVENT

The members of the Authority entered into an Amended and Restated Funding Agreement and a Reallocation and Repayment Agreement effective October 1, 2012. The Amended and Restated Funding Agreement changed the proportionate shares of each member for the cost allocations as follows:

- 1) Roseville from 54.17% to 61.66%
- 2) South Placer Municipal Utility District from 25.00% to 22.43%
- 3) Placer County from 20.83% to 15.91%

The intent of the Amended and Restated Funding Agreement is that notwithstanding short-term variances in the respective member contributions of Regional Connection Fees or other funds, the members' total respective financial contributions to capital costs (whether financed by Bonds, funded by Regional Connection Fees, or sources) should be directly proportional to the members' respective actual usage of the wastewater treatment capacity made available by the construction of Regional Wastewater Facilities.

The Reallocation and Repayment Agreement reflects the reallocation of wastewater treatment capacity among the members and reallocates the Rate Stabilization Fund subaccount balances among the members based on the account balances as of April 30, 2012 as follows:

Member	Subaccount Balance Prior to Reallocation	Reallocated Subaccount Balance
City	\$79,139,380	\$63,978,843
District	34,295,690	39,497,643
County	(21,331,889)	(11,373,292)
Total	\$92,103,181	\$92,103,195

The Reallocation and Repayment Agreement also provides for the County's elimination of the deficit in its Rate Stabilization Fund subaccount. The County will make an initial deposit of \$5,000,000 during fiscal year 2013, followed by quarterly payments of \$125,000.

Finally, the Reallocation and Repayment Agreement provides for the transfer of Recycled Water Facilities to the City to own and operate for its own account. The City is to reimburse the County for the cost of design and construction related to the recycled water line being constructed as part of the County's relocation of the Cook-Riolo bridge, provided that the reimbursement amount will not exceed \$721,000.

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SUPPLEMENTAL INFORMATION

**SOUTH PLACER WASTEWATER AUTHORITY
ANALYSIS OF RATE STABILIZATION RESTRICTED NET ASSETS**

	<u>City of Roseville</u>	<u>South Placer Municipal Utility District</u>	<u>Placer County</u>	<u>Totals</u>
Balance at June 30, 2011	\$79,375,374	\$34,802,440	(\$20,139,876)	\$94,037,938
Additions July 1, 2011 to June 30, 2012				
Regional Connection fees	4,123,195	1,083,339	294,032	5,500,566
Reimbursement of Construction fees -- others	13,928	6,428	5,356	25,712
Reimbursement of Construction costs -- others	1,625,100	750,000	624,900	3,000,000
Interest allocation	599,831	260,453	(159,306)	700,978
Capital construction costs	(292,042)	(134,782)	(112,299)	(539,123)
Debt service	(5,381,290)	(2,483,520)	(2,069,270)	(9,934,080)
Administrative costs	(105,956)	(48,900)	(40,743)	(195,599)
Total	<u>582,766</u>	<u>(566,982)</u>	<u>(1,457,330)</u>	<u>(1,441,546)</u>
Balance at June 30, 2012	<u>\$79,958,140</u>	<u>\$34,235,458</u>	<u>(\$21,597,206)</u>	<u>\$92,596,392</u>

	<u>Net Assets of</u>	
	<u>Bond Proceeds</u>	<u>Member Contributions</u>
Investments in City of Roseville Treasury		\$8,737,291
Investments		82,319,861
Restricted investments with fiscal agent	\$9,804,924	
Unallocated gain on investments	209,448	(209,448)
Accrued interest receivable		213,949
Due from other governments		802,818
Deferred receivable		1,377,933
Deferred out-flow asset	16,427,150	
Unamortized bond origination costs	1,046,671	
Accounts payable and other liabilities	(33,268)	(646,012)
Derivative at fair value	(16,427,150)	
Long-term debt:		
Due in one year	(3,040,000)	
Due in more than one year	(156,220,823)	
Net Assets (Deficit)	<u>(\$148,233,048)</u>	<u>\$92,596,392</u>

**SOUTH PLACER WASTEWATER AUTHORITY
MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED JUNE 30, 2012**

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**MEMORANDUM ON INTERNAL CONTROL
AND
REQUIRED COMMUNICATIONS**

For the Year Ended June 30, 2012

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MEMORANDUM ON INTERNAL CONTROL

January 17, 2013

Members of the Board of the
South Placer Wastewater Authority
Roseville, California

We have audited the financial statements of the South Placer Wastewater Authority (Authority) for the year ended June 30, 2012, and have issued our report thereon dated January 17, 2013. In planning and performing our audit of the financial statements of the South Placer Wastewater Authority as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

The Authority's written responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, Authority Board, others within the organization, and agencies and pass-through entities requiring compliance with generally accepted government auditing standards, and is not intended to be and should not be used by anyone other than these specified parties.


Accountancy Corporation
3478 Buskirk Avenue, Suite 215
Pleasant Hill, CA 94523

T 925.930.0902
F 925.930.0135
E maze@mazeassociates.com
W mazeassociates.com

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**SOUTH PLACER WASTEWATER AUTHORITY
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS
(Prepared by Management)**

2011-01 Underfunded Participant Account within the Rate Stabilization Fund

Section 9 of the Authority's Funding Agreement for the South Placer Wastewater Facilities indicates that the Authority will attempt to maintain the Rate Stabilization Fund (RSF) at or above a Minimum Level, as defined in the agreement, which in fiscal year 2011 is equal to the total of fiscal years 2012 and 2013 debt service. The RSF is available to pay Debt Service and other legal expenditures, regardless of the amount of funds contained in a particular Participant's account within the RSF, as long as it does not cause the RSF to fall below the Minimum Level. As of June 30, 2011, the Minimum Level was \$18,496,888 and the RSF balance was \$94,037,438. In addition, each participant has a Sub-Minimum Level, which is equal to their proportionate share of the Minimum Level.

If a draw on the RSF causes it to fall below the Minimum Level, and a draw on a Participant's account within the RSF would have the effect of causing the balance in the Participant's account to fall below the Participant's Sub-Minimum Level, draws on a Participant's account are to be limited in each fiscal year with plans for repayment of the deficit to the other participants, including interest.

As of June 30, 2011, Placer County's balance in the RSF was a deficit of \$20,139,854, far below its Sub-Minimum Level of \$3,852,902. The County's balance in the RSF became a deficit in December 2007 and has grown significantly over the past few years. Connection fees are driven by the number of permit applications during the year and that the current economic situation has played a major role in the County's deficit balance within the RSF, and as a result, County connection fee revenues have fallen to less than \$200,000 per fiscal year.

We understand that the Authority has not calculated the participant Sub-Minimum Levels, because the balance in the RSF far exceeds the required Minimum Level, however our interpretation of the Funding Agreement does require the calculation of the Sub-Minimum Level. The Funding Agreement does not require the participants to increase user charges to eliminate any deficit in the RSF, but it does indicate that if the Authority makes a request for repayment, a funding plan should be established. We also understand that the participants have discussed this issue and have not required repayment by the County, but they have not formally documented the discussions or decisions.

Although the total RSF balance is currently sufficient to pay debt service and other applicable costs for all participants for at least the next two fiscal years, total net assets of the Authority is a deficit of \$57,272,773. The Authority and the participants should determine whether the provisions of the Funding Agreement should be enforced for the County's RSF account, vis-à-vis request for payment, in the event the County can no longer pay its proportionate share of debt service and other costs. The Authority should also formally document any agreements or decisions made regarding the County's deficit account balance.

**SOUTH PLACER WASTEWATER AUTHORITY
MEMORANDUM ON INTERNAL CONTROL**

**STATUS OF PRIOR YEAR
SCHEDULE OF OTHER MATTERS
(Prepared by Management)**

2011-01 Underfunded Participant Account within the Rate Stabilization Fund (Continued)

Current Status:

In October 2012, the partners entered into several agreements that:

- 1) Eliminated the first-come/first-served rule for treatment capacity in favor of fixed capacity allocations;
- 2) Reallocated the balances of their respective subaccounts within the RSF based on the balances as of April 30, 2012; and
- 3) Changed their respective proportionate shares for cost allocations based on the April 30, 2012 balances as follows:
 - a. Roseville from 54.17% to 61.66%
 - b. South Placer Municipal Utility District from 25.00% to 22.43%
 - c. Placer County from 20.83% to 15.91%

In addition, the County has agreed to pay off its negative RSF balance with an upfront payment of \$5 million and ongoing payments of \$500,000 annually.

REQUIRED COMMUNICATIONS

January 17, 2013

Members of the Board of the
South Placer Wastewater Authority
Roseville, California

We have audited the financial statements of the South Placer Wastewater Authority as of and for the year ended June 30, 2012 and have issued our report thereon dated January 17, 2013. Professional standards require that we advise you of the following matters relating to our audit.

Financial Statement Audit Assurance: Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit in accordance with generally accepted auditing standards does not provide absolute assurance about, or guarantee the accuracy of, the financial statements. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is an inherent risk that material errors, fraud, or illegal acts may exist and not be detected by us.

Other Information Included with the Audited Financial Statements: Pursuant to professional standards, our responsibility as auditors for other information in documents containing the Authority's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. Our responsibility also includes communicating to you any information that we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements. This other information and the extent of our procedures are explained in our audit report.

Accounting Policies: Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Authority is included in Note 1 to the financial statements. There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the fiscal year. The following Governmental Accounting Standards Board pronouncement became effective, but did not have a material effect on the financial statements:

GASB 64 - *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*

Some governments have entered into interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experiences either an act of default or a termination event as both are described in the swap agreement. Many of those governments have replaced their swap counterparty, or swap counterparty's credit support providers, either by amending existing swap agreements or by entering into new swap agreements. When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. Those provisions require a government to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income.

The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

Unusual Transactions, Controversial or Emerging Areas: No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Estimates: Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

- *Estimated Fair Value of Investments:* As of June 30, 2012, the Authority, held approximately \$100.9 million of cash and investments, as measured by fair value. Fair value is essentially market pricing in effect as of June 30, 2012. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2012.
- *Estimated Fair Value of Derivative Investments:* As of June 30, 2012, the Authority held an interest rate swap agreement with a negative fair value of approximately \$16.4 million, as measured by fair value, as disclosed in Note 4D to the Financial Statements. Fair value is essentially market pricing in effect as of June 30, 2012. The fair value is not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2012.

Disagreements with Management: For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the Authority's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Retention Issues: We did not discuss any major issues with management regarding the application of accounting principles and auditing standards that resulted in a condition to our retention as the Authority auditors.

Difficulties: We encountered no serious difficulties in dealing with management relating to the performance of the audit.

Audit Adjustments: For purposes of this communication, professional standards define an audit adjustment, whether or not recorded by the Authority, as a proposed correction of the financial statements that, in our judgment, may not have been detected except through the audit procedures performed. These adjustments may include those proposed by us but not recorded by the Authority that could potentially cause future financial statements to be materially misstated, even though we have concluded that the adjustments are not material to the current financial statements.

We did not propose any audit adjustments that, in our judgment, could have a significant effect, either individually or in the aggregate, on the Authority's financial reporting process.

Uncorrected Misstatements: Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the Authority Board.

This report is intended solely for the information and use of the Authority Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Mane & Associates

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AUTHORITY COMMUNICATION

TO: South Placer Wastewater Authority
Board of Directors

DATE: February 5, 2013

FROM: Executive Director's office

AUTHORITY COMMUNICATION NO.: 13-11

SUBJECT: Connection Fee Program Report

For SPWA Board Meeting of 3/11/13

ACTION REQUESTED

This staff report is for information only. No action is requested.

BACKGROUND

The attached report, prepared by Maze and Associates, evaluates how the South Placer Wastewater Authority (Authority) and its member agencies complied with the "Funding Agreement" from July 2011 through June 2012. Payments from Placer County, Roseville, and South Placer Municipal Utility District were tested for the referenced time period.

The following table summarizes the total connection fees collected and the associated equivalent dwelling units (EDUs) from July 2011 through June 2012.

	City	District	County
Gross Regional Connection Fees, as reported in Authority General Ledger	\$4,123,195	\$1,089,339	\$294,032
EDUs for Gross Regional Connection Fees, as reported to the Members	630	165	45

Actual EDUs developed over the above year (FY11-12) are approximately 47% of the equivalent dwelling units estimated during the original funding of the bonds, and total EDUs developed since the original funding of the bonds are approximately 92% of the estimated equivalent dwelling units. The estimated and actual number of EDUs is summarized below.

Jurisdiction	FY 2011-2012		Total through 11-12	
	Estimated EDUs	Actual EDUs	Estimated EDUs	Actual EDUs
Roseville	311	630	16,127	21,164
South Placer Municipal Utilities District	800	165	10,220	9,508
Placer County	890	45	10,805	2,577
Total	2,001	840	37,152	33,249

At the August 3, 2006 meeting, the Board approved a new minimum regional connection fee of \$5,500. The new fee (with subsequent inflationary increases) and associated EDUs are reflected above.

Submitted by:



Janet L. Vargas
Administrative Analyst II

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES FOR
THE SOUTH PLACER WASTEWATER AUTHORITY
AND ITS REGIONAL PARTNERS
CONNECTION FEE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2012**

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES FOR
THE SOUTH PLACER WASTEWATER AUTHORITY
AND ITS REGIONAL PARTNERS CONNECTION FEE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2012**

Board of Directors
South Placer Wastewater Authority
Roseville, California

We have performed the procedures described below, which were agreed to by the South Placer Wastewater Authority (Authority) solely to assist you with respect the Regional Connection Fees collected by the three Regional Partners, the City of Roseville (City), South Placer Municipal Utilities District, (District) and the County of Placer (County), and the allocation of these fees for the period July 1, 2011, through June 30, 2012, and compliance with the Regional Partners Funding Agreement for the period July 1, 2011, through June 30, 2012. Management is responsible for the collection and allocation of the fees and for compliance with Funding Agreement. This agreed upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Regional Partners. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

We obtained:

1. A copy of the Preliminary Agreement between the Regional Partners dated October 21, 1998, regarding the Pleasant Grove Wastewater Treatment Plant;
2. A copy of the Joint Exercise of Powers Agreement between the Regional Partners dated October 1, 2000, which formed the South Placer Wastewater Authority;
3. A copy of the Funding Agreement Relating to the South Placer Regional Wastewater Facilities dated October 1, 2000;
4. A copy of the Official Statement dated November 28, 2000, for the South Placer Wastewater Authority Wastewater Revenue Bonds, Series A and B;
5. A copy of the Official Statement dated September 17, 2003, for the South Placer Wastewater Authority Revenue Bonds;
6. Copies of the Official Statements dated April 1, 2011, for the South Placer Wastewater Authority Revenue Refunding Bonds, Series A, B, C and D;

7. The General Ledger Detail (GLSHTR02) for General Ledger Account 471-3640 for Regional Connection Fees collected by the City for the period July 1, 2011, to June 30, 2012;
8. The General Ledger Detail (GLSHTR02) for General Ledger Account 785-3640 for Regional Connection Fees collected by the City, or transmitted to the City by the District and County, for the period July 1, 2011, to June 30, 2012;
9. The General Information Memoranda containing the Connection Fee schedules for fiscal year 2012;
10. The schedules of Regional Connection Fees and Equivalent Dwelling Units (EDUs) for the City by month for the period July 1, 2011, to June 30, 2012;
11. The schedules of Regional Connection Fees and EDUs for the District by month for the period July 1, 2011, to June 30, 2012;
12. The monthly remittances of Regional Connection Fees by month for the County for the period July 1, 2011, to June 30, 2012 which includes EDUs by month and to date;
13. Supporting detail from the Regional Partners for each selection tested below which included either copies of the permits or other documentation for the fee calculation.

We tested:

14. The monthly summary reports of Regional Connection Fees transmitted by the members for the period July 1, 2011, through June 30, 2012;
15. Four (4) monthly payments made to the City during the fiscal year, for Regional Connection Fees by the County, four (4) monthly payments made to the City for Regional Connection Fees by the District, and twenty (20) payments received by the City from developers for Regional Connection Fees, for the period of July 1, 2011, through June 30, 2012;
16. For the Authority's and each member's compliance with Section 7 (Administration) of the Joint Exercise of Powers Agreement;
17. For the Authority's and each member's compliance with the following Sections of the Funding Agreement, as applicable:
 - a. 2 Purpose and Intent of Agreement
 - b. 6 Issuance of Bonds by the Authority; Bond Provisions
 - c. 8 Rate Covenant
 - d. 9 Rate Stabilization Fund
 - e. 10 Regional Connection Fees
 - f. 12 Determination of Participants
 - g. 13 Covenants of the Participants
 - h. 14 Amendments; Expiration of Certain Provisions

We recalculated:

18. The monthly summary reports of Regional Connection Fees transmitted by the members for the period July 1, 2011, through June 30, 2012;
19. Each payment selected for testing using the number of permits issued or EDUs indicated on the documentation and the fee in effect for that period;
20. The four (4) monthly EDU amounts included on the County monthly remittance summaries for Regional Connection Fees from our test sample at #15 above;
21. The four (4) monthly EDU amounts included on the schedule of Regional Connection Fees for the District from test sample at #15 above;
22. The twenty (20) Regional Connection Fee EDUs for the City from our test sample at #15 above;
23. We evaluated each Regional Partner's non-residential Connection Fee program based on the above testing and determined their balances as of June 30, 2012.

RESULTS:

Based on our testing above, we calculated each Regional Partner's Adjusted Connection Fees for the period July 1, 2011, to June 30, 2012, and Gross Regional EDUs for the period July 1, 2011, to June 30, 2012.

	<u>City</u>	<u>District</u>	<u>County</u>
July 1, 2011 to June 30, 2012:			
Gross Regional Connection Fees, as reported in Authority general ledger	<u>\$4,123,195</u>	<u>\$1,083,339</u>	<u>\$294,032</u>
July 1, 2011 to June 30, 2012:			
EDUs for Gross Regional Connection Fees, as reported to the Members	<u>630</u>	<u>165</u>	<u>45</u>

ASSUMPTIONS:

1. One single family dwelling unit is the equivalent of one EDU for the County. Commercial property EDUs are determined by the square footage and the type of business as defined in the Roseville Municipal Code, per County Ordinance 5059-B.
2. One single family dwelling unit is the equivalent of one EDU for the City. Commercial property EDUs are determined by the square footage and the type of business as defined in the Roseville Municipal Code.
3. One single family dwelling unit is the equivalent of one EDU for District. Commercial property EDUs are determined by the square footage and the type of business as defined in Ordinance 96-2.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the collection and allocation of the fees and for compliance with the Funding Agreement. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Regional Partners and is not intended to be and should not be used by anyone other than those specified parties.

Mane & Associates

January 17, 2013