

**NEW ISSUE—BOOK-ENTRY ONLY**

**RATINGS: Moody's: “\_”**  
**S&P: “[A+]”**  
**(See “RATINGS” herein)**

*In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Series 2014 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See “TAX MATTERS.”*

**[\$30,000,000]**

**SOUTH PLACER WASTEWATER AUTHORITY**  
**WASTEWATER REVENUE REFUNDING BONDS, SERIES 2014**  
**(SIFMA INDEX BONDS)**

**Dated: Date of Delivery**

**CUSIP\*: 839423\_\_\_\_\_**

**Due: November 1, 2017**

The South Placer Wastewater Authority Wastewater Revenue Refunding Bonds, Series 2014 (SIFMA Index Bonds) (the “Series 2014 Bonds”) are being issued by the South Placer Wastewater Authority (the “Authority”), a joint exercise of powers agency created by the City of Roseville, the South Placer Municipal Utility District and the County of Placer (collectively, the “Participants”), pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2011, as previously supplemented and as supplemented by a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of July 1, 2014 (the “Indenture”), each between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), for the purpose of providing funds, together with other available moneys, (i) to refund the Authority’s Wastewater Revenue Refunding Bonds, Series 2011D (SIFMA Index Bonds) and (ii) to pay costs of issuance of the Series 2014 Bonds, as more fully described herein.

The Series 2014 Bonds are payable solely from the Authority Revenues, consisting principally of payments from the Participants under the Amended and Restated Funding Agreement Relating to the South Placer Regional Wastewater Facilities, dated as of October 1, 2012 (as amended from time to time, the “Funding Agreement”), among the Authority and the Participants. In consideration for the provision of wastewater treatment capacity, each Participant has agreed to remit to the Authority all Regional Connection Fees to pay its Proportionate Share of Debt Service under the Funding Agreement, as well as its share of Regional Operation and Maintenance Costs under the Amended and Restated Agreement Regarding the Operation and Use of the South Placer Regional Wastewater Facilities, dated as of October 1, 2012 (the “Operations Agreement”), among the Authority and the Participants. The obligation of each of the Participants to pay its Proportionate Share of Debt Service is secured by a pledge of the Participant Net Revenues of the respective Systems of the Participants. The payment of each Participant’s respective Proportionate Share of Debt Service is an unconditional obligation of each of the Participants and is not subject to abatement. The obligation of the Participants to pay their Proportionate Share of Debt Service is a several, but not joint, obligation. The Series 2014 Bonds will be secured by Authority Revenues on parity with the Authority’s Wastewater Revenue Refunding Bonds, Series 2011C (the “Series 2011C Bonds”), currently outstanding in the principal amount of \$58,085,000, with its Wastewater Revenue Refunding Bonds, Series 2013 (Variable Rate Demand Bonds), currently outstanding in the aggregate principal amount of \$59,330,000 (the “Series 2013 Bonds”) and with regularly scheduled payments on the Existing Swap Agreement (as defined herein). The Authority may issue or incur additional parity debt secured by Authority Revenues, subject to the terms and conditions of the Indenture, as more fully described herein, and each of the Participants may issue or incur additional Participant Parity Obligations secured by such Participant’s Net Revenues, subject to the terms and conditions of the Funding Agreement, as more fully described herein.

The Series 2014 Bonds are being issued as SIFMA Index Bonds, and the interest rate on the Series 2014 Bonds will be a per annum rate equal to the Adjusted SIFMA Rate, which is defined to mean the sum of the SIFMA Index Rate and an additional interest amount (the “SIFMA Index Spread”), as more fully described herein. Promptly after the pricing of the Series 2014 Bonds, the Authority will publish the SIFMA Index Spread and the applicable optional redemption provisions relating to the Series 2014 Bonds and any other relevant information by supplementing this Official Statement and posting the supplement on the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system. Interest on the Series 2014 Bonds will be payable on the first Business Day of each month, commencing September 1 2014. The Series 2014 Bonds are being issued in fully registered form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Series 2014 Bonds. Individual purchases of the Series 2014 Bonds will be made in book-entry form only in denominations of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their beneficial ownership interest in the Series 2014 Bonds purchased. See APPENDIX F—“BOOK-ENTRY SYSTEM.”

The Series 2014 Bonds will be subject to optional redemption prior to maturity as described herein.

**There is no initial or planned third-party credit enhancement or liquidity facility supporting the purchase or payment of the Series 2014 Bonds.**

THE SERIES 2014 BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE AUTHORITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE AUTHORITY REVENUES. NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY NOR THE PARTICIPANTS IS PLEDGED FOR THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2014 BONDS, AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE AUTHORITY REVENUES IS PLEDGED TO PAY THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2014 BONDS. THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2014 BONDS DOES NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE AUTHORITY OR ANY PARTICIPANT FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

This cover page contains certain information for quick reference only and is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "RISK FACTORS" for a description of certain of the risks associated with an investment in the Series 2014 Bonds.

The Series 2014 Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Authority by Miller & Owen, A Professional Corporation, Sacramento, California, for the Participants by their respective counsels and for the Underwriter by Orrick, Herrington & Sutcliffe LLP. It is expected that the Series 2014 Bonds in definitive form will be available for delivery to DTC in New York, New York on or about \_\_\_\_\_, 2014.

**MORGAN STANLEY**

Date of this Official Statement: \_\_\_\_\_, 2014

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## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

**No Offering May Be Made Except by this Official Statement.** No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations with respect to the Series 2014 Bonds other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized.

**No Unlawful Offers or Solicitations.** This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

**Effective Date.** This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Series 2014 Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the Participants or any other parties described in this Official Statement.

**Use of this Official Statement.** This Official Statement is submitted in connection with the sale of the Series 2014 Bonds referred to in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract with the purchasers of the Series 2014 Bonds.

**Preparation of this Official Statement.** The information set forth herein has been provided by the Authority and the Participants and other sources that are believed by the Authority and the Participants to be reliable. The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

**Document References and Summaries.** All references to and summaries of the Indenture, the Funding Agreement or other documents contained in this Official Statement are subject to the provisions of those documents and do not purport to be complete statements of those documents.

**Bonds are Exempt from Securities Laws Registration.** The issuance and sale of the Series 2014 Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

**Forward-Looking Statements.** Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the forecasts of the Authority or the Participants in any way, regardless of the level of optimism communicated in the information. Neither the Authority nor the Participants is obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption "FINANCIAL OPERATIONS" and in the projections of future operating results of the Participants in Appendices B-1, C-1 and D-1 attached hereto.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE AUTHORITY AND THE PARTICIPANTS DO NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ANY OF ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR, OTHER THAN AS DESCRIBED UNDER "CONTINUING DISCLOSURE."

# **SOUTH PLACER WASTEWATER AUTHORITY**

## **GOVERNING BOARD OF THE AUTHORITY**

Jack Duran, *Chair*  
Bonnie Gore, *Vice-Chair*  
Jerry Mitchell  
Pauline Roccucci  
Robert Weygandt

## **MANAGEMENT**

Ken Glotzbach, *Executive Director*  
Jay Panzica, *Treasurer*  
Monty Hanks, *Finance Director*

## **SPECIAL SERVICES**

### **BOND COUNSEL**

Jones Hall, A Professional Law Corporation  
San Francisco, California

### **AUTHORITY COUNSEL**

Miller & Owen, A Professional Corporation  
Sacramento, California

### **FINANCIAL ADVISOR**

Public Financial Management  
Los Angeles, California

### **DISCLOSURE COUNSEL**

Jones Hall, A Professional Law Corporation  
San Francisco, California

### **TRUSTEE**

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

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	BONDS

# OFFICIAL STATEMENT

**[\$30,000,000]**  
**SOUTH PLACER WASTEWATER AUTHORITY**  
**WASTEWATER REVENUE REFUNDING BONDS, SERIES 2014**  
**(SIFMA INDEX BONDS)**

## INTRODUCTION

### General

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to set forth certain information concerning the issuance and sale by the South Placer Wastewater Authority (the "Authority"), a joint exercise of powers agency created by the City of Roseville, the South Placer Municipal Utility District and the County of Placer (collectively, the "Participants"), of its Wastewater Revenue Refunding Bonds, Series 2014 (SIFMA Index Bonds) in the aggregate principal amount of [\$30,000,000] (the "Series 2014 Bonds"). All capitalized terms not otherwise defined herein will have the meanings ascribed thereto in APPENDIX G — "CERTAIN DEFINITIONS."

The Series 2014 Bonds are being issued pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2011 (the "Master Indenture") between the Authority and The Bank of New York Mellon Trust Company, N.A., as Trustee (the "Trustee"), as supplemented by a Fifth Supplemental Wastewater Revenue Bond Indenture, dated as of July 1, 2014 (the "Fifth Supplemental Indenture"), between the Authority and the Trustee. The Master Indenture was previously supplemented by a First Supplemental Wastewater Revenue Bond Indenture, a Second Supplemental Wastewater Revenue Bond Indenture, a Third Supplemental Wastewater Revenue Bond Indenture, and a Fourth Supplemental Indenture, each dated as of April 1, 2011 (the "Previous Supplements"). The Master Indenture, the Fifth Supplemental Indenture and the Previous Supplements are collectively referred to herein as the "Indenture." The Series 2014 Bonds are being issued as SIFMA Index Bonds. See "THE SERIES 2014 BONDS."

The Series 2014 Bonds are being issued for the purpose of providing funds, together with other available moneys, (i) to refund the Authority's Wastewater Revenue Refunding Bonds, Series 2011D (SIFMA Index Bonds) (the "Series 2011D Bonds"), and (ii) to pay costs of issuance of the Series 2014 Bonds, as more fully described herein. See "ESTIMATED SOURCES AND USES OF FUNDS." The Series 2014 Bonds will be issued in full conformity with the Constitution and the laws of the State of California (the "State"), including the Marks-Roos Local Bond Pooling Act of 1985, being Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State (the "Act") and are issued as parity debt under the Funding Agreement (as herein defined).

Prior bonds of the Authority were issued to finance the costs of acquisition and construction of the Pleasant Grove Wastewater Treatment Plant (the "Pleasant Grove Plant") and other regional wastewater facilities, including certain trunk sewers, recycled water lines and certain other related projects. The Pleasant Grove Plant, completed in April 2005, was constructed to increase the regional wastewater treatment capacity available for continued

growth and development within the service areas of the Participants in the southern part of the County of Placer. Costs of the Pleasant Grove Plant, including debt service on the Series 2014 Bonds, and any other Regional Wastewater Facilities constructed by the Authority, are required to be paid by the Participants pursuant to the Amended and Restated Funding Agreement Relating to the South Placer Regional Wastewater Facilities, dated as of October 1, 2012 (as amended from time to time, the "Funding Agreement"), among the Authority and the Participants. See "SOUTH PLACER WASTEWATER AUTHORITY" and APPENDIX G — "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS." A Rate Stabilization Fund has been established under the Funding Agreement to provide, among other things, a source of funds for the payment of debt service on the Series 2014 Bonds and Parity Debt in the event of variations in the timing of development and collection of Regional Connection Fees. In the event the amount available to be drawn from a Participant's account in the Rate Stabilization Fund is not sufficient to pay such Participant's Proportionate Share of Debt Service (including because development is significantly slower than expected), such Participant may be obligated to pay all or a part of such amount from such Participant's Participant Net Revenues (derived principally from User Charges collected by such Participant from its wastewater customers).

### **Pricing Supplement**

Promptly after the pricing of the Series 2014 Bonds, the Authority will publish the SIFMA Index Spread (as defined herein) and the applicable optional redemption provisions relating to the Series 2014 Bonds and any other relevant information by supplementing this Official Statement and posting the supplement on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system.

### **The Authority**

The Authority was created pursuant to a Joint Exercise of Powers Agreement for the South Placer Wastewater Authority, effective October 1, 2000, which has been amended and restated pursuant to an Amended and Restated Joint Exercise of Powers Agreement for the South Placer Wastewater Authority, dated as of October 1, 2012, among the Participants. The Authority was created for the purpose of providing for the planning, financing, acquisition, ownership, construction and operation of the Pleasant Grove Plant, the Dry Creek Wastewater Treatment Plant (the "Dry Creek Plant"), any other regional treatment plants constructed by the Authority or any of the Participants in the future to facilitate wastewater collection, conveyance, treatment, recycling, discharge and disposal services collectively to all of the Participants, and all Related Regional Infrastructure (as defined in the Funding Agreement) (collectively, the "Regional Wastewater Facilities" or the "Enterprise"). See "THE REGIONAL WASTEWATER SYSTEM" and "SOUTH PLACER WASTEWATER AUTHORITY."

### **The Participants**

In 2000, the City of Roseville, California (the "City" or "Roseville"), the South Placer Municipal Utility District (the "District" or "SPMUD") and the County of Placer ("Placer County") determined that their collective present and future needs for wastewater treatment required the construction of the Pleasant Grove Plant and other regional facilities. Accordingly, the Participants created the Authority and entered into the Funding Agreement (as subsequently amended), payments under which will secure the payment of the Parity Bonds (as defined therein) and the Series 2014 Bonds. See "SECURITY FOR THE SERIES 2014 BONDS."

**City of Roseville.** Roseville is a charter city located in California's Sacramento Valley. Roseville started developing its own wastewater collection and treatment utility shortly after its incorporation as a city on April 10, 1909. Roseville owns and operates the Dry Creek Plant and the Pleasant Grove Plant. Prior to creation of the Authority, Roseville provided wastewater treatment for SPMUD and Placer County at the Dry Creek Plant pursuant to various contracts. The Dry Creek Plant has a rated capacity of 18 million gallons per day ("mgd") average dry weather flow. Plant modifications have recently been completed that address increasingly stringent discharge requirements and changing influent loading conditions. See "THE REGIONAL WASTEWATER SYSTEM – Existing Wastewater Facilities." Roseville's wastewater utility currently provides sewer service to a population of approximately 126,835. The wastewater service area of Roseville consists of approximately 31.8 square miles (or 20,352 acres), including 67,054 equivalent dwelling units, 1,098 acres of developed commercial land, 687 acres of developed industrial land and 308 acres of public land. See "THE REGIONAL WASTEWATER SYSTEM – Existing Wastewater Facilities." For more information concerning Roseville and its wastewater utility, see APPENDIX B-1—"INFORMATION CONCERNING THE CITY OF ROSEVILLE WASTEWATER UTILITY" and APPENDIX B-2—"EXCERPTED PORTIONS OF THE CITY OF ROSEVILLE AUDIT."

**South Placer Municipal Utility District.** SPMUD was established pursuant to the Municipal Utility District Act (California Public Utilities Code Sections 11501 et seq.) in 1956 under the original name of the Rocklin-Loomis Municipal Utility District. In 1987, SPMUD changed its name to the South Placer Municipal Utility District. SPMUD currently provides sewer collection service to a population of approximately 74,750, involving approximately 30,500 equivalent dwelling units. SPMUD services an area of approximately 30 square miles, involving the entire City of Rocklin, the Town of Loomis and certain unincorporated areas of Placer County, Penryn, Newcastle, and the Rodgersdale Area of Granite Bay. For more information concerning SPMUD and its wastewater system, see APPENDIX C-1—"INFORMATION CONCERNING THE SOUTH PLACER MUNICIPAL UTILITY DISTRICT" and APPENDIX C-2—"EXCERPTED PORTIONS OF THE SOUTH PLACER MUNICIPAL UTILITY DISTRICT AUDIT."

**County of Placer.** Placer County provides wastewater collection services to certain of its residents through a sewer maintenance district ("SMD No. 2") and two county service areas ("CSA No. 2A" and "CSA No. 173"). SMD No. 2, established in 1961, comprises 11.2 square miles and currently serves a population of approximately 18,626, involving 7,121 equivalent dwelling units. CSA No. 2A was established in 1963, comprises 2.3 square miles of industrial property, involving 1,180 equivalent dwelling units. CSA No. 173 was established in 2003, serves approximately 950 acres of land, involving 1,262 equivalent dwelling units. Revenues from seventeen residential equivalent dwelling units in Placer County Service Area No. 55 ("CSA No. 55"), a 0.2 square mile residential area, are also pledged under the Funding Agreement. However, CSA No. 55 is not projected to grow and therefore it is not expected to generate further regional connection fees. For more information regarding Placer County, SMD No. 2, CSA No. 2A and CSA No. 173 see APPENDIX D-1—"INFORMATION CONCERNING THE PROVISION OF WASTEWATER COLLECTION SERVICE TO CERTAIN AREAS WITHIN THE COUNTY OF PLACER" and APPENDIX D-2—"FINANCIAL INFORMATION CONCERNING CERTAIN OF THE COUNTY OF PLACER'S WASTEWATER ENTITIES."

**Sewer collection service is provided to other residents of Placer County through other sewer maintenance districts and county service areas, revenues from which are not in any way pledged under the Funding Agreement, the Indenture or involved in the repayment of any obligations of the Authority, including the Series 2014 Bonds.**

## **Security for the Series 2014 Bonds**

The Series 2014 Bonds are payable solely from the Authority Revenues, consisting principally of payments from the Participants under the Funding Agreement. In consideration for providing wastewater treatment capacity, each Participant has agreed to pay its Proportionate Share of Debt Service under the Funding Agreement, as well as its share of Regional Operation and Maintenance Costs under the Amended and Restated Agreement Regarding the Operation and Use of the South Placer Regional Wastewater Facilities, dated as of October 1, 2012 (the "Operations Agreement"), among the Authority and the Participants. The obligation of each of the Participants to make its Proportionate Share of Debt Service is secured by a pledge of the Participant Net Revenues of the respective Systems of the Participants. The payment of Proportionate Shares of Debt Service is an unconditional obligation and is not subject to abatement. The obligations of the Participants to pay their respective Proportionate Shares of Debt Service is a several, but not joint, obligation. See "SECURITY FOR THE SERIES 2014 BONDS."

The Authority has obligations currently outstanding and may issue future obligations secured by Authority Revenues on parity with the Series 2014 Bonds as described under "-Parity Debt" below.

**There is no initial or planned third-party credit enhancement or liquidity facility supporting the purchase or payment of either series of the Series 2014 Bonds.**

THE SERIES 2014 BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE AUTHORITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE AUTHORITY REVENUES. NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY OR THE PARTICIPANTS IS PLEDGED FOR THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2014 BONDS, AND NO TAX OR OTHER SOURCE OF FUNDS OTHER THAN THE AUTHORITY REVENUES IS PLEDGED TO PAY THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE SERIES 2014 BONDS. THE PAYMENT OF THE INTEREST ON OR PRINCIPAL OF OR REDEMPTION PREMIUMS, IF ANY, ON THE BONDS DOES NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE AUTHORITY OR ANY PARTICIPANT FOR WHICH ANY SUCH ENTITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH ANY SUCH ENTITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

## **Regional Connection Fees**

The Participants are required by the Funding Agreement to remit Regional Connection Fees to Roseville for deposit in the Rate Stabilization Fund described below. The Participants intend that their respective contributions of Regional Connection Fees will be sufficient to pay their Proportionate Share of Debt Service. To the extent required by the Funding Agreement and as described herein, if the Regional Connection Fees collected by any Participant are insufficient to pay its Proportionate Share of Debt Service over the term of the Series 2014 Bonds, such Participant may be required to set User Charges for its System as described below under "Rate Covenant."

## **Rate Stabilization Fund**

A Rate Stabilization Fund has been established pursuant to the Funding Agreement and is maintained by Roseville on behalf of the Authority. The Rate Stabilization Fund is held as one fund, with three separate accounts therein (one for each Participant), all of which, collectively, will constitute the Rate Stabilization Fund. As of May 31, 2014, Roseville, SPMUD and Placer County had on deposit, respectively, \$64,253,094, \$39,250,039, and \$(5,742,737) (negative balance) (unaudited) in such Participant's respective account within the Rate Stabilization Fund, for a total balance in the Rate Stabilization Fund of \$97,760,396 (unaudited). See "SOUTH PLACER WASTEWATER AUTHORITY" and "SECURITY FOR THE BONDS—Funding Agreement – Rate Stabilization Fund; Regional Connection Fees" for a discussion of these terms.

To the extent that amounts on deposit in any of the Participants' accounts in the Rate Stabilization Fund are insufficient to pay such Participant's Proportionate Share of Debt Service, the other Participants' accounts within the Rate Stabilization Fund are expected to be available to pay the deficiency, subject to the terms and conditions of the Funding Agreement. See "SECURITY FOR THE BONDS—Funding Agreement – Rate Stabilization Fund; Regional Connection Fees" for a discussion of these terms.

## **Parity Debt**

The Authority has previously issued its Wastewater Revenue Refunding Bonds, Series 2011C (Fixed Rate Bonds), currently outstanding in the aggregate principal amount of \$58,085,000 (the "Series 2011C Bonds") pursuant to the Indenture, and its Wastewater Revenue Refunding Bonds, Series 2013 (Variable Rate Demand Bonds), currently outstanding in the aggregate principal amount of \$59,330,000 (the "Series 2013 Bonds") pursuant to a Wastewater Revenue Bond Indenture, dated as of April 1, 2013 (the "2013 Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee. The Series 2014 Bonds will be secured by Authority Revenues on a parity with the Series 2011C Bonds and the Series 2013 Bonds and the regularly scheduled payments on the Existing Swap Agreement (as defined below), which are referred to collectively herein as "Parity Debt."

The Authority may issue or incur in the future additional series of bonds ("Bonds") under the Indenture or Parity Debt under the 2013 Indenture or other parity debt instrument secured by Authority Revenues, subject to the terms and conditions of the Indenture, as more fully described herein. See "SECURITY FOR THE BONDS—Additional Parity Obligations."

## **Continuing Disclosure**

The Authority and the Participants will covenant for the benefit of the holders and beneficial owners of the Series 2014 Bonds to provide certain financial information and operating data by not later than 210 days following the end of the Authority's and each Participant's Fiscal Year (presently June 30) (the "Annual Reports"), commencing with the report for the Fiscal Year ended June 30, 2014, and the Authority will covenant to provide notices of the occurrence of certain enumerated events, if material. The Annual Reports and notices of material events will be filed with the Municipal Securities Rulemaking Board (the "MSRB"). The specific nature of the information to be contained in the Annual Reports and the notice of material events is set forth in APPENDIX I—"FORMS OF CONTINUING DISCLOSURE UNDERTAKINGS FOR THE SERIES 2014 BONDS." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

The Authority, the Participants and affiliated entities have failed, on a handful of occasions during the past five years, to comply, in all material respects, with these undertakings, as set forth in "CONTINUING DISCLOSURE" herein.

**Other Matters**

This introduction contains only a brief summary of certain of the terms of the Series 2014 Bonds being offered and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. The capitalization of any word not conventionally capitalized, or otherwise defined herein, indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document.

**Additional Information**

Copies of the Funding Agreement and the Indenture will be available for inspection at the offices of the Authority, and will be available upon request and payment of duplication costs from the Trustee.

**ESTIMATED SOURCES AND USES OF FUNDS**

The estimated sources and uses of funds for the Series 2014 Bonds, excluding accrued interest, are as follows:

Sources:	
Par Amount	\$
Released Funds Related to Series 2011D Bonds	
<b>Total Sources</b>	<u>\$</u>
Uses:	
Repayment of Series 2011D Bonds <sup>(1)</sup>	\$
Costs of Issuance <sup>(2)</sup>	
<b>Total Uses<sup>(3)</sup></b>	<u>\$</u>

(1) To be deposited with the Trustee and used to refund the Series 2011D Bonds in full on the Date of Delivery of the Series 2014 Bonds.

(2) Includes legal, financial advisory, printing, rating, trustee and Authority fees, and underwriting discount.

(3) Numbers may not add due to rounding.

## THE SERIES 2014 BONDS

### General

The Series 2014 Bonds will be dated the Date of Delivery (the "Closing Date"), will bear interest at the rates per annum and will mature on the dates and in the amounts, all as set forth on the cover page hereof. The Series 2014 Bonds may be held only in denominations of \$5,000 or any integral multiple thereof (not exceeding the principal amount of Series 2014 Bonds maturing at any one time). Interest accruing on the Series 2014 Bonds will be computed on the basis of the actual number of days in the applicable Interest Period divided by 365 or 366, as applicable. Interest on the Series 2014 Bonds will be payable on the first Business Day of each month, commencing September 1, 2014.

When issued, the Series 2014 Bonds will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). Beneficial owners of the Series 2014 Bonds will not receive physical certificates representing their interests in the Series 2014 Bonds, but will receive a credit balance on the books of the nominees for such beneficial owners. The principal and interest on the Series 2014 Bonds will be paid by the Trustee to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners of the Series 2014 Bonds as described herein. As long as Cede & Co. is the registered owner of the Series 2014 Bonds, principal and interest on the Series 2014 Bonds are payable by wire transfer on the payment date by the Trustee to Cede & Co., as nominee for DTC, which will in turn remit such amounts to DTC Participants (as defined herein) for subsequent distribution to the Beneficial Owners. As long as Cede & Co. is the registered owner of the Series 2014 Bonds, as nominee of DTC, references herein to the registered owners mean Cede & Co. as aforesaid and will not mean the Beneficial Owners (as defined herein) of the Series 2014 Bonds. See "APPENDIX F—BOOK-ENTRY SYSTEM."

### Interest Rate Determination Relating to the Series 2014 Bonds

The interest rate on the Series 2014 Bonds will be a per annum rate equal to the Adjusted SIFMA Rate, applied on the basis of the actual number of days in the applicable Interest Period divided by 365 or 366, as applicable. The Adjusted SIFMA Rate will adjust on each Adjustment Date, with the effective date for each adjustment to be each Thursday. The Adjusted SIFMA Rate for each week during an Interest Period will be determined by the Calculation Agent by applying the SIFMA Index, as determined for each week during the Interest Period to determine the SIFMA Index Rate, and then calculating the Adjusted SIFMA Rate for such week; except that the Series 2014 Bonds may not bear interest in any Interest Period at more than the Maximum Rate. Such Adjusted SIFMA Rate will be multiplied against the Outstanding principal amount of the Series 2014 Bonds during such Interest Period to determine the interest payable on the Interest Payment Date following such Interest Period.

The determination of the Adjusted SIFMA Rate (absent manifest error) will be conclusive and binding upon the Authority and the Owners of the Series 2014 Bonds. If for any reason the Adjusted SIFMA Rate for any week is not established, the Series 2014 Bonds will bear interest at the Adjusted SIFMA Rate last in effect until such time as a new Adjusted SIFMA Rate is established.

The following terms have their respective meanings under the Indenture.

“Adjusted SIFMA Rate” means, with respect to the Series 2014 Bonds, the sum of the SIFMA Index Rate and the additional interest amount shown in the following table (the “SIFMA Index Spread”):

Maturity Date <u>(November 1)</u> 2017	Additional <u>Interest</u> %
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“Adjustment Date” means, with respect to the Series 2014 Bonds, Wednesday of each week, or if such day is not a Business Day, the next succeeding Business Day.

“Calculation Agent” means such person as may be selected by the Authority to perform the functions of Calculation Agent for the Series 2014 Bonds. The initial Calculation Agent will be [The Bank of New York Mellon Trust Company, N.A.]

“Interest Period” means the period from and including each Interest Payment Date for such Series 2014 Bonds to and including the day next preceding the next Interest Payment Date for such Series 2014 Bonds; provided however, that the first Interest Period for any Series 2014 Bond will begin on (and include) the Issue Date of such Series 2014 Bonds and the final Interest Period will end the day immediately preceding the maturity date of such Series 2014 Bonds.

“SIFMA Index” means 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.

“SIFMA Index Rate” means a per annum rate equal to the weighted average of the SIFMA Index in effect for each day in the Interest Period, calculated by multiplying each such SIFMA Index by the numbers of days such SIFMA Index is in effect, determining the sum of such products and dividing such sum by the number of days in such Interest Period.

## **Redemption**

**Optional Redemption.** The Series 2014 Bonds will be subject to redemption prior to maturity on or after [May 1, 2017], at the option of the Authority, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the Authority), on any Business Day, at a Redemption Price equal to 100% of the principal amount of Series 2014 Bonds called for redemption, without premium, plus accrued interest to the date fixed for redemption.

**Notice of Redemption.** Each notice of redemption will be mailed by the Trustee, not less than 15 nor more than 30 days prior to the redemption date, to each Owner, the Securities Depository and the MSRB. Each such notice will also state that on said date there will become due and payable on each of said Series 2014 Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Series 2014 Bond to be redeemed in part only, together with interest accrued thereon to the date fixed for redemption, and that from and after such redemption date interest thereon will cease to accrue, and will

require that such Series 2014 Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice. With respect to any notice of optional redemption of Series 2014 Bonds, conditional notice of optional redemption may be given at the direction of the Authority. Any such notice may be rescinded by written notice given to the Trustee by the Authority no later than five Business Days prior to the date specified for redemption. The Trustee will give notice of such rescission as soon thereafter as practicable in the same manner, and to the same persons, as notice of such redemption was given pursuant to the Indenture. Failure by the Trustee to give notice to the Securities Depository or the MSRB or failure of any Owner to receive notice or any defect in any such notice will not affect the sufficiency of the proceedings for redemption.

***Selection of Series 2014 Bonds for Redemption.*** Whenever provision is made in the Indenture for the redemption of less than all of a Series of Series 2014 Bonds, the Authority will select which maturities and in which amounts such Series 2014 Bonds will be redeemed. Whenever provision is made in the Indenture for the redemption of less than all of a maturity of Series 2014 Bonds, the Trustee will select the Series 2014 Bonds to be redeemed, from all Series 2014 Bonds of such Series and maturity not previously called for redemption, by lot in any manner which the Trustee in its sole discretion will deem appropriate and fair.

***Effect of Redemption.*** Notice of redemption having been duly given, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, Series 2014 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Series 2014 Bonds (or portions thereof) so called for redemption will become due and payable at the Redemption Price specified in such notice, together with interest accrued thereon to the date fixed for redemption, interest on the Series 2014 Bonds so called for redemption will cease to accrue, said Series 2014 Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said Series 2014 Bonds will have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest. All Series 2014 Bonds redeemed pursuant to the provisions of this Article will be cancelled upon surrender thereof and destroyed.

***Purchase of Series 2014 Bonds.*** In lieu of redemption of Series 2014 Bonds, amounts held by the Trustee for such redemption will, at the Request of the Authority received by the Trustee prior to the selection of Series 2014 Bonds for redemption, be applied by the Trustee to the purchase of Series 2014 Bonds at public or private sale as and when and at such prices (including brokerage, accrued interest and other charges) as the Authority may in its discretion direct, but not to exceed the redemption price which would be payable if such Series 2014 Bonds were redeemed. The aggregate principal amount of Series 2014 Bonds of the same Series and maturity purchased in lieu of redemption may not exceed the aggregate principal amount of Series 2014 Bonds of such Series and maturity that would otherwise be subject to such redemption.

## SECURITY FOR THE SERIES 2014 BONDS

### Pledge of Authority Revenues

The Series 2014 Bonds are special limited obligations of the Authority payable solely from and secured solely by a pledge of Revenues under the Indenture (the "Authority Revenues"). Authority Revenues principally consist of certain payments made by the Participants pursuant to the Funding Agreement. See "Funding Agreement" below.

Under the Indenture, the Authority assigns to the Trustee, for the benefit of the Owners of the Series 2014 Bonds, the Series 2011C Bonds and any additional Parity Debt issued thereunder, the Authority Revenues which are required to be in an amount sufficient to pay the punctual payment of the principal of and premium, if any, and interest on the Bonds and any Parity Debt. The Series 2013 Bonds were issued under the 2013 Indenture as Parity Debt and are secured by Authority Revenues on parity with the Series 2014 Bonds and Series 2011C Bonds. The Authority Revenues are not permitted to be used for any other purpose while any of the Bonds or other Parity Debt remain Outstanding, except that out of the Authority Revenues there may be apportioned and paid such sums for such purposes, as are expressly permitted by the Indenture.

Authority Revenues generally include all amounts received by, or entitled to be received by, the Authority from the Participants under certain provisions of the Funding Agreement (but excluding Regional Connection Fees and amounts held in the Rate Stabilization Fund, unless and until said funds are deposited in the Interest Fund or the Principal Fund or a debt service fund established for payment of any Parity Debt).

### Funding Agreement

**General.** The purpose and intent of the Funding Agreement is (1) to provide for the general allocation of Capital Costs among the Participants, (2) to provide for the allocation of the Participants' individual financial responsibility for the payment of Debt Service, (3) to provide for the Participants' use of the wastewater treatment capacity provided by the construction of Regional Wastewater Facilities and (4) to provide assurance to the purchasers of the Series 2014 Bonds and any Parity Bonds regarding the availability of Participant Net Revenues for the payment of Debt Service. Certain of the provisions of the Funding Agreement are described below. See APPENDIX G—"SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS—Funding Agreement" for a summary of other provisions of the Funding Agreement.

Under the Funding Agreement, each Participant has an obligation to pay its respective Proportionate Share of Debt Service. The Participants' Proportionate Shares of Debt Service are currently 61.66% for the City, 22.43% for SPMUD, and 15.91% for Placer County, but are subject to reallocation over time as outlined in the Funding Agreement. The Rate Stabilization Fund is held as one fund, with three separate accounts therein (one for each Participant). Regional Connection Fees collected by each of the Participants are deposited into their respective accounts within the Rate Stabilization Fund. Each Participant's Proportionate Share of Debt Service is payable from the following sources in the following order of priority: (i) such Participant's account within the Rate Stabilization Fund, (ii) so long as a draw from the aggregate balance of the Rate Stabilization Fund to pay Debt Service would not cause the aggregate balance in the Rate Stabilization Fund to fall below the lesser of: (a) Debt Service due in the two (2) Fiscal Years occurring immediately after the draw is made, and (b) the

amount required to redeem or retire all Bonds (the “Minimum Level”), other Participants’ accounts in the Rate Stabilization Fund; and (iii) if the aggregate balance in the Rate Stabilization Fund would fall below the Minimum Level due to a draw to pay Debt Service, one or more Participants’ Participant Net Revenues. Except for payments from the Rate Stabilization Fund as described in the preceding sentence, no Participant has any obligation respecting the payment of any other Participant’s Proportionate Share of Debt Service. Regional Connection Fees collected by the Participants in recent years have not generally corresponded to Participant’s Proportionate Share of Debt Service of the Participants, and in Placer County’s case, collection of Regional Connection Fees has been significantly less than its Proportionate Share of Debt Service. As of May 31, 2014, Roseville, SPMUD and Placer County had on deposit, respectively, \$64,253,094, \$39,250,039, and \$(5,742,737) (negative balance) (unaudited) in such Participant’s respective account within the Rate Stabilization Fund, for a total balance in the Rate Stabilization Fund of \$97,760,396 (unaudited), and the Minimum Level was approximately \$24.1 million.

In order to address Placer County’s deficit balance in the Rate Stabilization Fund, the Participants entered into a Reallocation and Repayment Agreement, dated as of October 1, 2012 (the “Reallocation Agreement”). Pursuant to the Funding Agreement and the Reallocation Agreement, each Participant’s respective capacity and Proportionate Shares of Debt Service were reallocated to reduce Placer County’s obligations to the other Participants. In addition, Placer County’s deficit now bears interest and Placer County has agreed to make deposits to the Rate Stabilization Fund. The reallocation was effective retroactively as of April 30, 2012. Placer County made an initial deposit of \$5,000,000 to the Rate Stabilization Fund in October 2012 and is making additional deposits of \$125,000 on the first day of each calendar quarter. Such deposits are in addition to the deposit of any Placer County Regional Connection Fees and will be applied first to accrued but unpaid interest, and thereafter, to reduce the deficit balance in Placer County’s subaccount. Placer County will continue to make such deposits until Placer County has a positive balance in its subaccount in the Rate Stabilization Fund, which is anticipated to be January 1, 2021. See APPENDIX G—“SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS—Funding Agreement” for a more complete discussion of these provisions of the Funding Agreement.

The Rate Stabilization Fund is used to pay: (1) Debt Service; (2) Bond Redemptions; (3) Capital Costs; (4) reimbursement to a Participant of funds, other than Regional Connection Fees, deposited by such Participant into the Debt Service Fund, the Reserve Account, and the Rate Stabilization Fund, except to the extent such reimbursement would cause the balance of such Participant’s account within the Rate Stabilization Fund to fall below its Sub-Minimum Level; (5) administrative and other expenses incurred by the Authority; and (6) any other legal expenditures. “Sub-Minimum Level” is defined under the Funding Agreement to mean, for each Participant, an amount equal to the product of the Minimum Level multiplied by such Participant’s Proportionate Share.

Amendments and supplements to the Funding Agreement can be made in accordance with the terms of the Indenture. See APPENDIX G – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.”

***Pledge and Application of Participant Net Revenues.*** Under the Funding Agreement, each Participant irrevocably pledges, charges and assigns to the Trustee, to assure the punctual payment of its Proportionate Share of Debt Service, all of its Participant Net Revenues and, except as otherwise may be permitted under the applicable Bond Documents, the Participant Net Revenues will not be used for any other purpose so long as any of its

Proportionate Share of Debt Service remains unpaid. Such pledge, charge and assignment will constitute a senior lien on the Participant Net Revenues for the payment of each Participant's Proportionate Share of Debt Service in accordance with the terms of the Funding Agreement. To the extent a Participant's Proportionate Share of Debt Service is not paid in full from the Aggregate Rate Stabilization Fund Draw prior to any Interest Payment Date, such Participant will, on or before such Interest Payment Date, make a payment directly to the Trustee for deposit to the Debt Service Fund from its Participant Net Revenues to make up such deficiency.

The following terms have their respective meanings under the Funding Agreement.

"Participant Net Revenues," with respect to each Participant is such Participant's Participant Gross Revenues less such Participant's Participant Operation and Maintenance Costs, for any period of calculation.

"Participant Gross Revenues" means, for any period of calculation, all amounts received for, arising from and all other income and revenues derived by a Participant from, the ownership or operation of such Participant's System and such Participant's use of Regional Wastewater Facilities, excluding Regional Connection Fees and Local Connection Fees other than Available Local Connection Fees.

"Participant Operation and Maintenance Costs" means, for any given period, the reasonable and necessary costs (both direct and incidental) of operating and maintaining the facilities which comprise a Participant's System during such period, as well as the Participant's share of Regional Operation and Maintenance Costs, calculated on sound accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve such facilities in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any), labor, materials, water, electricity, natural gas, chemicals, employee bonds, vehicles, communications equipment, preventive maintenance, sludge disposal, environmental remediation, engineering services, analytical testing services, rents, right-of-way charges, recycled water operations costs, legal judgments and assessments, other support services, and other similar costs, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor, debt service and amortization of intangibles or other book-keeping entries of a similar nature.

"Local Connection Fees" means connection fees imposed and collected by a Participant pursuant to applicable provisions of the Roseville Municipal Code, SPMUD ordinances, or Placer County ordinances, as applicable, for the purpose of funding expansion or modifications of, and/or improvements to, the Participant's System.

"Available Local Connection Fees" means Local Connection Fees that may be used to pay Debt Service. For further details, see APPENDIX G – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS."

**Rate Covenant.** Each Participant must fix, prescribe, revise, and collect User Charges during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Participant Gross Revenues sufficient to pay the following amounts in the following order of priority:

- (a) All Participant Operation and Maintenance Costs estimated by such Participant to become due and payable in such Fiscal Year;

(b) The Participant's Rate Covenant Debt Service and the amount due from the Participant on any Participant Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such Rate Covenant Debt Service or such interest on Participant Parity Obligations are payable from proceeds of Bonds or Participant Parity Obligations deposited for such purpose;

(c) All amounts, if any, required to be contributed by such Participant to restore the balance in the Reserve Account to the full amount of the Reserve Requirement; and

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

In addition, each Participant will fix, prescribe, revise, and collect User Charges during each Fiscal Year that are sufficient to yield Participant Net Revenues at least equal to 110% of Rate Covenant Debt Service.

The Funding Agreement defines "Rate Covenant Debt Service" to mean, as to each Participant, such Participant's Proportionate Share of Debt Service, less the sum of (a) such Participant's Individual Rate Stabilization Fund Draw, and (b) any amounts paid on behalf of such Participant pursuant to the Funding Agreement.

**Covenants of the Participants.** Certain of the covenants of the Participants in the Funding Agreement are described below. See APPENDIX G—"SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS—Funding Agreement – Covenants of the Participants" for additional information regarding the covenants of the Participants in the Funding Agreement.

**Participant Parity Obligations Secured by Participant Net Revenues.** Each Participant may issue or incur Participant Parity Obligations, subject to the conditions specified in the Funding Agreement. See APPENDIX G—"SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS—Funding Agreement."

**Additional Regional Wastewater Facilities.** Pursuant to the provisions of the Funding Agreement, Regional Connection Fees and other amounts in the Rate Stabilization Fund may also be used by the Authority to fund other expansions or modifications of, or improvements to, Regional Wastewater Facilities, subject to the prior written approval of the Authority; provided, however, that at the time a decision is made to so use Regional Connection Fees, the Authority will reasonably determine the amounts to be withdrawn from each Participant's account within the Rate Stabilization Fund so as to give effect to the principle that the Participants' respective contributions to Capital Costs should be proportional to their usage of the wastewater treatment capacity made available by the construction of such Regional Wastewater Facilities.

Notwithstanding the foregoing, and subject to the availability of funds from the Authority, when the average daily inflows to the Dry Creek Plant or Pleasant Grove Plant reach 75% of actual total capacity of either plant, respectively, Roseville will begin the planning and design of the next expansion of the Pleasant Grove Plant or Dry Creek Plant, or the construction of new Regional Wastewater Facilities, as appropriate. While the 75% threshold of either plant has not been reached, the plants are experiencing higher organic loading rates than expected which

has prompted the Authority to commence design work for the next expansion of the Pleasant Grove Plant ahead of the 75% requirement. Subject to the provisions of the Funding Agreement, the payment of the cost of such planning, permitting and design will be made from the Regional Connection Fees on deposit in the Rate Stabilization Fund or from the available funds of the Authority. See "FINANCIAL OPERATIONS – Capital Costs" for the Authority's 10-year capital improvement projections.

### **Flow of Funds Under The Indenture**

The Authority will agree in the Indenture to deposit all the Authority Revenues received by it into the following respective funds (each of which the Trustee agrees to establish, maintain and hold in trust for the benefit of the Owners of the Bonds) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Authority Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that on a parity with such deposits the Trustee may set aside or transfer amounts with respect to outstanding Parity Debt as provided in an applicable Parity Debt Instrument (which will be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Debt):

***Interest Fund.*** The Authority will transfer to the Trustee and the Trustee will set aside in the Interest Fund on or before the second Business Day prior to each interest payment date therefor an amount equal to the interest becoming due and payable on the Outstanding Bonds (excluding interest for which there are moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source to pay such interest).

***Principal Fund; Sinking Accounts.*** The Authority will transfer to the Trustee and the Trustee will set aside in the Principal Fund on or before the second Business Day prior to each principal or Sinking Fund Installment date therefor an amount equal to the amount of Principal Payments coming due and payable on the Outstanding Bonds. Amounts deposited in order to pay Sinking Fund Installments will be deposited into the respective Sinking Accounts for the Term Bonds established within the Principal Fund. Notwithstanding the foregoing, if the Authority certifies to the Trustee that any Principal Payments are expected to be refunded on or prior to their respective due dates or paid from excess amounts on deposit in the Parity Reserve Fund or other bond reserve fund, no amounts need be set aside towards such principal to be so refunded or paid. All of the deposits with respect to Sinking Fund Installments will be made without priority of any payment into any one Sinking Account over any other Sinking Account.

***Parity Reserve Fund.*** After making the payments, allocations and transfers provided for in the previous two paragraphs, if the balance in the Parity Reserve Fund is less than the Reserve Requirement, the deficiency will be restored by transfers from the sources specified in the Indenture; provided, however, that payments received from the Authority or a Participant to replenish the Parity Reserve Fund will first be applied to (i) repay the provider of the Reserve Fund Credit Instrument for a draw thereon and (ii) after all such amounts are paid in full, amounts necessary to fund the Parity Reserve Fund to the Reserve Requirement, after taking into account the amounts available under the Reserve Fund Credit Instrument, will be deposited from such payments made by the Authority or a Participant.

## Parity Reserve Fund

A Parity Reserve Fund was established under the Indenture and is funded in an amount equal to the Reserve Requirement for the Series 2011C Bonds and the Series 2011D Bonds, which is equal to \$\_\_\_\_\_. Upon issuance of the Series 2014 Bonds and redemption of the Series 2011D Bonds, the Reserve Requirement will be \$\_\_\_\_\_. At closing, no additional deposit to the Parity Reserve Fund will be required. The Parity Reserve Fund will secure the outstanding Series 2011C Bonds and the Series 2014 Bonds. The Series 2013 Bonds are not secured by or payable from the Parity Reserve Fund. An amount equal to the Reserve Requirement in the form of either (i) cash or Permitted Investments or a (ii) Reserve Fund Credit Instrument under the Indenture, for the account of the Parity Reserve Fund, will be maintained in the Parity Reserve Fund at all times. Any deficiency in the Parity Reserve Fund will be replenished from: (1) amounts paid by the Authority to the Trustee resulting from a late payment by a Participant under the Funding Agreement; and (2) amounts paid by the Authority to the Trustee from payments made by the Participants under the Funding Agreement as a result of a deficiency in the Parity Reserve Fund caused by investment losses on Permitted Investments held in the Parity Reserve Fund.

Under the Funding Agreement, the Participants agree that if amounts in the Parity Reserve Fund fall below the Reserve Requirement by reason of loss of value of Permitted Investments then on hand in the Reserve Account, the Participants will make up such loss, from Participants' Net Revenues. An individual Participant is not obligated to replenish the Parity Reserve Fund if it has been depleted to make a payment on the Parity Debt secured by the Parity Reserve Fund as a result of another Participant's failure to make its payments under the Funding Agreement. In such case, the Parity Reserve Fund will be replenished solely by depositing to the Parity Reserve Fund the late payment made by the Participant that caused said draw on the Parity Reserve Fund.

"Reserve Requirement" is defined in the Indenture to mean, as to the Bonds secured by the Parity Reserve Fund as of the date of calculation, an amount equal to (a) the least of (i) the Maximum Annual Debt Service on the Outstanding Bonds, (ii) 10% of the proceeds of the Bonds, (iii) 125% of the average annual Debt Service on Outstanding Bonds; provided, that (i) and (iii) above will be calculated without taking into account payments expected to be made under the Master Agreement, dated August 28, 2003 (the "Existing Swap Agreement") between the Authority and Morgan Stanley Capital Services Inc. (the "Counterparty"), as amended. In no event will the Authority, in connection with the issuance of any Parity Debt, be obligated to deposit an amount in the Parity Reserve Fund which is in excess of the amount permitted by the applicable provisions of the Code to be so deposited from the proceeds of tax-exempt bonds without having to restrict the yield of any investment purchased with any portion of such deposit.

## Outstanding Parity Obligations

Upon delivery of the Series 2014 Bonds, the Series 2014 Bonds will be secured on parity with the outstanding Series 2011C Bonds, the Series 2013 Bonds and the regularly scheduled payments on the Existing Swap Agreement. The Authority entered into the Existing Swap Agreement with the Counterparty, a wholly owned subsidiary of Morgan Stanley (a Delaware Corporation) and an affiliate of Morgan Stanley & Co. LLC, the underwriter, that settled contemporaneously with the issuance of previously refunded Parity Debt. Pursuant to the Indenture, the Authority covenants that the Existing Swap Agreement (except the obligations to make payments upon any early termination or event of default) is a parity obligation payable from and secured by a pledge of Authority Revenues as described in the Indenture on parity with all other existing and future Bonds and Parity Debt. The obligations of the Authority under such Existing Swap Agreement to make payments upon early termination or event of default are payable solely from amounts on deposit in the Rate Stabilization Fund under the Funding Agreement. The Authority is not required to advance any moneys derived from any source of income other than the Authority Revenues for the payments due under the Existing Swap Agreement or for the performance of any agreements or covenants required to be performed by it contained in the Existing Swap Agreement.

## Additional Bonds and Parity Debt

**Additional Bonds.** In addition to the Series 2014 Bonds and the outstanding Series 2011C Bonds, the Authority may, under a Supplemental Indenture, issue or incur Bonds payable from Authority Revenues. See “- Parity Debt” below for the issuance of Parity Debt under a Parity Debt Instrument other than the Indenture. Issuance of additional Bonds is subject to the following conditions under the Indenture:

(a) The Authority will be materially in compliance with all covenants set forth in the Indenture.

(b) If, and only if, the Authority determines that such Series of Bonds or Parity Debt will be secured by the Parity Reserve Fund, money or a Reserve Fund Credit Instrument (as authorized by the Indenture) will be deposited in the Parity Reserve Fund from the proceeds of the sale of such Bonds or otherwise such that the balance in the Parity Reserve Fund is equal to the Reserve Requirement on the date of issuance of the Series of Bonds or Parity Debt.

(c) Each of the Participant’s Net Revenues, calculated on sound accounting principles, as shown by the books of the Participants for the latest Fiscal Year or any more recent 12 month period selected by each Participant ending not more than 90 days prior to the adoption of the Parity Bonds Instrument pursuant to which such Parity Bonds are issued, as shown by the books of the Participants, plus, at the option of any Participant, any or all of the items designated in the following paragraph, will at least equal 110% of the sum of: (1) their Proportionate Share of Maximum Annual Debt Service, calculated in accordance with the Funding Agreement, with Maximum Annual Debt Service calculated on all Bonds and Parity Debt to be Outstanding immediately subsequent to the issuance of such Parity Bonds which have a lien on the Authority Revenues, plus (2) Maximum Annual Debt Service on all Participant Parity Obligations.

The items which may be added to such Participant’s Net Revenues for the purpose of issuing Bonds under the Indenture are: (1) an allowance for earnings arising from each Participant Net Revenues resulting from any increase in the User Charges which has become

effective prior to the incurring of such Series of Bonds but which, during all or any part of such Fiscal Year or such 12 month period, was not in effect, in an amount equal to the amount by which the Participant Net Revenues would have been increased if such increase in User Charges had been in effect during the whole of such Fiscal Year or such 12 month period, all as shown in the written report of an Independent Consultant engaged by the applicable Participant; and (2) an allowance for Participant Net Revenues from any additions or improvements to or extensions of a Participant System to be financed from the proceeds of such Participant's Parity Obligations or from any other source but in any case which, during all or any part of the most recent completed Fiscal Year for which audited financial statements are available or for any more recent 12 month period selected by a Participant were not in service, all in an amount equal to 75% of the estimated additional average annual Participant Net Revenues to be derived from such additions, improvements and extensions for the first 36 month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a qualified independent engineer employed by the Participant; (3) Regional Connection Fees collected by the Participants, in an amount equal to the greater of (i) Regional Connection Fees collected by such Participant in the prior 12 months; or (ii) the average annual amount of Regional Connection Fees collected by such Participant during the prior 36 months; and (4) Available Local Connection Fees collected by the Participants, in an amount equal to the greater of: (a) Available Local Connection Fees collected by such Participant in the prior 12 months; or (b) the average annual amount of Available Local Connection Fees collected by such Participant during the prior 36 months.

For purposes of the calculations made under the Indenture, Participants Net Revenues will not include any draws made by the Authority from the Rate Stabilization Fund to pay Debt Service on any Bonds or Parity Debt.

The condition set forth in (c) above will not be applicable to Series of Bonds or Parity Debt solely for the purpose of refunding all or a portion of any outstanding Bonds or other Parity Debt.

(d) The Funding Agreement will be amended or supplemented, if necessary, to provide that one or more of the Participants is obligated to pay Debt Service on such Bonds or Parity Debt or to otherwise amend the Funding Agreement to conform to the terms of the Indenture.

**Parity Debt.** In addition to Bonds issued under the Indenture, the Authority may, under a Parity Debt Instrument, issue or incur Parity Debt payable from Authority Revenues, to provide financing for the Project and the Enterprise, in such principal amount as will be determined by the Authority. The Series 2013 Bonds were issued as Parity Debt pursuant to the 2013 Indenture. The Authority may issue or incur any such Parity Debt, subject to the conditions set forth in the Indenture as described under "Additional Bonds" above.

In addition, the Parity Debt Instrument providing for the issuance of such Parity Debt under the Indenture will provide that the proceeds of such Parity Debt will be applied to the acquisition, construction, improvement, financing or refinancing of additional facilities, improvements or extensions of existing facilities within the Enterprise, or otherwise for facilities, improvements or property which the Authority determines are of benefit to the Enterprise, or for the purpose of refunding any Parity Debt in whole or in part, including all costs (including costs of issuing such Parity Debt and including capitalized interest on such Parity Debt during any period which the Authority deems necessary or advisable) relating thereto.

The Authority may, in connection with the issuance of a Series of Bonds or Parity Debt, enter into: (i) a Credit Agreement with a Credit Provider which provides a Credit Facility to provide credit enhancement or liquidity for Bonds or Parity Debt; or (ii) a Swap Agreement (as defined in the Indenture), and pledge Authority Revenues to repay the Credit Provider under the Credit Agreement or the Swap Counterparty (as defined in the Indenture) under the Swap Agreement, without complying with the provisions of the Indenture as described in (b), (c) or (d) of "Additional Bonds" above. Said pledge of Revenues to repay the Credit Provider or Swap Counterparty may be, but is not required to be, on a parity with the Bonds and any other Parity Debt issued or to be issued by the Authority, and such reimbursement agreement or Swap Agreement will be treated as Parity Debt under the Indenture.

Under the Indenture, the Authority agrees and acknowledges that the Existing Swap Agreement (except termination payments and certain other obligations as set forth in the Existing Swap Agreement) is a Parity Debt obligation as described in the Indenture and is secured by the Revenues on a parity with all other existing and future Bonds or Parity Debt.

For a discussion of the ability of each Participant to issue or incur Participant Parity Obligations, see Appendix G – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS."

## **SOUTH PLACER WASTEWATER AUTHORITY**

### **General**

The Authority was created pursuant to a Joint Exercise of Powers Agreement for the South Placer Wastewater Authority, effective October 1, 2000, which has been amended and restated pursuant to an Amended and Restated Joint Exercise of Powers Agreement for the South Placer Wastewater Authority, dated as of October 1, 2012 (the "Joint Powers Agreement" or the "JPA") among the Participants. The JPA was entered into pursuant to the provisions of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Joint Exercise of Powers Act"). The Authority was created for the purpose of providing for the planning, financing, acquisition, ownership, construction and operation of the Regional Wastewater Facilities. Subsequent amendments and supplements to the JPA can be made in accordance with the terms of the Indenture. In addition, no Participant is permitted to withdraw from the Authority until all bonds or other instruments of indebtedness issued by the Authority have been paid in full.

### **The Participants**

The Authority's Participants consist of the City, SPMUD and Placer County. Pursuant to the Funding Agreement (see "SECURITY FOR THE SERIES 2014 BONDS—Funding Agreement") and the Operations Agreement, each of the Participants agrees to collect and forward to the Authority, its Regional Connection Fees, as well as its share of Regional Operation and Maintenance Costs. For information relating to Roseville, see APPENDIX B-1—"INFORMATION CONCERNING THE CITY OF ROSEVILLE WASTEWATER UTILITY" and APPENDIX B-2—"EXCERPTED PORTIONS OF THE CITY OF ROSEVILLE AUDIT." For information relating to SPMUD, see APPENDIX C-1—"INFORMATION CONCERNING THE SOUTH PLACER MUNICIPAL UTILITY DISTRICT" and APPENDIX C-2—"EXCERPTED PORTIONS OF THE SOUTH PLACER MUNICIPAL UTILITY DISTRICT AUDIT." For information relating to Placer County, see APPENDIX D-1—"INFORMATION CONCERNING

THE PROVISIONS OF WASTEWATER COLLECTION SERVICE TO CERTAIN AREAS WITHIN THE COUNTY OF PLACER” and APPENDIX D-2—“FINANCIAL INFORMATION CONCERNING CERTAIN OF THE COUNTY OF PLACER’S WASTEWATER ENTITIES.”

**Governance and Management**

Pursuant to the JPA, the Authority is administered by a board of directors (the “Board”) consisting of five directors. Two directors are appointed by the City, two directors are appointed by Placer County and one director is appointed by the District. One County-appointed director is required under the JPA to be a member of the County Board of Supervisors and represent a supervisorial district which includes all or a portion of the City. This director is also subject to confirmation by the City Council of the City. The members of the Board of Directors are listed on the inside cover of this Official Statement.

Pursuant to the Funding Agreement, the City owns and operates the Regional Wastewater Facilities. See APPENDIX B-1—“INFORMATION CONCERNING THE CITY OF ROSEVILLE WASTEWATER UTILITY” for a description of the senior management of the City’s wastewater system.

**THE REGIONAL WASTEWATER SYSTEM**

**Service Area**

The Regional Wastewater Facilities include the Dry Creek Plant and the Pleasant Grove Plant and related regional conveyance systems and any other regional treatment facilities constructed by the Authority or any of the Participants in the future to facilitate wastewater collection, conveyance, treatment, recycling, discharge and disposal services collectively for all of the Participants. The service area of the Regional Wastewater Facilities is approximately 70 square miles, which includes the wastewater service areas of the City, SPMUD and certain areas of Placer County. Refer to the appendices to this Official Statement for more specific information on the service areas for each of the Participants.

The City is currently evaluating one potential annexation of approximately 660 acres adjacent to its northern and western boundaries. Such annexation is currently in the approval process. If this annexation takes place, it is anticipated that the service area may eventually include approximately 3,000 additional equivalent dwelling units (“EDUs”). These EDUs would be added to the Regional Wastewater System over a 25 year time frame and may begin as early as 2015.

**Wastewater Generation and Treatment Requirements**

Wastewater from the northwestern portion of the Authority’s service area is conveyed to, and treated at, the Pleasant Grove Plant, and wastewater from the southeastern portion of the Authority service area is conveyed to, and treated at, the Dry Creek Plant.

**Existing Wastewater Treatment Flow.** The Dry Creek Plant has a rated capacity of 18 million gallons per day (“mgd”) under average dry weather flow (“ADWF”) conditions. The peak flow capacity of the Dry Creek Plant is significantly greater than 18 mgd. Plant modifications have been completed within the past 5 years that address increasingly stringent discharge requirements. Other modifications may be necessary to meet new treatment conditions imposed

by the State of California as part of the 5-year discharge permit renewal. The extent of the necessary modifications is currently being analyzed but, if necessary, must be implemented within 5 years. The Authority does not currently have cost estimates for such modifications, should they be necessary.

The Pleasant Grove Plant has a rated capacity of 12 mgd under ADWF conditions. The peak flow capacity of the Pleasant Grove Plant is significantly greater than 12 mgd. Plant modifications were completed within the past 5 years to address changing influent loading conditions and increasingly stringent discharge requirements. Plant modifications are not expected to be needed to meet new discharge requirements for at least 5 years, which corresponds to the minimum remaining term of the current discharge permit.

Both treatment plants are designed to completely treat peak flows generated by storm events.

**EDU and Flow Projections.** The EDU and wastewater flow projections through build-out of the current Authority service area anticipated by 2050, as set forth below, are based on the most recent projections prepared by the Participants. However, if future developments were at higher densities than current trends, the planned wastewater facilities are expandable to accommodate the higher wastewater flows that would result.

The table below provides a breakdown of projected EDUs from 2013 through 2050 for each Participant.

Participant	Current EDUs (as of 6/30/13)	Projected EDUs (through 2050)
Roseville	67,054	91,914
Placer County	10,158	26,826
SPMUD	<u>30,682</u>	<u>43,080</u>
Total	107,894	161,820

Source: The Authority; current EDUs from 2013 Regional Partner EDU Schedule.

Based on the current projections, the ultimate number of EDUs that will develop through build-out in the service area, including the City's potential annexation, is estimated at a total of 161,820 EDUs (total of existing plus future EDUs).

The current ADWF is 16.34 mgd and the projected ADWF in 2050 is [27.4] mgd.

**Existing Wastewater Facilities and Effluent Requirements.** All wastewater from the Authority's service area is currently conveyed to and treated at either the Dry Creek Plant or the Pleasant Grove Plant. Both plants were designed to produce an effluent that allows unrestricted reuse of the effluent. The California Regional Water Quality Control Board, Central Valley Region (Regional Board), adopted separate Waste Discharge Requirements (discharge permit) for each plant on March 28, 2014. The discharge permits are authorized under the National Pollutant Discharge Elimination System ("NPDES"), and are in effect for at least a 5-year period, or until the Regional Board renews the NPDES permit. Effluent from the Dry Creek Plant is discharged into Dry Creek and effluent from the Pleasant Grove Plant is discharged into the Pleasant Grove Creek. The Dry Creek and Pleasant Grove Plants discharge permits allow up to 18 and 12 mgd of effluent respectively. The Pleasant Grove Plant discharge permit anticipates that the Pleasant Grove Plant can be expanded to a capacity of 15 mgd, and the

Authority expects to expand the Pleasant Grove Plant capacity to 15 mgd within the next 5 years (as described below). Further in the future, the Authority expects to expand the Pleasant Grove Plant to an ultimate capacity of 24 mgd and, when needed, future discharge permits will reflect the expanded capacity. In general, the NPDES permits for both plants require all wastewater to be treated to “tertiary effluent limitations” which are analogous to the requirements described in the California Code of Regulations, Title 22. Title 22 contains criteria for the reuse or reclamation of wastewater as an alternative to discharging to a receiving stream. In the case of the Pleasant Grove Plant, since Pleasant Grove Creek is an ephemeral stream at times providing little or no dilution to wastewater effluent discharged from the Pleasant Grove Plant, all effluent must meet the Title 22 limitations in order to protect the beneficial uses of contact recreation and irrigation in the creek. Title 22 requires that wastewater treated for unrestricted reclamation use must be oxidized, coagulated, filtered, and disinfected, or receive equivalent treatment. The NPDES permits for both plants contain limitations on ammonia, nitrate, metals, and organic constituents. To date, the Dry Creek Plant and the Pleasant Grove Plant have demonstrated exceptional patterns of compliance with treatment requirements.

### **Additional Wastewater Facilities and Available Capacity**

Depending on future demand, the Authority may expand capacity in future years at either the Pleasant Grove Plant or the Dry Creek Plant, or both, to meet the needs of its service area.

The Authority may finance such expansion with one or more Authority Parity Debt issues. Presently, the total rated wastewater treatment capacity in the Authority’s system is 30 mgd – 18 mgd at the Dry Creek Plant and 12 mgd at the Pleasant Grove Plant. Plant modifications have recently been completed that address increasingly stringent discharge requirements and changing influent loading conditions. As of September 30, 2013, the approximate combined daily treatment demands of the system were 16.5 million gallons and the remaining available capacity of the system is 13.5 mgd. Both treatment plants in the Authority’s system can be expanded to accommodate additional demands resulting from growth throughout the service area. Growth estimates in the service area indicate that future treatment demands are approximately [26.1] mgd. Although this is below the total rated wastewater treatment capacity of the system, growth in the Pleasant Grove Plant collection area is expected to exceed that plant’s rated capacity by 2020. As a result, it is anticipated that a Pleasant Grove Plant expansion effort could be necessary beginning in 2016. Growth in the Dry Creek Plant collection area is not expected to exceed its rated capacity in the next ten years. See “Service Area” above. At the present time and based on the most recent Authority service area growth projections, no additional debt financing for new construction or plant expansion is expected before at least 2016. See “SECURITY FOR THE SERIES 2014 BONDS—Additional Parity Obligations.”

## **Operations**

The City operates and maintains the Regional Wastewater Facilities for the mutual benefit of, and provides wastewater treatment services to, the Participants, so long as the Participants pay their proportionate share of the amounts required under the Funding Agreement and the Operations Agreement. Pursuant to the Operations Agreement, each Participant has the right to maintain connections between such Participant's System and the Regional Wastewater Facilities at all locations existing as of the date of the Operations Agreement and to establish new connections as needed, subject to the City's prior written approval of the location of such connection. The Operations Agreement also provides that each Participant's responsibility for Regional Operation and Maintenance Costs for the Regional Wastewater Facilities is based upon its Proportional Volumetric Share (defined as the proportion of total yearly wastewater volume entering the Regional Wastewater Facilities that is attributable to such Participant).

## **Insurance**

The insurance needs of the City's Wastewater Utility are handled by the Risk Management Division of the City's Human Resources Department. The City is a member of the California Joint Powers Risk Management Authority ("CJPRMA"), which covers general liability claims, property, and boiler and machinery losses. Once the City's deductible is met, CJPRMA becomes responsible for payment of all claims up to the applicable limits described below. General liability claims are covered up to \$40,000,000 with a self-insured retention or deductible of \$500,000. For the City's Fiscal Year ended June 30, 2013, the City's premium was \$423,865 with an additional \$1,625 charge to reflect the fees to access certain online risk management systems. CJPRMA has purchased commercial insurance against property damage and boiler and machinery claims. Property damage is covered up to \$5,000,000 with a self-insured retention or deductible of \$25,000. For the City's Fiscal Year ended June 30, 2013, the City's premium was \$241,608 (coverage limit of \$300,000,000). Boiler and machinery damage is covered up to \$21,250,000 with a self-insured retention or deductible of \$5,000. For the City's Fiscal Year ended June 30, 2013, the annual premium paid was \$31,058. Additionally, the City maintains insurance coverage for liabilities arising from the Roseville Energy Park Property, which coverage has a self-insured retention of \$250,000 per claim up to a \$200,000,000 limit. For the City's Fiscal Year ended June 30, 2013, the City's premium for coverage was \$407,007.70. The City's insurance covers the Regional Wastewater Facilities.

## **FINANCIAL OPERATIONS**

### **Capital Costs**

As of June 30, 2013, the Authority has funded the construction or acquisition of more than \$260 million of capital projects since October 2000, when the Authority was formed. For Fiscal Year 2013-14, the Authority anticipates the expenditure of approximately \$616,000 for a variety of projects.

The following table presents the Authority's current ten-year capital improvement program projection, which was adopted based on a utility planning study completed in December 2009. Under current wastewater flow projections, expansion may be necessary at the Pleasant Grove Plant beginning in 2016. No expansion is anticipated at the Dry Creek Plant before 2028. The Authority currently anticipates funding all program requirements in the ten-

year capital improvement program with Regional Connection Fees.

**South Placer Wastewater Authority  
10-Year Capital Improvement Program  
(\$000)**

	FY 2013 <sup>(1)</sup>	FY 2014 <sup>(1)</sup>	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Total
Dry Creek Plant Emergency Storage Pond	\$10	\$10									\$20
Dry Creek Bank Stabilization	\$100	\$470									\$570
Radio Telemetry and Process Control Standards		\$30	\$50	\$20							\$100
Dry Creek Plant Nitrate Improvements		\$25	\$25	\$50							\$100
Expansion of Pleasant Grove Plant <sup>(2)</sup>				\$42,500	\$21,250	\$21,250					\$85,000
Dry Creek Plant PLC Upgrade	\$110	\$81	\$81	\$81	\$81						\$324
<b>Total</b>		\$616	\$156	\$42,651	\$21,331	\$21,250					\$86,114

Source: The Authority

(1) To date, actuals have tracked these budgeted numbers from the 10-year capital improvement program.

(2) Projected to be financed over at least 25 years.

## Operations and Maintenance Costs

The Operations Agreement among the Participants provides that each Participant's responsibility for Regional Operation and Maintenance Costs for the Regional Wastewater Facilities is based upon its Proportional Volumetric Share (defined as the proportion of total yearly wastewater volume entering the Regional Wastewater Facilities that is attributable to such Participant). For Fiscal Year 2012-13, the Participants contributed the following amounts under the Operations Agreement to fund Regional Operation and Maintenance Costs:

**South Placer Wastewater Authority  
Participant Contributions to fund Regional Operation and Maintenance Costs  
Fiscal Year 2012-13**

<u>Participant</u>	<u>Contribution</u>
Roseville	\$8,838,011
SPMUD	3,401,910
Placer County	<u>1,673,823</u>
Total	\$13,913,744

Source: City of Roseville

For the Fiscal Year ended June 30, 2013, the audited amount of Regional Operation and Maintenance Costs is \$13,913,744; for Fiscal Year 2013-14, the Regional Operation and Maintenance Costs are budgeted to be \$15,571,487, but the City expects that actual Regional Operation and Maintenance Costs will be below the budgeted amount.

Certain administrative costs incurred by the City on behalf of the Authority are payable directly from the Rate Stabilization Fund. In Fiscal Year 2012-13 these administrative costs totaled \$107,153; for Fiscal Year 2013-14, the administrative costs are estimated to be \$115,000.

**Certain Financial Data Relating to the Authority**

The following summarizes information with regard to the Authority's Rate Stabilization Fund:

**South Placer Wastewater Authority  
Rate Stabilization Fund Allocations  
At Fiscal Years Ended June 30, 2011 through  
June 30, 2013 and as of May 31, 2014\***

<u>Participant</u>	<u>6/30/11</u>	<u>6/30/12</u>	<u>6/30/13</u>	<u>11/30/13*</u>
Roseville	\$79,375,374	\$64,653,412	\$64,253,094	\$64,253,094
SPMUD	34,802,440	39,486,905	39,250,039	39,250,039
Placer County	(20,139,876)	(11,543,925) <sup>(1)</sup>	(5,742,737) <sup>(1)</sup>	(6,213,017)
<b>Total</b>	<b>\$94,037,938</b>	<b>\$92,596,392</b>	<b>\$97,760,396</b>	<b>\$96,661,499</b>

\* Unaudited.

Source: The Authority

(1) The reduction in Placer County's Rate Stabilization Fund allocation deficit is due to a reassignment of proportionate shares among the entities as of April 30, 2012 and subsequent payments made by Placer County to reduce its deficit pursuant to the Reallocation and Repayment Agreement. The new percentages are as follows:

<u>Participant</u>	<u>Percentage</u>
Roseville	61.66%
SPMUD	22.43%
Placer County	15.91%
<b>TOTAL</b>	<b>100.00%</b>

See "SECURITY FOR THE SERIES 2014 BONDS – Funding Agreement" herein for a discussion of debt service and other capital costs paid under the Funding Agreement and for a discussion of Placer County's Rate Stabilization Fund deficit reduction under the Reallocation and Repayment Agreement.

The following summarizes information with regard to the Regional Connection Fees received by the Authority:

**South Placer Wastewater Authority  
Regional Connection Fees Received  
Fiscal Years 2010-11 through 2012-13**

<u>Participant</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Roseville	\$3,134,356	\$4,123,195	\$5,510,747
SPMUD	2,617,301	1,083,339	1,827,630
Placer County	196,448	294,032	449,419
<b>Total</b>	<b>\$5,948,105</b>	<b>\$5,500,556</b>	<b>\$7,787,796</b>
<b>Percentage of Debt Service <sup>(1)</sup></b>	<b>103%</b>	<b>55%</b>	<b>78%</b>

Source: The Authority

(1) Regional Connection Fees as a percentage of debt service paid on all outstanding Bonds and Parity Debt of the Authority, including net payments on the Existing Swap Agreement. Debt service paid in Fiscal Years 2010-11, 2011-12 and 2012-13 was approximately \$5,791,207, \$9,934,080 and \$9,976,393, respectively.

After several years of slow development, the Authority has, in recent years, experienced increasing amounts of Regional Connection Fee revenue from the Participants due primarily to an increase in development within the Authority's service area. For Fiscal Year 2013-14 the Participants budgeted approximately \$9.7 million in Regional Connection Fee revenue, and the Participants currently estimate that \$6.75 million had been collected as of April 30, 2014. The City anticipates that while growth within the Authority's service area continues, annual collections of Regional Connection Fees will be sufficient to maintain a stable or growing balance in the Rate Stabilization Fund after deducting amounts for debt service payments and allocated administrative expenses. Under certain circumstances, it is possible the balance in the Rate Stabilization Fund could fall below the Minimum Level set in the Funding Agreement, and all or a portion of debt service would have to be funded from Participant Net Revenues. See "SECURITY FOR THE SERIES 2014 BONDS – Funding Agreement."

### **Investment Policy**

The Authority's investment policy and the California Government Code allow the Authority to invest in the following:

- U.S. Treasury obligations
- U.S. Agency Securities
- Mortgage Pass-Through Securities
- Forward Delivery Agreements
- Obligations of the State of California or any Local Agency within the state
- Repurchase Agreements
- Banker's Acceptances
- Commercial Paper
- Medium-Term Corporate Notes
- Collateralized Time Deposits
- Negotiable Certificates of Deposit
- California Local Agency Investment Fund
- Insured Savings Accounts
- Money Market/Mutual Funds
- Shares in a California Common Law Trust
- Interest Rate Swaps

The Authority does not enter into reverse repurchase agreements. Trustees under bond indentures may also invest in guaranteed investment contracts and money market and mutual funds.

Roseville also holds certain funds within the City's investment pool to be used to pay current operating expenses of the Authority.

The Authority's investments are carried at fair value instead of cost, as required by generally accepted accounting principles. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

### **Historical Financial Data**

**Financial Statements.** The table below presents summaries of financial data relating to the Authority's Rate Stabilization Fund for the Fiscal Years ended June 30, 2011 through 2013.

This data is extracted from the Authority's Annual Financial Reports for such years. The Authority's Annual Financial Report is currently audited by Maze & Associates, Pleasant Hill, California, in accordance with generally accepted auditing standards, and contains opinions that the financial statements present fairly the financial position of the various funds maintained by the Authority. The reports include certain notes to the financial statements that may not be fully described below. Such notes constitute an integral part of the audited financial statements. See APPENDIX A—"EXCERPTED PORTIONS OF THE SOUTH PLACER WASTEWATER AUTHORITY AUDIT."

**South Placer Wastewater Authority  
Summary of Rate Stabilization Fund Results<sup>(1)</sup>  
Fiscal Years Ended June 30, 2011 through 2013**

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Beginning Balance:	\$101,030,013	\$94,037,938	\$92,596,392
Reallocation and Repayment Agreement	-	-	-
City of Roseville			(15,304,728)
SPMUD			5,251,447
Placer County			10,053,281
Total			-
Contributions:			
Payments under Repayment Agreement (Placer County)			7,011,569
Regional Connection Fees	5,948,105	5,500,566	7,787,796
Reimbursements	500	3,025,712	137,429
Interest Allocation	<u>700,265</u>	<u>700,978</u>	<u>526,014</u>
Total Contributions	6,648,870	9,227,256	15,462,808
Withdrawals:			
Capital Contribution Costs	7,589,533	539,123	148,634
Debt Service	5,791,207	9,934,080	9,976,393
Administrative Costs	260,205	195,599	173,777
Total Withdrawals	<u>13,640,945</u>	<u>10,668,802</u>	<u>10,298,804</u>
Ending Balance	\$94,037,938	\$92,596,392	\$97,760,396

Source: The Authority

(1) Figures derived from the Authority's Annual Audited Financial Reports.

As noted above, the Proportionate Shares were reallocated as of April 30, 2012, defined in the revised Funding Agreement as follows: Roseville – 61.66%, South Placer Municipal Utility District – 22.43% and Placer County – 15.91%. As of November 30, 2013, the Rate Stabilization Fund balance was \$93,899,918 (unaudited) and the Minimum Balance was approximately \$24.1 million. See "SECURITY FOR THE SERIES 2014 BONDS – Funding Agreement."

**Significant Accounting Principles.** 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. The capital infrastructure is dedicated to and capitalized by the City, which maintains the Authority's infrastructure, per the Funding Agreement.

## THE PARTICIPANTS

The Participants consist of Roseville, SPMUD and Placer County. Pursuant to the Funding Agreement (see "SECURITY FOR THE SERIES 2014 BONDS—Funding Agreement") and the Operations Agreement, each of the Participants agrees to collect and forward to the Authority, its Regional Connection Fees, as well as its share of Regional Operation and Maintenance Costs. For information relating to Roseville, see APPENDIX B-1—"INFORMATION CONCERNING THE CITY OF ROSEVILLE WASTEWATER UTILITY" and APPENDIX B-2—"EXCERPTED PORTIONS OF THE CITY OF ROSEVILLE AUDIT." For information relating to SPMUD, see APPENDIX C-1—"INFORMATION CONCERNING THE SOUTH PLACER MUNICIPAL UTILITY DISTRICT" and APPENDIX C-2—"EXCERPTED PORTIONS OF THE SOUTH PLACER MUNICIPAL UTILITY DISTRICT AUDIT." For information relating to Placer County, see APPENDIX D-1—"INFORMATION CONCERNING THE PROVISIONS OF WASTEWATER COLLECTION SERVICE TO CERTAIN AREAS WITHIN THE COUNTY OF PLACER" and APPENDIX D-2—"FINANCIAL INFORMATION CONCERNING CERTAIN OF THE COUNTY OF PLACER'S WASTEWATER ENTITIES."

## RISK FACTORS

*The following information should be considered by prospective investors in evaluating the Series 2014 Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations that may be relevant to investing in the Series 2014 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.*

The purchase of the Series 2014 Bonds involves investment risk. If a risk factor materializes to a sufficient degree, it could delay or prevent payment of principal of and interest on the Series 2014 Bonds. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors.

### General

The payment of principal of and interest on the Series 2014 Bonds is secured solely by a pledge of the Authority Revenues and certain funds under the Indenture. The realization of the Authority Revenues is subject to, among other things, the capabilities of management of the Participants, the ability of the Participants to provide wastewater services to their users, and the ability of the Participants to establish and maintain wastewater fees and charges sufficient to provide the required debt service coverage as well as pay for Participant Operation and Maintenance Costs and Regional Operation and Maintenance Costs.

Among other matters, drought, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could

adversely affect the amount of Participant Net Revenues realized by the Participants and ultimately the ability of the Participants to pay their Proportionate Share of Debt Service to the Authority.

### **Earthquakes, Floods and Other Natural Disasters**

Earthquakes, floods or other natural disasters could interrupt operation of the Participant's Systems and cause increased costs and thereby interrupt the ability of the Participants to realize Participant Net Revenues sufficient to pay their Proportionate Share of Debt Service to the Authority. The Participants are not obligated under the Funding Agreement to have earthquake or flood insurance.

### **Permits and Regulation**

The wastewater operations of the Authority and the Participants are subject to discharge permits from the State Water Resources Control Board. A number of these permits will have to be modified to show increased capacity in connection with the Project. In general, these discharge permits are not modified to reflect increased capacity until capacity improvements are completed and have been tested. In addition, such permits expire and are subject to renewal every five years. Although the Authority and each of the Participants expects these permits to be modified to reflect increased capacity and to be renewed in the future, there can be no assurance that such modifications and renewals will occur. Non-compliance with discharge permits may result in significant penalties from the State Water Resources Control Board or other enforcement actions that could have a material adverse effect on the finances and operations of the Authority and the Participants.

### **Environmental Regulation**

The kind and degree of water treatment which is effected through the Regional Wastewater System is regulated, to a large extent, by the federal government and the State. Treatment standards set forth in federal and state law control the operations of the Regional Wastewater System and mandate its use of technology. In the event that the federal government, acting through the Environmental Protection Agency, or the State, acting through the Department of Health Services, or additional federal or state legislation, should impose stricter discharge and collection standards upon the Regional Wastewater System, the expenses of the Authority and the Participants could increase accordingly and rates and charges would have to be increased to offset those expenses. It is not possible to predict the direction which federal or state regulation will take with respect to discharge and collection standards, although it is likely that both will impose more stringent standards with attendant higher costs.

## **Dependence of Connection Fee Revenue on Development**

The projections relating to the payment of each Participant's Proportionate Share of Debt Service, assume that connection fees will be a significant source of future revenue. See APPENDICES B-1, C-1 and D-1 attached hereto. In general, receipt of connection fee revenue is dependent upon development of land, and the actual course of land development within the Participant's regional service area may vary significantly from the projections. For example, a decline in development in the regional service area resulted in a 50% decline in Regional Connection Fees received between Fiscal Years 2007-08 and 2008-09. After several years of slow development, the Authority has, in recent years, experienced increasing amounts of Regional Connection Fee revenue from the Participants due primarily to an increase in development within the Authority's service area. While each of the Participants projects that connection fee revenues will allow the Rate Stabilization Fund to be maintained at a level sufficient to fund annual Debt Service on the Series 2014 Bonds and any Parity Debt, wastewater service charges are the ultimate financial support for the payment of each Participant's Proportionate Share of Debt Service. See "SECURITY FOR THE SERIES 2014 BONDS – Funding Agreement." In general, the Participants agree annually to set rates for wastewater service charges at a level which will generate revenues sufficient to cover Debt Service on the Series 2014 Bonds and Parity Debt that is not covered by amounts transferred from the Rate Stabilization Fund. See "SECURITY FOR THE SERIES 2014 BONDS—Funding Agreement – Rate Covenant."

Land development is subject to comprehensive federal, state and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. There is always the possibility that such approvals will not be obtained or, if obtained, will not be obtained on a timely basis. Failure to obtain any such agency approval or satisfy such governmental requirements would adversely affect land development.

The installation of the necessary infrastructure improvements and the construction of the proposed development are subject to the receipt of ministerial and discretionary approvals from a number of public agencies concerning the layout and design of the proposed development, the nature and extent of the improvements, land use, health and safety requirements and other matters. Moreover, land development operations may be adversely affected by future governmental policies, including, but not limited to, governmental policies to restrict or control development.

Under current California law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been properly issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on such permits.

In the past, a number of communities in California, including Roseville, have had initiative measures placed on the ballot intended to control the rate of future development. Any such initiatives relating to the Participants, including one for Roseville in 1996, have failed to pass. It is possible that future initiatives could be enacted, could become applicable to certain proposed development and could negatively impact the ability of developers to complete land development within Placer County. The application of future land use regulations to land development could cause significant delays and cost increases in the completion of

development.

There can be no assurance that land development operations will not be adversely affected by a future deterioration of the real estate market, the lack of an adequate water supply, economic conditions or future local, State and federal governmental policies relating to real estate development, the income tax treatment of real property ownership, or the national economy.

### **Investment of Funds**

All funds and accounts held under the Indenture are required to be invested in Permitted Investments as provided under the Indenture. See APPENDIX G for a summary of the definition of Permitted Investments. All investments, including the Permitted Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, loss of market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture or by the Participants, including but not limited to the Rate Stabilization Fund, could have a material adverse effect on the security of the Series 2014 Bonds.

### **Articles XIIC and XIID of the California Constitution**

**General.** On November 5, 1996, California voters approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIC and XIID to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related "fee" or "charge," which is defined as "any levy other than an ad valorem tax, a special tax or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service" (and referred to in this section as a "property-related fee or charge").

On November 2, 2010, California voters approved Proposition 26, the so-called "Supermajority Vote to Pass New Taxes and Fees Act". Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as "fees." Proposition 26 amended Articles XIIC and XIID of the State Constitution. The amendments to Article XIIC limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. Proposition 26's amendments to Article XIIC broadly define "tax," but specifically exclude, among other things:

- "(1) A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.
- (2) A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.

...

- (6) A charge imposed as a condition of property development.
- (7) Assessments and property-related fees imposed in accordance with the provisions of Article XIID."

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

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

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

**Judicial Interpretation of Articles XIIC and XIID.** After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General's opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIID regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three recent cases have held that certain types of water and wastewater charges could be subject to the requirements of Article XIID under certain circumstances.

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

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

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

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

**Articles XIIC and XIID and the Participants' Rates and Charges.** Each of the Participants has complied with the procedures required by Article XIID in connection with the increase in the fees and charges approved by their respective governing bodies.

The Participants believe that the wastewater rates and charges do not constitute "taxes" under Article XIIC as revised by Proposition 26 because, as described in subsection 1(e)(7) of Article XIIC, they are "property-related fees imposed in accordance with the provisions of Article XIID" (and are also charges for a "property-related service" as defined in subsection 2(g) of Article XIID) and because, as described in subsection 1(e)(2) of Article XIIC, they are charged for wastewater service, "a specific government service or product provided directly to the payor that is not provided to those not charged."

The Participants believe that the connection fees and any similar fees relating to their individual wastewater systems do not constitute "taxes" as defined by Proposition 26 because they are charges to a landowner that are imposed (typically as a condition of property development) for a specific privilege and does not exceed the reasonable costs of conferring the privilege.

**Conclusion.** It is not possible to predict how courts will further interpret Article XIIC and Article XIID in future judicial decisions, and what, if any, further implementing legislation will be enacted.

Under the *Bighorn* case, voters of a Participant jurisdiction could adopt an initiative measure that reduces or repeals such Participant's wastewater rates and charges, though it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness, as is the case with respect to the Bonds.

For information concerning the specific procedures employed by each Participant with respect to its charges and fees, see Appendices B-1, C-1 and D-1 attached hereto.

No assurance may be given that Article XIIC and Article XIID would not have a material adverse impact on the Authority's Revenues. See "SECURITY FOR THE SERIES 2014 BONDS."

### **Limitations on Remedies and Bankruptcy**

The ability of the Authority to comply with its covenants under the Indenture may be adversely affected by actions and events outside of the control of the Authority, and may be adversely affected by actions taken (or not taken) by the Participants, voters, property owners, taxpayers or payers of assessments, fees and charges. See "– Articles XIIC and XIID of the California Constitution" above. Furthermore, any remedies available to the Owners of the Bonds upon the occurrence of an Event of Default under the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on Bond owner remedies contained in the Indenture, the rights and obligations under the Series 2014 Bonds, the Indenture and the Funding Agreement may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights. If a Participant were to file a petition under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), the Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Funding Agreement.

The opinion of Bond Counsel (attached as APPENDIX H) notes that the rights of the owners of the Series 2014 Bonds and the enforceability of the Series 2014 Bonds and the Indenture are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

## CONTINUING DISCLOSURE

The Authority and the Participants will covenant for the benefit of the holders and beneficial owners of the Series 2014 Bonds to provide certain financial information and operating data by not later than 210 days following the end of the Authority's and each Participant's Fiscal Year (presently June 30) (the "Annual Reports"), commencing with the report for Fiscal Year ended June 30, 2014, and the Authority will covenant to provide notices of the occurrence of certain enumerated events. The Annual Reports and notices of material events will be filed with the Municipal Securities Rulemaking Board (the "MSRB"). The specific nature of the information to be contained in the Annual Reports and the notice of material events is set forth in APPENDIX I—"FORMS OF CONTINUING DISCLOSURE UNDERTAKINGS FOR THE SERIES 2014 BONDS" hereto. These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

The Authority, the Participants and their affiliated entities have failed, on a handful of occasions during the past five years, to comply, in all material respects, with these undertakings.

More specifically, with respect to continuing disclosure requirements relating to Authority obligations, during the last five years: **[To be revised as needed]**

- The City, the District and the County incorrectly filed annual reports for the fiscal years ending June 30, 2009 and 2010.
- The Authority made late filings of annual reports for the fiscal years ending June 30, 2009 and 2010.
- The Authority, the City, the District and the County made late filings of annual reports for the fiscal year ending June 30, 2012.
- The County filed an incomplete annual report for the fiscal year ending June 30, 2012.
- The Authority, the City and the District made late filings of annual reports for the fiscal years ending June 30, 2012 and 2013.
- The County incorrectly filed annual reports for the fiscal year ending June 30, 2013.

[Supplemental annual reports, notices of the rating changes and filings to correct all of the known failures by the Authority and the Participants to comply with their continuing disclosure undertakings were made prior to the date of this Official Statement. In order to ensure compliance with future continuing disclosure obligations, the Authority and the Participants are considering contract support to coordinate future disclosure reports for the Participants.]

## LITIGATION

To the best knowledge of the Authority, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or threatened against the Authority (i) affecting the existence of the Authority or the titles of its officers to their respective offices, or (ii) affecting or seeking to prohibit, restrain or enjoin the issuance, sale or delivery of the Series 2014 Bonds, or (iii) contesting or affecting, as to the Authority, the validity or enforceability of the Series 2014 Bonds, the Funding Agreement, the Operations Agreement or the Indenture, or (iv) contesting the powers of the Authority to enter into, adopt or perform its obligations under any of the foregoing, or (v) wherein an unfavorable decision, ruling or finding would materially adversely affect the operations or finances of the Authority.

To the best knowledge of each Participant, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or threatened against the Participant (i) affecting the existence of the Participant or the titles of its officers to their respective offices, or (ii) contesting or affecting, as to the Participant, the validity or enforceability of the Joint Powers Agreement, or the Operations Agreement or (iii) contesting the powers of the Participant to enter into, adopt or perform its obligations under any of the foregoing, or (iv) wherein an unfavorable decision, ruling or finding would materially adversely affect the finances and operations of the Participant.

## TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Series 2014 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Authority comply with all requirements of the Internal Revenue Code of 1986 (as amended, the "Code") that must be satisfied subsequent to the issuance of the Series 2014 Bonds. The Authority has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series 2014 Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Series 2014 Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Series 2014 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium is disregarded.

Under the Code, original issue discount is treated as interest excluded from federal

gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Series 2014 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Series 2014 Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Series 2014 Bond. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Series 2014 Bonds who purchase the Series 2014 Bonds after the initial offering of a substantial amount of such maturity. Owners of such Series 2014 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2014 Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Series 2014 Bonds under federal individual and corporate alternative minimum taxes.

Under the Code, original issue premium is amortized on an annual basis over the term of the Series 2014 Bond (said term being the shorter of the Series 2014 Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Series 2014 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Series 2014 Bond is amortized each year over the term to maturity of the Series 2014 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Series 2014 Bond premium is not deductible for federal income tax purposes. Owners of Premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Series 2014 Bonds.

In the further opinion of Bond Counsel, interest on the Series 2014 Bonds is exempt from California personal income taxes.

Owners of the Series 2014 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Series 2014 Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Series 2014 Bonds other than as expressly described above.

The form of the proposed opinion of Bond Counsel is attached as APPENDIX H.

### **APPROVAL OF LEGALITY**

The issuance of the Series 2014 Bonds is subject to the approving opinion of Jones Hall, a Professional Law Corporation, San Francisco, California, Bond Counsel, with respect to validity and tax exemption. Jones Hall, a Professional Law Corporation, is also serving as Disclosure Counsel the Authority. Certain legal matters will be passed upon for the Authority by Miller & Owen, A Professional Corporation, Sacramento, California, for the Participants by their respective counsels and for the Underwriter by Orrick, Herrington & Sutcliffe LLP.

## **RATINGS**

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Group, a division of the McGraw Hill Companies, Inc. ("S&P") have assigned ratings of "\_\_\_" and "[A+]," respectively, to the Series 2014 Bonds. Certain information was supplied by the Authority and the Participants to such rating agencies to be considered in evaluating the Series 2014 Bonds. The ratings reflect only the views of such rating agencies and any explanation of the significance of such ratings and any ratings on any of the Participant's outstanding obligations may be obtained only from the rating agencies as follows: Moody's Investors Service, 99 Church Street, New York, New York 10017; and Standard & Poor's Ratings Group, 55 Water Street, New York, New York 10041. There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies, or either of them, if in their respective judgment, circumstances so warrant. Any downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Series 2014 Bonds.

## **FINANCIAL ADVISOR**

Public Financial Management, Inc., Los Angeles, California, serves as financial advisor with respect to the issuance of the Series 2014 Bonds. Public Financial Management, Inc. is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Public Financial Management, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

## **PROFESSIONAL SERVICES**

In connection with the issuance of the Series 2014 Bonds, all or a portion of the fees payable to Bond Counsel and Disclosure Counsel, the Underwriter, Underwriter's Counsel, the Financial Advisor and the Trustee are contingent upon the issuance and delivery of the Series 2014 Bonds.

## **UNDERWRITING**

Morgan Stanley & Co. LLC (the "Underwriter") has agreed, subject to certain conditions, to purchase the Series 2014 Bonds at a price of \$\_\_\_\_\_ (representing [\$30,000,000.00] aggregate principal amount of the Series 2014 Bonds, less \$\_\_\_\_\_ of Underwriter's discount). The Purchase Contract provides that the Underwriter will purchase all the Series 2014 Bonds if any are purchased.

Morgan Stanley, parent company of the Underwriter, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, the Underwriter may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, the Underwriter may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

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**EXECUTION AND DELIVERY**

The execution and delivery of this Official Statement has been duly authorized by the Authority and approved by each of the Participants.

**SOUTH PLACER WASTEWATER AUTHORITY**

By: \_\_\_\_\_ /s/ Jay Panzica  
Jay Panzica  
Treasurer