

Tuesday, July 02, 2019, 7:00 P.M.

City Council Chambers, 333 Civic Center Plaza, Tracy

Web Site: www.cityoftracy.org

Americans With Disabilities Act - The City of Tracy complies with the Americans with Disabilities Act and makes all reasonable accommodations for the disabled to participate in Council meetings. Persons requiring assistance or auxiliary aids should call City Hall (209/831-6000) 24 hours prior to the meeting.

Addressing the Council on Items on the Agenda - The Brown Act provides that every regular Council meeting shall provide an opportunity for the public to address the Council on any item within its jurisdiction before or during the Council's consideration of the item, provided no action shall be taken on any item not on the agenda. Each citizen will be allowed a maximum of five minutes for input or testimony. At the Mayor's discretion, additional time may be granted. The City Clerk shall be the timekeeper.

Consent Calendar - All items listed on the Consent Calendar are considered routine and/or consistent with previous Council direction. A motion and roll call vote may enact the entire Consent Calendar. No separate discussion of Consent Calendar items will occur unless members of the City Council, City staff or the public request discussion on a specific item at the beginning of the meeting.

Addressing the Council on Items not on the Agenda - The Brown Act prohibits discussion or action on items not on the posted agenda. Members of the public addressing the Council should state their names and addresses for the record, and for contact information. The City Council's Procedures for the Conduct of Public Meetings provide that "Items from the Audience" following the Consent Calendar will be limited to 15 minutes. "Items from the Audience" listed near the end of the agenda will not have a maximum time limit. Each member of the public will be allowed a maximum of five minutes for public input or testimony. However, a maximum time limit of less than five minutes for public input or testimony may be set for "Items from the Audience" depending upon the number of members of the public wishing to provide public input or testimony. The five minute maximum time limit for each member of the public applies to all "Items from the Audience." Any item not on the agenda, brought up by a member of the public shall automatically be referred to staff. In accordance with Council policy, if staff is not able to resolve the matter satisfactorily, the member of the public may request a Council Member to sponsor the item for discussion at a future meeting. When members of the public address the Council, they should be as specific as possible about their concerns. If several members of the public comment on the same issue an effort should be made to avoid repetition of views already expressed.

Presentations to Council - Persons who wish to make presentations which may exceed the time limits are encouraged to submit comments in writing at the earliest possible time to ensure distribution to Council and other interested parties. Requests for letters to be read into the record will be granted only upon approval of the majority of the Council. Power Point (or similar) presentations need to be provided to the City Clerk's office at least 24 hours prior to the meeting. All presentations must comply with the applicable time limits. Prior to the presentation, a hard copy of the Power Point (or similar) presentation will be provided to the City Clerk's office for inclusion in the record of the meeting and copies shall be provided to the Council. Failure to comply will result in the presentation being rejected. Any materials distributed, including those distributed within 72 hours of a regular City Council meeting, to a majority of the Council regarding an item on the agenda shall be made available for public inspection at the City Clerk's office (address above) during regular business hours.

Notice - A 90 day limit is set by law for filing challenges in the Superior Court to certain City administrative decisions and orders when those decisions or orders require: (1) a hearing by law, (2) the receipt of evidence, and (3) the exercise of discretion. The 90 day limit begins on the date the decision is final (Code of Civil Procedure Section 1094.6). Further, if you challenge a City Council action in court, you may be limited, by California law, including but not limited to Government Code Section 65009, to raising only those issues you or someone else raised during the public hearing, or raised in written correspondence delivered to the City Council prior to or at the public hearing.

CALL TO ORDER
PLEDGE OF ALLEGIANCE
INVOCATION
ROLL CALL
PRESENTATIONS
1. Employee of the Month
2. Police Swearing In Ceremony

1. CONSENT CALENDAR

- 1.A. ADOPTION OF JUNE 18, 2019, REGULAR MEETING MINUTES
- 1.B. ACCEPT CONSTRUCTION OF PHASE 1 OF CIP 76066 DETENTION BASIN 2B, COMPLETED BY MOZINGO CONSTRUCTION, INC., OF OAKDALE, CALIFORNIA, AUTHORIZE THE CITY CLERK TO FILE THE NOTICE OF COMPLETION, AND AUTHORIZE THE CITY ENGINEER TO RELEASE THE BONDS AND RETENTION PAYMENT
- 1.C. SET A PUBLIC HEARING DATE FOR CONSIDERATION OF THE PROPOSED WATER RATE INCREASE AND AUTHORIZE STAFF TO TAKE NECESSARY STEPS TO BEGIN THE PROCESS TO ESTABLISH NEW WATER RATES
- 1.D. APPROVE THE PLACEMENT OF A PLAQUE IN THE SPLASH PAD LANDSCAPING OF MCDONALD PARK IN HONOR OF THE LATE FRANK A. GARCIA PER CITY STANDARD POLICY AND PROCEDURES
- 1.E. APPROVE A CHANGE ORDER IN THE AMOUNT OF \$50,000 TO CROSSPOINT GENERAL ENGINEERING, OF PALO CEDRO, CALIFORNIA FOR THE 10TH STREET AND CENTRAL AVENUE DOWNTOWN FESTIVAL LIGHTS PROJECT CIP 71106

2. ITEMS FROM THE AUDIENCE

3. REGULAR AGENDA

- 3.A. ADOPT RESOLUTION SUPPLEMENTING RESOLUTION NO. 2016-161 TO AUTHORIZE THE ISSUANCE AND SALE OF SPECIAL TAX BONDS FOR THE PURPOSE OF FINANCING AUTHORIZED FACILITIES, AND APPROVING AND AUTHORIZING RELATED DOCUMENTS AND ACTIONS - IMPROVEMENT AREA NO. 1 OF THE CITY OF TRACY COMMUNITY FACILITIES DISTRICT NO. 2016-1 (TRACY HILLS)
- 3.B. ADOPT RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF ONE OR MORE SERIES OF SPECIAL TAX REFUNDING BONDS, AND APPROVING AND AUTHORIZING RELATED DOCUMENTS AND ACTIONS- CITY OF TRACY COMMUNITY FACILITIES DISTRICT NO. 2006-01 (NEI PHASE II)
- 3.C. PUBLIC HEARING FOR THE PURPOSE OF ACCEPTING THE CITY OF TRACY 2019 PUBLIC HEALTH GOALS REPORT ON WATER QUALITY AS REQUIRED BY THE CALIFORNIA HEALTH AND SAFETY CODE AND APPROVING THE REPORT TO FILE WITH THE STATE WATER RESOURCES CONTROL BOARD

3.D. DISCUSS AND APPROVE A RESPONSE LETTER TO THE SAN JOAQUIN COUNTY CIVIL GRAND JURY'S REPORT "TRACY CITY COUNCIL: RESTORE THE PUBLIC TRUST" 2018-2019 CASE NO.0418 AND AUTHORIZE THE CITY MANAGER TO EXECUTE THE LETTER

4. ITEMS FROM THE AUDIENCE
5. STAFF ITEMS
6. COUNCIL ITEMS
7. ADJOURNMENT

June 18, 2019, 7:00 p.m.

City Council Chambers, 333 Civic Center Plaza

Web Site: www.ci.tracy.ca.us

Mayor Rickman called the meeting to order at 7:02 p.m.

Mayor Rickman led the Pledge of Allegiance.

Rabbi Shalom Bochner, Congregation Beth Shalom offered the invocation.

Roll call found Council Members Arriola, Ransom, Vargas, Mayor Pro Tem Young and Mayor Rickman present.

Mayor Rickman presented a proclamation for Parks and Recreation Month to Yolanda Magana, Parks and Community Services Commissioner.

Mayor Rickman presented a Certificate of Appointment to new Parks and Community Services Commissioner Rajdeep Singh.

REGULAR MEETING – 7:00 P.M.

1. CONSENT CALENDAR – Following the removal of consent items 1.J by Robert Tanner and 1.M by Mark Miller motion was made by Council Member Vargas and seconded by Mayor Pro Tem Young to adopt the Consent Calendar. Roll call vote found all in favor; passed and so ordered.
 - 1.A ADOPTION OF JUNE 4, 2019, CLOSED SESSION, SPECIAL MEETING AND REGULAR MEETING MINUTES – Minutes were adopted.
 - 1.B APPROVE A SECOND EXTENSION TO 1998-1 AMENDMENT TO THE WASTEWATER TREATMENT DISCHARGE AGREEMENT WITH LEPRINO FOODS – **Resolution 2019-119** approved the second extension with Leprino Foods.
 - 1.C APPROVE A MEMORANDUM OF AGREEMENT FOR THE DEVELOPMENT OF THE SAN JOAQUIN COUNTY GROUNDWATER SUSTAINABILITY PLAN FOR THE TRACY GROUNDWATER SUB-BASIN – **Resolution 2019-120** approved the Memorandum of Agreement.
 - 1.D APPROVE A PROFESSIONAL SERVICES AGREEMENT WITH KANEKO AND KRAMMER CORPORATION DBA KOFF & ASSOCIATES TO CONDUCT A WALL-TO-WALL CLASSIFICATION AND BASE SALARY STUDY OF FULL-TIME CLASSIFICATIONS FOR A NOT-TO-EXCEED AMOUNT OF \$175,000 AND AUTHORIZE THE MAYOR TO EXECUTE THE AGREEMENT – **Resolution 2019-121** approved the Profession Services Agreement with Kaneko and Krammer Corporation.

- 1.E APPROVE AN AGREEMENT WITH AVFUEL CORPORATION FOR FUEL SUPPLY SERVICES AT THE TRACY MUNICIPAL AIRPORT FOR A TERM OF SEVEN YEARS WITH A NOT TO EXCEED AMOUNT OF \$500,000 PER FISCAL YEAR – **Resolution 2019-122** approved the agreement with Avfuel Corporation.
- 1.F APPROVE SETTLEMENT AND RELEASE AGREEMENT BETWEEN THE CITY OF TRACY AND TRACY LITTLE LEAGUE – **Resolution 2019-123** approved the Settlement and Release Agreement with Tracy Little League.
- 1.G APPROVE AN OFFSITE IMPROVEMENT AGREEMENT WITH PROLOGIS FOR INTERNATIONAL PARK OF COMMERCE – PHASE 1i PROGRAM IMPROVEMENTS FOR PROMONTORY PARKWAY – **Resolution 2019-124** approved the Offsite Improvement Agreement with Prologis.
- 1.H ADOPT ANNUAL ADJUSTMENT TO APPROPRIATIONS LIMIT (GANN LIMIT) PURSUANT TO ARTICLE XIII B OF THE CALIFORNIA STATE CONSTITUTION ESTABLISHING THE LIMIT FOR FISCAL YEAR 2019-20 – **Resolution 2019-125** adopted the annual adjustment to appropriations Limit (Gann Limit).
- 1.I WAIVE SECOND READING AND ADOPT ORDINANCE 1270, AN ORDINANCE OF THE CITY OF TRACY APPROVING AN AMENDMENT TO THE TRACY HILLS SPECIFIC PLAN TO ADDRESS MINOR REVISIONS AND CLARIFICATIONS RELATED TO THE IMPLEMENTATION OF PHASE 1A DEVELOPMENT, APPLICATION NUMBER SPA18-0002 – **Ordinance 1270 was adopted.**
- 1.K APPROVE A MASTER SERVICES AGREEMENT WITH AXON ENTERPRISE, INCORPORATED FROM JULY 1, 2019 TO JUNE 30, 2024, NOT TO EXCEED \$1,254,000, FOR THE PURCHASE, USAGE, AND ON-GOING MAINTENANCE OF THE DEPARTMENT'S TASERS, BODY WORN CAMERAS, AND CLOUD BASED EVIDENCE SYSTEM, EVIDENCE.COM, AND FIND IT IS IN THE BEST INTEREST OF THE CITY TO FORGO THE FORMAL BID PROCESS – **Resolution 2019-126** approved a Master Services Agreement with Axon Enterprises.
- 1.L APPROVE AMENDMENT No. 4 TO THE MASTER PROFESSIONAL SERVICES AGREEMENT WITH WEST YOST ASSOCIATES FOR WATER PRESSURE AND CAPACITY ANALYSES AND ENGINEERING ASSISTANCE FOR VARIOUS PROJECTS TO EXTEND THE TERM, UPDATE BILLING RATES, AND INCREASE COMPENSATION BY AN ADDITIONAL \$350,000 FOR A TOTAL CONTRACT NOT-TO-EXCEED AMOUNT OF \$2,000,000 THROUGH FY 2019-20 – **Resolution 2019-127** approved Amendment No. 4 to the Master Professional Services Agreement with West Yost Associates.
- 1.N APPROVE AN OFFSITE IMPROVEMENT AGREEMENT WITH PROLOGIS FOR INTERNATIONAL PARK OF COMMERCE - PHASE 1H NON-PROGRAM STREET IMPROVEMENTS AND OTHER ASSOCIATED IMPROVEMENTS FOR HOPKINS ROAD AND STORM DRAIN LINE "A" – **Resolution 2019-128** approved an Offsite Improvement Agreement with Prologis.

- 1.O APPROVE AN OFFSITE IMPROVEMENT AGREEMENT WITH PROLOGIS FOR THE INTERNATIONAL PARK OF COMMERCE - PHASE 1i NON-PROGRAM IMPROVEMENTS ON PROMONTORY PARKWAY – Resolution 2019-129 approved an Offsite Improvement Agreement.
- 1.P APPROVE AMENDMENT NO. 2 TO THE PROFESSIONAL SERVICES AGREEMENT WITH ICF JONES AND STOKES, INC., ON A TIME AND EXPENSE BASIS, FOR AN AMOUNT OF NOT-TO-EXCEED \$442,371 FOR ADDITIONAL SERVICES RELATED TO THE TRAFFIC FORECASTING AND OPERATIONS ANALYSIS FOR THE LAMMERS ROAD / I-205 NEW INTERCHANGE PROJECT, CIP 73084, FEDERAL PROJECT NO. HPLU03LN-9152(021) – Resolution 2019-130 approved Amendment No. 2 to the Professional Services Agreement with ICF Jones and Stokes, Inc.
- 1.Q APPROVE A PROFESSIONAL SERVICES AGREEMENT WITH DENOVO PLANNING GROUP TO PERFORM TRANSIT-ORIENTED DEVELOPMENT PLANNING FOR AREAS NEAR THE PLANNED VALLEY LINK STATION IN DOWNTOWN TRACY FOR A TOTAL NOT-TO-EXCEED AMOUNT OF \$208,020 – Resolution 2019-131 approved a Professional Services Agreement with DeNovo Planning Group.
- 1.J APPROVE THE COMMITTED FUND BALANCES FOR FISCAL YEAR ENDING JUNE 30, 2019

Robert Tanner pulled the item to ask about the approximate dollar value being carried over.

There were no comments from City Council.

ACTION: Motion was made by Council Member Vargas and seconded by Council Member Ransom to adopt **Resolution 2019-132** approving the Committed Fund balances for Fiscal Year ending June 30, 2019. Roll call found all in favor; passed and so ordered.

- 1.M APPROVE RESOLUTIONS: (1) INITIATING PROCEEDINGS FOR THE ANNUAL LEVY OF ASSESSMENTS FOR TRACY CONSOLIDATED LANDSCAPE MAINTENANCE DISTRICT, (2) APPROVING THE PRELIMINARY ENGINEER'S REPORT FOR THE TRACY CONSOLIDATED LANDSCAPE MAINTENANCE DISTRICT, AND (3) DECLARING THE INTENTION TO LEVY ANNUAL ASSESSMENTS AND SETTING THE DATE FOR A PUBLIC HEARING.

Mark Miller pulled the item and referred to a memo sent to Council regarding using the Park Master Plan to map out landscaping goals, a consultant to define cost and vision, replacement of the current Landscape Assessment Districts for one uniform zone to cover City, and create citizen advisory group.

There were no comments from City Council.

ACTION: Motion was made by Council Member Vargas and seconded by Council Member Arriola to adopt **Resolution 2019-133** initiating proceedings for the annual levy of assessments and ordering the preparation of an engineer's report for the Tracy Consolidate Landscape Maintenance District, pursuant to the provisions of the Landscaping and Lighting Act of 1972 for Fiscal Year 2019/2020. **Resolution 2019-134** approving the preliminary engineer's report regarding the proposed levy and collection of assessments for the Tracy Consolidated Landscape Maintenance District, pursuant to the provisions of the Landscaping and Lighting Act of 1972 for Fiscal Year 2019/2020 **Resolution 2019-135** declaring the intention to levy annual assessments for the Tracy Consolidated Landscape Maintenance District, Fiscal Year 2019/2020 and setting a public hearing on July 16, 2019 at 7:00 p.m. to consider same in accordance with the Landscaping and Lighting Act of 1972. Roll call found all in favor; passed and so ordered.

Jenny Haruyama pulled agenda item 3.A at the request of the consultant. The consultant will review their scope and may pursue a \$50,000 proposal, which would be under the City Manager's authority.

2. ITEMS FROM THE AUDIENCE – Robert Tanner requested that the City make it a priority to not sell fireworks, and Police track down those letting off illegal fireworks.

Yolande Barial Knight, Tracy African American Association thanked the City, Parks Commission, and sponsors for their support of the Juneteenth event. Eight scholarships were given away to local high school students.

Alice English spoke about the community center for seniors, American Gold Star Mothers fundraiser breakfast for Wreaths Across America on June 29, 2019 from 8:00 am to 10:00 a.m. at Applebees, the Grand Jury Report, and urged the Mayor to run for Board of Supervisors.

Yolanda Magana thanked Council Member Ransom for her graduation message to Tracy Area Home School Academy, supported reinstating former Police Chief Larry Esquivel, neighborhoods funding their own National Night Out events, and thanked the City for having splash pads open.

Roger Birdsall suggested the City Manager write the Code of Ethics, and was pleased with the sidewalk repairs by Dr. Power's park (Tanner walk).

Ray Moreles shared his concerns regarding the Grand Jury Report, and stated ethical standards are important.

Bill Aragon shared his concerns regarding the Grand Jury Report, and added Tracy has an outstanding Police Department and property and evidence room.

Mercedes Silviera shared her observation of the Grand Jury Report, and stated the community needs to trust this government again.

3. REGULAR AGENDA

- 3.A DISCUSS FEDERAL GOVERNMENT AFFAIRS SERVICES CONTRACT AND CONSIDER APPROVING A PROFESSIONAL SERVICES AGREEMENT WITH PATRICIA JORDAN & ASSOCIATES, INC. OR DIRECTING STAFF TO REQUEST PROPOSALS FOR GOVERNMENT AFFAIRS SERVICES – Agenda Item was pulled by Jenny Haruyama at the request of the consultant.
- 3.B ADOPT AN ADDENDUM TO THE INITIAL STUDY AND MITIGATED NEGATIVE DECLARATION FOR THE CORRAL HOLLOW ROAD WIDENING PROJECT FROM WEST SCHULTE ROAD TO LINNE ROAD (CIP 73144) TO INCLUDE CERTAIN CHANGES TO PACIFIC GAS & ELECTRIC COMPANY'S ELECTRIC UTILITY INFRASTRUCTURE AND RATIFY APPROVAL OF THE CORRAL HOLLOW ROAD WIDENING PROJECT, CIP 73144

Kul Sharma, Utilities Director provided the staff report.

Robert Tanner asked how the widening of Corral Hollow will occur.

There were no comments from City Council.

ACTION: Motion was made by Council Member Vargas and seconded by Council Member Arriola to adopt a **Resolution 2019-136** approving an addendum to the Initial Study and Mitigated Negative Declaration for the Corral Hollow Road Widening Project from West Schulte Road to Linne Road (CIP 73144) to include certain changes to Pacific Gas & Electric Company's electric utility infrastructure and ratifying approval of the Corral Hollow Road widening project CIP 73144. Roll call found all in favor; passed and so ordered.

- 3.C APPROVE REVISED CITYWIDE DESIGN GOALS AND STANDARDS TO INCLUDE RESIDENTIAL FRONT YARD LANDSCAPE STANDARDS

Victoria Lombardo, Senior Planner provided the staff report.

Robert Tanner asked what kind of change to someone's landscaping would require them to comply with these news standards.

Bill Aragon asked if new residential development has a home owner association involved, which policy takes precedence. Mr. Aragon added he struggles under current city standards, that properties are not held accountable for their upkeep.

City Council questions and comments followed.

It was City Council's consensus to add to the third bullet under Section 5.4.4 of the Citywide Design Goals and Standards a sentence stating when yards are less than 10 feet, the Development Services Director can modify the standard as necessary due to space.

ACTION: Motion was made by Council Member Ransom and seconded by Council Member Vargas to adopt **Resolution 2019-137** approving the Citywide Design Goals and Standards to include residential front yard landscape standards,

including the revision requested by City Council. Roll call vote found all in favor; passed and so ordered.

3.D ADOPT A POLICY REGARDING THE DISPLAY OF FLAGS AT CITY FACILITIES

Leticia Ramirez, Interim City Attorney, provided the staff report.

City Council questions and comments followed.

Alice English commended the City for declaring LGBT Pride month, expressed concerns regarding alleged comments made by Council Member Arriola during election cycle, and stated if the City raises flags for one, it should raise flags for everyone.

Manual Zapata thanked Council for acknowledging LBGT Pride month stating it will go down in history as the Council on behalf in LGBT community.

Council Member Arriola provided a brief response to Ms. English's comments.

City Council questions and comments followed.

It was City Council consensus to amend Section 2.3.1 to include authorization by resolution approved by a supermajority (four-fifths) vote of the City Council.

ACTION: Motion was made by Council Member Arriola and seconded by Council Member Vargas to adopt **Resolution 2019-138** approving a Council policy regarding the display of flags at City facilities to include change to Section 2.3.1 to include authorization by resolution approved by a supermajority (four-fifths) vote of the City Council. Roll call vote found all in favor; passed and so ordered.

3.E APPROVE POLICY FOR EVENTS IN CITY PARKS

Brian MacDonald, Parks and Recreation Director provided the staff report.

Mishelle Neverason referred to Section 3.4 of the policy and asked how to handle outsiders who approach private events to sell items.

Alice English referred to comments made by Council Member Ransom at the August 21, 2018 Council meeting, and provided her account of issues at the 2018 National Night Out event.

Robert Tanner asked if National Night Out events are private parties.

John Arrington asked if the City co-sponsors an event does it automatically become a public event, and if not why is the City sponsoring private events in public parks with City's law enforcement.

Council Member Ransom provided a brief response to Ms. English's comments.

City Council questions and comments followed.

It was City Council consensus to add Director or designee under "Park permit" and Chief of Police or designee to Sections 3.1 and 3.3 of the policy.

ACTION: Motion was made by Council Member Arriola and seconded by Council Member Ransom to adopt **Resolution 2019-139** establishing City policy for events in City parks with amendments. Roll call vote found all in favor; passed and so ordered.

4. ITEMS FROM THE AUDIENCE – A Tracy resident expressed concerns regarding large trees on Alden Glen Drive and asked if it is up to homeowners to maintain the trees.

5. STAFF ITEMS – Jenny Haruyama, City Manager provided an update on the following items:

- Potential of a PG&E power shut off.
- Status of the Police Chief recruitment.
- Regional Rail Authority's release of the Valley Link Project feasibility report.
- LGBT Pride flag raising ceremony at City Hall on Friday June 28, 2019 at 8:00 am.

6. COUNCIL ITEMS

6.A CONSIDER CANCELLING AUGUST 6, 2019 REGULAR CITY COUNCIL MEETING

Adrienne Richardson, City Clerk provided the staff report.

There were no comments from the public.

There were no comments from City Council.

ACTION: Motion was made by Mayor Pro Tem Young and seconded by Council Member Arriola to cancel the August 6, 2019 Council meeting. Roll call vote found all in favor; passed and so ordered.

6.B RECEIVE UPDATE FROM THE HOMELESSNESS AD HOC COMMITTEE AND AUTHORIZE STAFF TO EXPLORE AND SUBMIT APPLICATIONS FOR GRANTS TO FUND A HOMELESSNESS STRATEGIC PLAN

Jenny Haruyama, City Manager provided the staff report.

Council Member Ransom and Council Member Arriola provided an update on the Tracy Homelessness ad hoc committee's activities and recommended applying for grants to assist with the development of a Tracy Homeless Strategic Plan.

Alice English asked if the City uses staff for grants, would grants go directly to City to distribute funds.

City Council questions and comments followed.

ACTION: Motion was made by Mayor Pro Tem Young and seconded by Council Member Ransom to adopt **Resolution 2019-140** authorizing staff to explore and submit applications for grants to fund the development of a strategic plan to address homelessness in Tracy. Roll call vote found all in favor; passed and so ordered.

Mayor Pro Tem Young gave a shout out to long time Tracy resident Arlene Robbins on her 81st birthday.

Council Member Vargas thanked Council for supporting the Valley Link project and invited everyone to a meeting on June 27, 2019 at 4:00 p.m. 555 Weber Street, Stockton where the feasibility study will be presented.

Council Member Arriola announced Crowns and Cases Pageant on June 29, 2019 at 6:00 p.m. at the Grand Theatre, and invited the community to the LGBT Pride flag raising ceremony on June 28, 2019, at 8:00 a.m. at City Hall. Council Member Arriola commended the City Council for speaking as a powerful united voice at the Local Agency Formation Commission (LAFCo) meeting on June 13, 2019, which ended up allowing Tracy to retain local control.

Mayor Rickman announced the next 80's night Downtown Block Party in August, wished his daughter Allison's soccer team good luck while competing in a regional soccer tournament in Idaho. Mayor Rickman also announced the 95th Portuguese Festa parade downtown on 10th Street and Central Ave this weekend, and bloodless bullfights on June 28, 2019.

Council Member Ransom thanked the City Manager for addressing the PG&E issue, and spoke about the importance in participating in the Census.

7. ADJOURNMENT – Time: 9:19 pm

ACTION: Motion was made by Mayor Pro Tem Young and seconded by Mayor Rickman to adjourn. Roll call vote found all in favor; passed and so ordered.

The above agenda was posted at the Tracy City Hall on June 13, 2019. The above are action minutes. A recording is available at the office of the City Clerk.

ATTEST:

Mayor

City Clerk

AGENDA ITEM 1.B

REQUEST

ACCEPT CONSTRUCTION OF PHASE 1 OF CIP 76066 DETENTION BASIN 2B, COMPLETED BY MOZINGO CONSTRUCTION, INC., OF OAKDALE, CALIFORNIA, AUTHORIZE THE CITY CLERK TO FILE THE NOTICE OF COMPLETION, AND AUTHORIZE THE CITY ENGINEER TO RELEASE THE BONDS AND RETENTION PAYMENT

EXECUTIVE SUMMARY

The contractor has completed construction of the Detention Basin 2B Phase 1 – CIP 76066. The Project included the installation of 6” and 12” DIP storm drainage force main outlet pipes crossing the Westside Irrigation District (WSID) right-of-way. The contractor has completed the construction of Detention Basin 2B Phase 1 – CIP 76066, in accordance with Project plans, specifications, and contract documents. Project costs are within the available budget. Staff recommends Council accept the Project to enable the City Engineer to release the contractor’s bonds and retention payment.

DISCUSSION

On November 14, 2018, City staff opened informal bid proposals for the construction contract of the Detention Basin 2B Phase 1 and the lowest of the bid proposals was from Mozingo Construction, Inc., of Oakdale, California, in the total amount of \$34,932.

On December 13, 2018, construction contract was fully executed by both parties, and a Notice to Proceed was issued to begin construction.

The Project was split into two phases in order to expedite the construction of the two pipes under WSID Canal and meet the deadlines agreed upon with WSID for the construction easement. The scope of work included construction of 6” DIP storm drainage force main for the low flow discharge pipe for the future pump station serving DET 2B and installation of a 12” DIP for high flow discharge pipe for the future pump station serving DET 2B and will share the capacity of the outfall across the canal. Both SDFM’s will be stubbed and plugged at their south ends for future connection when DET 2A is under construction.

The Project improvement plans and specifications were completed in house. One change order in the amount of \$1,023 was issued, which included a 1” thick concrete cap requested by the City not shown in original scope of work.

The current funding available for the entire CIP 76066 is \$1,829,893. Of this, \$40,000 was allocated towards Phase 1 of the Project.

Total Project costs are as follows:

	Phase 1	Phase 2
A. Construction Contract	\$ 34,932	
B. Approved Change orders	\$ 1,023	
C. Design, construction management, inspection, Testing & miscellaneous project management Expenses		\$ 205,957
Total Costs to Date	\$ 35,955	\$ 205,957
Total Budget Available	\$ 40,000	\$ 1,789,893
Budget Remaining	\$ 4,045	\$ 1,583,936

Phase 1 has been completed within the available budget, within the time frame of the original contract plus the time extension given to the contractor for extra work, including rain delays, per plans, specifications, and City of Tracy standards.

STRATEGIC PLAN

This agenda item is consistent with the City Council's adopted Quality of Life Strategy and meets the goal of enhancing the City's amenities.

FISCAL IMPACT

The Detention Basin 2B Project, CIP 76066, is an approved Capital Improvement Project with available funding in the amount of \$1,829,893. The Project consists of two phases. The funding was allocated as follows: Phase 1 - \$40,000, and Phase 2 - \$1,789,893. Phase 1 of the Project was completed within the available budget for a total cost of \$35,955. The remaining funds of \$4,045 will remain in the CIP to be used towards Phase 2.

RECOMMENDATION

That City Council, by resolution, accept the construction of Phase 1 of CIP 76066 Detention Basin 2B, completed by Mozingo Construction, Inc., of Oakdale, California, authorize the City Clerk to record the Notice of Completion with the San Joaquin County Recorder, and authorize the City Engineer to release the bonds and retention payment.

Prepared by: Leisser P. Mazariegos, Associate Civil Engineer

Reviewed by: Paul Verma, PE, Senior Civil Engineer
 Robert Armijo, PE, City Engineer / Assistant Director of Development Services
 Karin Schnaider, Finance Director
 Andrew Malik, Assistant City Manager

Approved by: Jenny Haruyama, City Manager

RESOLUTION 2019-_____

ACCEPTING CONSTRUCTION OF PHASE 1 OF CIP 76066 DETENTION BASIN 2B COMPLETED BY MOZINGO CONSTRUCTION, INC., OF OAKDALE, CALIFORNIA, AUTHORIZING THE CITY CLERK TO FILE THE NOTICE OF COMPLETION, AND AUTHORIZING THE CITY ENGINEER TO RELEASE THE BONDS AND RETENTION PAYMENT

WHEREAS, On December 13, 2019, City Manager signed the construction contract with Mozingo Construction, Inc., of Oakdale, California, in the total amount of \$34,932 for their bid of the construction of a portion of the Detention Basin 2B Expansion, Phase 1 – CIP 76066, and

WHEREAS, The Project was split into two phases in order to expedite the construction of the two pipes under Westside Irrigation District (WSID) Canal and to meet the deadlines agreed upon with WSID for the construction easement, and

WHEREAS, The scope of work included the installation of a 6” and 12” DIP storm drainage force main outlet pipes crossing the WSID right-of-way, and

WHEREAS, One change order in the amount of \$1,023 was issued, and

WHEREAS, The current funding available for CIP 76066 is \$1,829,893, of this, \$40,000 was allocated towards Phase 1 of the Project, and

WHEREAS, The total Project costs are as follows:

	Phase 1	Phase 2
A. Construction Contract	\$ 34,932	
B. Approved Change orders	\$ 1,023	
C. Design, construction management, inspection, Testing & miscellaneous project management Expenses		\$ 205,957
Total Costs to Date	\$ 35,955	\$ 205,957
Total Budget Available	\$ 40,000	\$ 1,789,893
Budget Remaining	\$ 4,045	\$ 1,583,936

WHEREAS, The Project has been completed within the available budget, within the time frame of the original contract plus the time extension given to the contractor for extra work, including rain delays, per plans, specifications, and City of Tracy standards, and

WHEREAS, The Detention Basin 2B Project, CIP 76066, is an approved Capital Improvement Project with available funding in the amount of \$1,829,893. The Project consists of two phases. The funding was allocated as follows: Phase 1 - \$40,000 and Phase 2 -

\$1,789,893. Phase 1 of the Project was completed within the available budget for a total cost of \$35,955; The remaining funds of \$4,045 will remain in the CIP to be used towards Phase 2;

NOW, THEREFORE, BE IT RESOLVED, That the City Council of the City of Tracy hereby accepts the construction of Detention Basin 2B Expansion Phase I CIP 76066, completed by Mozingo Construction, Inc., of Oakdale, California, authorizes the City Clerk to record the Notice of Completion with the San Joaquin County Recorder, and authorizes the City Engineer to release the bonds and retention payment.

* * * * *

The foregoing Resolution 2019-_____ was passed and adopted by the Tracy City Council on the 2nd day of July 2019, by the following vote:

AYES:	COUNCIL MEMBERS:
NOES:	COUNCIL MEMBERS:
ABSENT:	COUNCIL MEMBERS:
ABSTAIN:	COUNCIL MEMBERS:

MAYOR

ATTEST:

CITY CLERK

July 2, 2019

AGENDA ITEM 1.C

REQUEST

SET A PUBLIC HEARING DATE FOR CONSIDERATION OF THE PROPOSED WATER RATE INCREASE AND AUTHORIZE STAFF TO TAKE NECESSARY STEPS TO BEGIN THE PROCESS TO ESTABLISH NEW WATER RATES

EXECUTIVE SUMMARY

A water rate study was prepared in August 2017 and water rates were increased effective January 2018. The water rate study identified that an additional future average water rate increase of approximately \$8.20 per month for a single family home would be necessary. Staff recommends a public hearing to consider a water rate increase be held on September 17, 2019.

DISCUSSION

Water rates are established to fund operating expenses, capital costs for maintenance and replacement of existing water infrastructure, debt payments, and to maintain adequate funds for emergencies to ensure uninterrupted quality water supplies to consumers. The rates are set to collect revenue proportional to the true cost of providing the water service.

The City's water rates were adjusted in 2008 and these rates provided adequate revenue until 2014 when the statewide drought occurred. The community responded positively to the State mandate to conserve water. This water conservation resulted in decreased water use. Since revenue to the Water Fund is directly proportional to water sales, the revenue from the sale of water decreased significantly. Analysis of the current year's water demand shows continued water conservation. At the same time, the City's water infrastructure is aging and requires aggressive maintenance, operation and replacements to continue providing quality water to its consumers.

In 2017, a Water Rate Study was prepared by HDR, a firm specializing in water rate and revenue analysis. The study identified the need for a rate increase at that time. The City Council conducted a workshop to review the water rates during September 2017, and the current water rates were adopted effective January 2018. The study included a five-year projection of revenue with two proposed rate increases. Staff recommended Council approve the first increase in water rates for FY 2017-2019 and bring the second increase for FY 2019-20 back if warranted. Although the rate study had predicted a 25% increase in water revenues with the first increase, financial reports indicate that water revenues only increased by 10% in FY 2018-2019. This is primarily because the rate increase was placed on consumption and residential water usage still reflects the drought mandates of the State. Staff is returning with the second rate increase for FY 2019-20.

Tracy has a very efficient water supply, treatment and delivery program. Tracy's water system is safe and reliable. Staff has done all it can to contain expenses. Tracy is not the only City facing increased water rates. The previous drought and subsequent water conservation have left major fiscal impacts on almost all cities and water agencies in California. A majority of the cities and agencies have been left with no other alternative but to increase their water rates. The recent unprecedented rains and snowfall in the Sierra have improved the reliability of water, temporarily, but future sustainability is unpredictable. In addition, the need for infrastructure improvements are critical and independent of the water reliability. Moreover, water conservation is now the way of life and has impacted revenues.

California law requires that water rates be allocated to all users in proportion to their usage and the cost of providing the service. The current user classes and tiers have been established based on the cost to serve them. With the current water rates, a residential customer using 15 units of water during the summer would pay \$32.80 per month. The revised average rates will result in an average cost of \$41.00 for the same amount of water.

A comparison of the City's rate with other surrounding agencies is provided as follows. Even after the proposed rate increase, Tracy will remain among the lowest cost providers.

<u>City</u>	<u>Water Bill</u>
Manteca	\$32.60
Tracy - Current	\$32.80
Tracy – Proposed	\$41.00 (with rate increase)
Lodi	\$43.84
Modesto	\$52.29
Fairfield	\$56.78
Stockton	\$66.60
Brentwood	\$72.20
Pleasanton	\$75.30
Lathrop	\$77.18
Livermore	\$77.62
Danville	\$81.03
Dublin	\$85.00
Concord	\$99.25

These amounts are for residential customers using 15 units (1,500 cubic feet or 15 CCF or 11,220 gallons) per month; survey dated 5/1/19. The City of Tracy's water billing rates are based on the summer water rate schedule.

With Council's approval and authorization of staff to begin the process to establish new water rates, the attached public hearing notice and frequently asked questions will be sent to property owners and consumers with at least 45 days' notice prior to the City Council's public hearing tentatively set for September 17, 2019. After conclusion of the public hearing and determination of whether a majority protest has occurred, if City Council approves the water rate increase, it is anticipated that the proposed water rate

increase would become effective on November 1, 2019. The new water rates will be applied to the monthly utility bills starting in December 2019.

The City will continue to monitor the increased revenues from the water rate increase to ensure the water fund is in revenue neutral position (revenues equal expenses). The water rate structure is comprised of fixed rates and volume of water consumption. The proposed increase is based upon the use or volume of water consumption. However, due to continued water conservation and adjustments to the way of life by the City's consumers, if revenue does not increase to meet expenses, staff will start reviewing the water rates within the next two years and make corresponding recommendations. At that time, staff will also explore presenting Council with a multi-year rate adjustment plan for purposes of efficiencies and effectively managing expectations of the community.

STRATEGIC PLAN

This agenda item is a routine operational item and does not relate to Council's Strategic Plans.

FISCAL IMPACT

The proposed rate increase is a step towards returning the Water Fund to a revenue neutral financial position (revenue equals expenses).

RECOMMENDATION

That City Council set, by resolution, September 17, 2019, as a public hearing date for the proposed water rate increase and authorize staff to take necessary steps to begin the process to establish new water rates.

Prepared by: Kuldeep Sharma, Utilities Director

Reviewed by: Karin Schnaider, Finance Director
Andrew Malik, Assistant City Manager

Approved by: Jenny Haruyama, City Manager

ATTACHMENTS

Attachment A: Notice of Public Hearing on Proposed Water Rate Increase
Attachment B: Frequently Asked Questions
Attachment C: 2017 Water Rate Study Report



NOTICE OF PUBLIC HEARING ON PROPOSED WATER RATE INCREASE

The City of Tracy is proposing to increase water rates for all customers. Because of increased costs related to replacement of aging infrastructure and operations, as well as ongoing reduced water sales, the City is experiencing a shortfall in revenue for water supply, treatment and distribution of potable water. California law requires that water rates be allocated to all users in proportion to their usage and the cost of providing the service.

PUBLIC HEARING AND PROTEST PROCESS

The City Council of the City of Tracy will conduct a Public Hearing to consider the proposed water rate increase on **Tuesday, September 17, 2019, at 7:00 p.m., in Council Chambers at 333 Civic Center Plaza, Tracy, California.** The Public Hearing will be your opportunity to address the proposed water rate increase. The City Council will consider all protests opposing the proposed rates, determine if a majority protest exists, and act on the proposed rates at the public hearing. Any property owner or customer subject to the proposed rate increase may submit a formal written protest against the proposed increase. Oral comments at the hearing will not qualify as formal protests unless accompanied by a written protest. Formal written protests will be counted from customers or property owners of a property subject to the proposed rates. Only one vote per property will count. If protests from a majority (51%) of properties subject to the proposed rates are received by the end of the public hearing, the City will consider a majority protest to have occurred. Written protests may be submitted by mail to the City Clerk at 333 Civic Center Plaza, Tracy, California 95376, in person to the City Clerk at City Hall (2nd Floor), or at the public hearing. A formal written protest must: (1) include the name of the property owner or customer; (2) state the owner or customer opposes the proposed rate increase; (3) provide the location of the property (by assessor’s parcel number or street address); and (4) include the signature of the owner or customer submitting the protest. If a majority protest does not occur, the City will be authorized to approve the proposed rates. The proposed water rates, if approved, would take effect on October 1, 2019.

BASIS OF ALLOCATION OF COSTS

In order to determine the cost of providing potable water service, and cost-based and equitable rates, the City contracted the firm of HDR Inc. to complete a water rate and revenue analysis. Costs are incurred in meeting two types of expenses: capital expenses (such as debt service and capital improvements) and operating and maintenance costs. Both costs must be allocated to customers and are collected through a monthly meter service charge and commodity or volume rate based on metered water consumption.

Fixed Monthly Meter Service Charge

The fixed monthly (readiness to serve) costs increase with the size of a customer’s water meter. This variation is based on a portion of the City’s fixed costs associated with operating, maintaining, and delivering water. The variable meter charge is based on the cost of an equivalent meter and is consistent with the American Water Works Association meter capacity ratios. The City’s fixed rates are applied to each account’s meter size in accordance with the rate structure as shown in the Proposed Water Rate Schedule.

Volume-based Rates

The volume-based commodity rates are applied to all water usage, on a Ccf (hundred cubic feet) basis, in accordance with the Proposed Water Rate Schedule. For residential usage, there are four tiers in the commodity rates, which increase from \$1.50 for Tier 1 to \$2.33 for Tier 4. The tiers are designed to recover the incremental costs to the City of serving those who place higher demands and greater burdens on the City’s water system and resources. Provided in the table are the current residential tier sizes. For multifamily, commercial, high user, and irrigation customers, each user class has a separate uniform block rate based on the water use characteristics of each customer class, reflecting the cost of service.

Winter Tiers	TIER SIZES (Ccf)
Tier 1	0 to 12
Tier 2	12 to 20
Tier 3	20 to 40
Tier 4	Over 41
Summer Tiers	
Tier 1	0 to 18
Tier 2	18 to 30
Tier 3	30 to 50
Tier 4	Over 50

PROPOSED WATER RATE SCHEDULE

Monthly Meter Service Charges (all customers)		
	Monthly Service Charge	Monthly Service Charge
Meter Size (inches)	<u>Current</u>	<u>Proposed</u>
5/8 or 3/4	\$14.80	\$18.50
5/8 or 3/4 LIRA*	\$0.00	\$0.00
1	\$24.72	\$30.90
1 LIRA*	\$9.92	\$12.40
1-1/2	\$49.28	\$61.61
2	\$78.88	\$98.61
3	\$148.00	\$185.00
4	\$246.72	\$308.40
6	\$493.28	\$616.61
8	\$789.28	\$986.61
10	\$1,134.72	\$1418.40
Residential Winter Usage or Volume Rates (November-April)		
	Unit Rate per Ccf	Unit Rate per Ccf
<u>Demand (Ccf)</u>	<u>Current</u>	<u>Proposed</u>
Tier 1	\$1.20	\$1.50
Tier 2	\$1.60	\$2.00
Tier 3	\$1.74	\$2.17
Tier 4	\$1.86	\$2.33
Residential Summer Usage or Volume Rates (May-October)		
	Unit Rate per Ccf	Unit Rate per Ccf
<u>Demand (Ccf)</u>	<u>Current</u>	<u>Proposed</u>
Tier 1	\$1.20	\$1.50
Tier 2	\$1.60	\$2.00
Tier 3	\$1.74	\$2.17
Tier 4	\$1.86	\$2.33
Other User Classes		
	Unit Rate per Ccf	Unit Rate per Ccf
	<u>Current</u>	<u>Proposed</u>
Multifamily	\$1.61	\$2.01
Commercial	\$1.84	\$2.18
High User (a)	\$1.27	\$1.59
Irrigation	\$1.92	\$2.40
(a) High usage rate is the uniform rate for customers using water in excess of 15,000 Ccf per month on a consistent uniform basis.		

A unit is 100 cubic feet of water or 748 gallons denoted as Ccf.

*LIRA is Low-Income Rate Adjustment

The complete Water Rate study is available for review at the Wastewater Treatment Plant, 3900 Holly Drive, Tracy, and on the City website at www.cityoftracy.org. Please contact (209) 831-6356 or Steve.Bayley@cityoftracy.org for additional information regarding the proposed water rate increase.

Este informe contiene información sobre su cuenta de agua. Es muy importante que entienda el material. Para ver la traducción de este informe vaya a la página www.cityoftracy.org o llame al (209) 831-6212.



FREQUENTLY ASKED QUESTIONS ABOUT THE PROPOSED WATER RATE INCREASE

The City of Tracy provides water service to its residents and businesses. The City owns and operates a water transmission and distribution system, and various production and treatment facilities for surface water and ground water sources. The City's water system is a carefully operated water system dedicated to delivering safe and reliable water to the City's customers. Customer rates fund the maintenance and operation of the City's water system. The City is considering approving a new proposed water rate schedule that will increase the monthly water bill of an average residential customer by \$8.20 per month.

Why is a water rate increase necessary?

The current water rates are not generating adequate revenue to meet the costs of maintaining and operating the City's water system. Therefore, the City's cost of providing water service currently exceeds the amount charged to customers for water service. The shortfall in revenue is due to increased costs relating to the replacement of aging infrastructure and operations, and on-going reduced water sales as a result of water conservation efforts.

What is the City doing to limit or decrease costs?

The City has taken various steps to manage its water operating expenses. For example, the City has deferred filling positions and various capital improvement projects such as a pipeline replacement project in order to limit costs. However, decreased water usage, increased regulatory requirements, and increased operational costs including energy costs have resulted in a revenue shortfall.

How are water rates increased?

The City prepared a Water Rate Study in 2017 which reviewed prior years' expenditures and revenues. The rate study recommended rate increases in January 2018 and July 2019. A workshop with the City Council was held in September 2017 to review the study. The proposed rate increase will be the subject of a public hearing on Tuesday, September 17, 2019.

When will rates increase?

If approved, the proposed water rate increase will take effect on October 1, 2019. Customers would see the increase on their November utility billing.

Does the proposed water rate increase comply with Proposition 218?

The City's rate setting process and rates have been developed to meet the intent of California law, including Proposition 218. A notice of the proposed rate increase will be sent to all

property owners. The proposed rate structure is based on the City's Water Rate Study and the City's specific costs and customer characteristics of each of the customer classes of service.

Will it be necessary to have future water rate increases?

The necessity of future water rate increases depends upon the volume of water sales and the amount of funding needed for the replacement of aging water pipelines. The City anticipates reviewing water rates again within the next two years.

How much will it cost per day for water for a single family home?

Under the proposed rates, an average single family home is proposed to pay \$1.35 per day for 15 units of water during the summer season. The City averages 3 people per home so the cost per day per person is 45 cents.

How does Tracy's water rate compare to other cities?

Tracy has among the lowest water rates in San Joaquin County.

<u>City</u>	<u>Water Bill</u>
Manteca	\$32.60
Tracy - Current	\$32.80
Tracy – Proposed	\$41.00 (with rate increase)
Lodi	\$43.84
Modesto	\$52.29
Fairfield	\$56.78
Stockton	\$66.60
Brentwood	\$72.20
Pleasanton	\$75.30
Lathrop	\$77.18
Livermore	\$77.62
Danville	\$81.03
Dublin	\$85.00
Concord	\$99.25

Where can I receive additional information?

If you have questions, or need additional information, please call Steve Bayley at 209-831-6356 or Steve.Bayley@cityoftracy.org. The Water Rate Study is available at www.cityoftracy.org or at the Wastewater Treatment Plant, 3900 Holly Drive, Tracy, California 95304.

Attachment C



REPORT



City of Tracy
Water Rate Study
August 2017





August 23, 2017

Mr. Kuldeep Sharma
Director of Utilities
City of Tracy
3900 Holly Drive
Tracy, CA 95304

Subject: Comprehensive Water Rate Study Draft Final Report

Dear Mr. Sharma:

HDR Engineering, Inc. (HDR) is pleased to present to the City of Tracy (City) the draft final report for the comprehensive water rate study. The City's comprehensive water rate study was developed to provide cost-based and equitable rates to adequately fund the operating and capital needs of the water utility. This report outlines the overall approach used to achieve these objectives, along with our findings, conclusions and recommendations.

The City owns and operates a water supply, transmission, and distribution system. The costs associated with developing the water supply, treat the water, and the costs of distributing water to customers has been developed based on City provided adopted budgets and included within the development of the proposed water rates.

This study was developed utilizing industry standard water rate setting principles and methodologies as outlined in the American Water Works Association M1 Manual "Principals of Water Rates, Fees, and Charges". This report provides the basis for developing and implementing water rates which are cost-based, equitable, and defensible to the City's customers.

We appreciate the assistance provided by the City's management team in the development of this study. More importantly, HDR appreciates the opportunity to provide these technical and professional services to the City.

Sincerely yours,
HDR Engineering, Inc.

Shawn Koorn
Associate Vice President

hdrinc.com

500 108th Ave NE, Suite 1200, Bellevue, WA 98004
T 425-450-6200



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Technical Appendix



Executive Summary

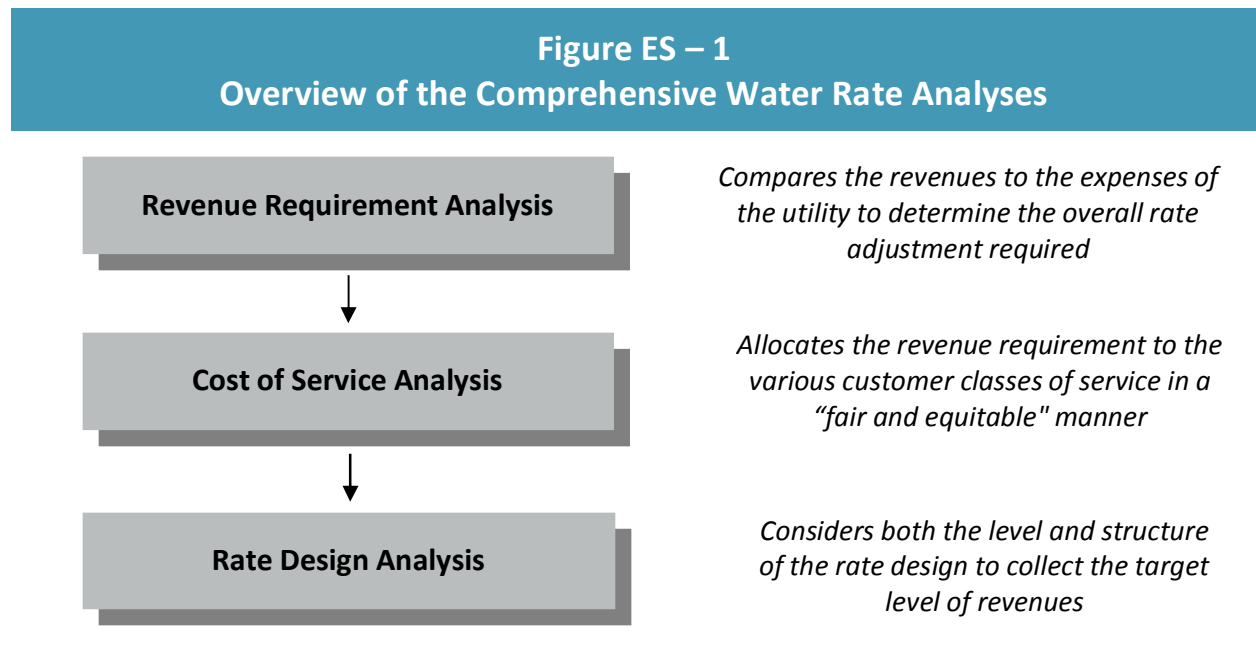
Introduction

HDR was retained by the City of Tracy (City) to conduct a comprehensive water rate study. The objective of the rate study was to review the City’s operating and capital costs in order to develop a financial plan and develop cost-based and equitable rates for the City’s water system customers. This study determined the adequacy of the existing water rates and provides the framework and cost basis for the proposed level of revenues and recommended water rates.

The City owns and operates a water transmission and distribution system as well as production and treatment facilities for surface water and ground water sources. The costs associated with providing water supply, treatment, and the costs of distributing water to customers of the City’s water system has been developed based on City adopted budget information and included within the development of the proposed rates.

Overview of the Rate Study Process

A comprehensive water rate study uses three interrelated analyses to address the adequacy and equity of a utility’s rates. These three analyses are a revenue requirement analysis, a cost of service analysis, and a rate design analysis. These three analyses are illustrated below in Figure ES - 1.



The above framework for reviewing and evaluating the City’s water rates and was utilized in the development of this study.

Key Water Rate Study Results

The water rate study technical analysis was developed based on the operating and capital costs necessary to provide water service to the City’s customers. The water rate analysis resulted in the following findings, conclusions, and recommendations.

- A revenue requirement analysis was developed for the time period of FY 2016-17 through FY 2022-22.
- The City’s FY 2016-17 adopted operating and maintenance (O&M) budget was used as the starting point of the analysis.
- O&M expenses are projected to increase at inflationary levels with no assumed changes to levels of service or anticipated extraordinary expenses.
- The recent drought, and State mandated consumption reductions, has impacted customer consumption levels, which in turn has reduced overall revenues for the City.
- Rate revenues were projected using the “new normal” level of water consumption.
- The proposed water revenue adjustments are 25.0% for FY 2017-18, effective January 1, 2018 and potentially, up to 25.0% for FY 2019-20, effective July 1, 2019.
- A cost of service analysis was developed to review the equity of the existing rates and proportionally allocate the revenue requirement to the various customer classes and tiers.
- The results of the cost of service analysis provided the unit costs (i.e., cost basis) which were used to establish the proposed rates.
- The study has developed proposed rates for the FY 2017-18 time period, by class of service.
- The study was prepared in accordance with the guidelines outlined in the Proposition 218 process

Summary of the Water Revenue Requirement Analysis

A revenue requirement analysis is the first analytical step in the development of the water rate study. This analysis determines the adequacy of the level of current water rates. From this analysis, a determination can be made as to the overall level of water revenue adjustments needed to provide adequate and prudent funding for both operating and capital needs.

For this study, the revenue requirement was developed for a projected time period (FY 2017-18 – FY 2021-22). A multi-year time frame is recommended to better anticipate future financial requirements and allow the City to begin planning for these changes sooner, thereby minimizing short-term rate impacts and overall long-term rate levels. For the revenue requirement analysis, a “cash basis” approach was utilized. The “cash basis” approach is the most commonly used methodology by municipal utilities to set their revenue requirement and it includes an analysis of O&M expenses, transfer payments, debt service, and capital projects funded from rates. The primary financial inputs in the development of the revenue requirement analysis were the City’s adopted FY 2016-17 budget for the water department, FY 2015-16 billed customer and consumption data, and the City’s most current water system capital improvement plan.

Once the operating and maintenance expenses have been projected over the time period, based on budgeted expenses and historical inflationary factors, the next step is to develop the capital improvement funding plan. The proper and adequate funding of capital projects is important to help minimize rates over time. A general financial guideline states that, at a minimum, a utility should fund an amount equal to or greater than annual depreciation expense through rates. Over the projected time period the City does not meet this minimum target level of funding annual depreciation expenses. However, the proposed rate adjustments will move the City closer to funding annual depreciation expense over the long-term. Provided below in Table ES - 1 is a summary of the capital funding plan over the five-year rate setting period.

Table ES – 1 Summary of the Annual Rate Funded Capital (\$000)						
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Total Capital Improvement Projects	\$2,293	\$878	\$1,076	\$1,504	\$1,523	\$1,543
<i>Less: Other Funding^[1]</i>	\$2,293	\$878	\$776	\$904	\$573	\$243
Total Rate Funded Capital	\$0	\$0	\$300	\$600	\$950	\$1,300

[1] Other funding includes available reserves, grants, long-term borrowing and other non-rate related revenues

As a note, to allow for a transition to cost-based rates, annual capital improvements were deferred in FY 2017/18 and FY 2018/19 by approximately \$2 million and \$3.5 million each year respectively. It is also important to note that the City’s annual depreciation expense is approximately \$9.1 million (FY 2015-16). This financial plan has placed the City’s rate funded capital level at \$300,000 in FY 2018-19 increasing to \$1.3 million by FY 2021-22. Although the plan shows that the City is moving towards prudent renewal and replacement funding, the City must continue to increase rate funded capital towards funding annual depreciation. As the system continues to age, this will become more important for funding renewal and replacement projects and minimize the need for long-term borrowing for annual renewal and replacement needs. Currently, the difference between annual capital improvement needs and rate funded capital is being funded through available reserves. The primary capital improvement needs are related to water main replacements during the five year time period.

The revenue requirement analysis for City’s water utility was developed to determine the necessary revenues to meet the costs of providing water service to the City’s customers based on the specific costs of the City’s water utility. Provided below, in Table ES – 2, is a summary of the revenue requirement analysis (financial plan) developed for the water utility. A more detailed analysis of the revenue requirements can be found in Section 3 of this report.

Table ES - 2
Summary of the Revenue Requirement Analysis (\$000)

	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Revenues						
Rate Revenues	\$13,523	\$13,591	\$13,659	\$13,727	\$13,830	\$13,934
Misc. Revenues	<u>235</u>	<u>213</u>	<u>212</u>	<u>217</u>	<u>229</u>	<u>238</u>
Total Revenues	\$13,758	\$13,804	\$13,871	\$13,945	\$14,060	\$14,172
Expenses						
O & M Expenses	\$13,545	\$14,127	\$14,739	\$15,382	\$16,059	\$16,769
Transfers	1,026	1,088	1,153	1,222	1,296	1,373
Net Annual Debt Service	1,258	1,258	1,258	1,925	1,925	1,925
Rate Funded Capital	0	0	300	600	950	1,300
Reserve Funding	<u>0</u>	<u>(970)</u>	<u>(165)</u>	<u>2,537</u>	<u>1,610</u>	<u>646</u>
Total Expenses	\$15,829	\$15,503	\$17,286	\$21,666	\$21,839	\$22,010
Bal./(Def.) of Funds	(\$2,070)	(\$1,699)	(\$3,415)	(\$7,722)	(\$7,779)	(\$7,838)
<i>Bal. as a % of Rate Rev.</i>	15.3%	12.5%	25.0%	56.3%	56.3%	56.3%
Proposed Rate Adjustment	0.0%	25.0%	0.0%	25.0%	0.0%	0.0%
Add'l Rev. from Rate Adj.	\$0	\$1,699	\$3,415	\$7,722	\$7,779	\$7,838
Total Bal./(Def.) of Funds	(\$2,070)	\$0	(\$0)	\$0	\$0	\$0

As can be seen, the revenue requirement has summed O&M, transfers, annual debt service, rate funded capital, and reserve funding. The total revenue requirement is then compared to the total sources of funds which are annual rate revenues, at present rate and consumption levels, and other miscellaneous revenues. From this comparison a balance or deficiency of funds in each year can be determined. This deficiency of funds is then compared to the projection of rate revenues, at the new level of consumption, to determine the overall revenue adjustment needed to meet the costs of providing water service. It is important to note the “Bal./(Def.) of Funds” row is cumulative. That is, any adjustments in the initial years will reduce the deficiency in the later years.

In FY 2017-18 the overall levels of water rate revenues need to be increased by 25.0% to meet the operating and capital needs of the water utility. As noted, this includes the deferral of approximately \$2 million in capital projects. If capital were not deferred then additional rate adjustments would be necessary. It is proposed that this rate increase will be effective January 1, 2018. Historically, the City has set rates for a two year period, or every other year. Given this, the next adjustment is proposed for July 1, 2019 and is proposed to be up to 25.0%.

Based on the revenue requirement analysis developed, HDR has concluded that the City will need to adjust the level of water rate revenues as noted above to meet annual O&M and

capital expenses over the next five years. HDR has reached this conclusion for the following reasons:

- Revenue adjustments are necessary to meet the operating and capital costs of providing water service to the City's customers.
- Revenue adjustments are necessary to reflect the reduction in annual water consumption due to the recent drought and State mandated conservation targets.
 - This new level of consumption is reflective of the new level of water consumption for the foreseeable future.
- The proposed revenue adjustments enhance the City's financial health and provide long-term sustainable funding levels.
- Prior to the end of the financial planning projected period, the City should complete a review of the water revenue levels and costs at that time.

In reaching this conclusion, HDR would recommend that the City adopt the proposed revenue adjustments of 25.0% on January 1, 2018 and up to 25.0% on July 1, 2019 to provide sufficient funding for the projected operating and capital needs of the water system. Detailed technical exhibits of the revenue requirement analysis have been included within the Technical Appendix.

Summary of the Water Cost of Service Analysis

A cost of service analysis determines the equitable allocation of the revenue requirement to the various customer classes of service (e.g., Residential, Multi-Family Commercial, High User, Irrigation). The objective of the cost of service analysis is different from determining the revenue requirement analysis. Whereas a revenue requirement analysis determines the utility's overall financial needs, the cost of service analysis determines the proportional and equitable manner to collect that revenue requirement from each customer class of service.

The above customer classes were established based on the City's existing rate schedules, and revised based on the review of the consumption patterns by customer type to equitably and proportionally allocate the City's costs of providing service. For example, a residential customer class and rate schedule, which are single-family customers, was developed based on the consumption patterns of residential customers' water demand which typically peak in the summer based on outdoor watering needs. In addition, the consumption patterns of residential customers is similar from customer to customer. However, when reviewing multi-family customers (e.g., apartments), the consumption levels can vary between customers depending on the number of living units. Given this difference in overall consumption patterns, it was appropriate to establish a separate class of service to reflect the impacts multi-family customers place on the system. The commercial customer class is for those customers that are not residential, multi-family, or irrigation. These are primarily businesses (restaurants, offices, grocery stores, etc.) and consumption levels can also vary greatly depending on the end use of water. Finally, irrigation customers are those customers that have a separate meter specifically for outdoor watering. Given the consumption patterns of the irrigation customers, low consumption levels in the winter and high consumption in the summer, these customers were separated and a specific rate structure developed based on the irrigation customer patterns.

Based on these customer classes of service, each with their own unique customer consumption characteristics, the cost of service can be developed.

In summary form, the cost of service analysis began by functionalizing the revenue requirement for the water utility. The functionalized revenue requirement was then allocated into the various cost components (e.g., average day, peak day, customer). The individual allocation totals were then proportionally distributed to the various customer classes of service based on the appropriate distribution factor. The distributed expenses for each customer class were then aggregated to determine each customer class’s overall revenue responsibility. As part of the cost of service analysis, the City’s customer classes of service were reviewed. In reviewing the consumption characteristics, and in discussion with City staff, it was determined that separate classes of service for multi-family and irrigation customers would be established. This was done as the customer characteristics of each of these customer classes is different than those of a residential (i.e., single family) or commercial customer. In this way, proposed water rates can be developed that reflect the costs incurred to provide service to these customers. As a result, the cost of service proportionally allocated costs to residential, multi-family, commercial, high user, and irrigation customer classes. Table ES - 3 provides the summary of the cost of service analysis for the FY 2017-18 test year.

Table ES - 3 Summary of the Cost of Service Analysis (\$000)				
Class of Service	Present Revenues (FY 2017-18)	Allocated Costs	\$ Difference	% Difference
Residential	\$8,482	\$10,275	(\$1,793)	21.1%
Commercial	2,209	2,100	110	-5.0%
Multi-Family	1,041	989	52	-5.0%
High User	376	367	10	-2.6%
Irrigation	<u>1,482</u>	<u>1,559</u>	<u>(77)</u>	<u>5.2%</u>
Total	\$12,109	\$13,731	(\$1,622)	12.5%

The cost of service study allocates the proportional share of the revenue requirement to each customer class based on their use of the system and facilities. The results of the analysis indicate that cost differences exist between the various customer classes of service. The results show that residential customers proportional share of costs is greater than current revenues. This is the result of the allocation of costs and residential customer’s proportional share of costs based on average day, peak day, and customer related costs. It is important to understand that a cost of service analysis is based on a projection of customer consumption data based on recent year’s consumption history. The key outcome of the cost of service analysis is the unit costs (e.g., \$/CCF). The unit costs provide the cost basis for the development of the proposed water rates. Provided in Table ES - 4 is a summary of the consumption related unit costs derived in the cost of service analysis that will be used to develop the proposed rate designs.

Table ES – 4
Summary of the Consumption Related Unit Costs (\$ / CCF)

	Residential	Commercial	Multi-Family	High User	Irrigation
Tier 1	\$1.20	N/A	N/A	N/A	N/A
Tier 2	1.60	N/A	N/A	N/A	N/A
Tier 3	1.74	N/A	N/A	N/A	N/A
Tier 4	1.86	N/A	N/A	N/A	N/A
All Consumption	N/A	\$1.82	\$1.61	\$1.27	\$1.92

As can be seen in Table ES - 4, for residential customers, the tiered rate structure has been maintained and the costs of providing service at each tier have been developed based on the peaking factors and system requirements to provide water service at higher levels. It should also be noted that the tier sizes were revised to reflect current residential consumption patterns.

Section 4 of this report provides a detailed discussion of the cost of service analysis conducted for the City and the development of the unit costs provided in Table ES - 4. Given the results of the cost of service analysis, HDR would recommend that the unit costs, as developed, are the basis for the rate designs. The Technical Appendix contains the various exhibits and additional details associated with the cost of service analysis.

Summary of the Water Rate Designs

The final step of the comprehensive rate study process is the design of water rates to collect the desired levels of revenue, based on the results of the revenue requirement and cost of service analysis. To review, the revenue requirement analysis provides a set of recommendations in the form of annual revenue adjustments - that is, the level of total revenues necessary to provide sufficient funding - while the cost of service analysis results provide recommendations as to how the revenue is collected proportionally from each customer classes of service. The rate design, therefore, incorporates both of the prior analyses to design the proposed rates for the City.

Developing cost-based and equitable rates is of paramount importance in developing proposed water rates. Given this, the City's proposed water rates have been developed with the intent of meeting the legal requirements of California constitution article XIII D, section 6 (Article XIII D). A key component of Article XIII D is the development of rates which reflect the cost of providing service and are proportionally allocated among the various customer classes of service. HDR would point out that there is no single methodology for equitably assigning costs to the various customer groups. The American Water Works Association (AWWA) M1 Manual clearly delineates various methodologies which may be used to establish cost-based rates. Article XIII D does not prescribe a particular methodology for establishing rates; consequently, HDR developed the City's proposed water rates based on the AWWA M1 manual methodology to

meet the requirements of Article XIII D and recent legal decisions to provide an administrative record of the steps taken to establish the City's water rates.

HDR is of the opinion that the proposed rates comply with legal requirements of Article XIII D. HDR reaches this conclusion based upon the following:

- **The revenue derived from water rates does not exceed the funds required to provide the property related service (i.e., water service).** The proposed rates are designed to collect the overall revenue requirement of the City's water utility.
- **The revenues derived from water rates shall not be used for any purpose other than that for which the fee or charge is imposed.** The revenues derived from the City's water rates are used exclusively to operate and maintain the City's water system.
- **The amount of a fee or charge imposed upon a parcel or person as an incident of property ownership shall not exceed the proportional costs of the service attributable to the parcel.** This study has focused on the issue of proportional assignment of costs to customer classes of service. The proposed rates have appropriately grouped customers into customer classes of service (Residential, Multi-Family, Commercial, High User, and Irrigation) that reflect the varying consumption patterns and system requirements of each customer class of service. The grouping of customers and rates into these classes of service creates the equity and fairness expected under Article XIII D by having differing rates reflecting both the *level* of revenue to be collected by the City for sufficient funding and the *manner* in which these costs are incurred and equitably assigned based on each classes' proportional impact and burden on the water system and water resources.

The City currently has a single rate structure for all customers, with the only exception being a separate uniform consumption charge for the High User customer class. All customers are charged a monthly service charge that varies by meter size. The consumption charge is a four-tier consumption charge with seasonal blocks. Again, the exception is for the High User customers which have a uniform consumption charge.

Given the prior discussion of the difference in the consumption patterns of the various customer classes, and the need to develop rates based on cost of service principles, the proposed water rates were developed for the City's customers based on the cost of service unit costs as shown in Table ES - 4. Based on the cost of service analysis, the monthly service charge will continue to be the same for all customers and varies by meter size based on AWWA meter equivalency factors (e.g., meter capacity).

As noted, the consumption characteristics for each customer class were reviewed. Based on the review of the residential customer characteristics, the sizing of the consumption tiers is proposed to be revised to reflect current consumption patterns. Previously, the tiered rate structure was based on both residential and non-residential consumption patterns. The recommended rate structure for residential maintains the tiered structure; however, the tiers have been revised to reflect the current residential average consumption for winter use, average summer use, average peak summer use, and greater than average peak summer use.

The pricing of the tiers is also revised to reflect the cost of service analysis unit costs which specifically reflect the cost of providing service at higher consumption levels.

The proposed consumption charges for commercial, multi-family, and irrigation customers is proposed to be a uniform rate structure based on the unit costs developed in the cost of service analysis (Table ES-4). For the High User customer class, the current uniform rate structure is maintained and only the level of rate will be changed based on the review of the high user customer characteristics.

Provided in Table ES - 5 is a summary of the present and proposed water rates over the five-year review period.

Table ES - 5
Summary of the Present and Proposed Water Rates

	Present Rate	FY 2017-18^[1]	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Service Charge	\$ / Acct. / Mo.					
5/8" & 3/4"	\$11.70	\$14.80	\$14.80	\$18.50	\$18.50	\$18.50
5/8" & 3/4" LIRA ^[2]	0.00	0.00	0.00	0.00	0.00	0.00
1"	20.40	24.72	24.72	30.90	30.90	30.90
1" LIRA ^[2]	0.00	0.00	0.00	0.00	0.00	0.00
1.5"	46.65	49.28	49.28	61.61	61.61	61.61
2"	82.75	78.88	78.88	98.61	98.61	98.61
3"	186.25	148.00	148.00	185.00	185.00	185.00
4"	331.25	246.72	246.72	308.40	308.40	308.40
6"	745.25	493.28	493.28	616.61	616.61	616.61
8"	1,325.05	789.28	789.28	986.61	986.61	986.61
10"	2,070.40	1,134.72	1,134.72	1,418.40	1,418.40	1,418.40
Commodity Charge	\$ / CCF					
Residential						
<i>Summer (May - Oct)</i>						
0 - 18	\$1.00	--	--	--	--	--
19 - 29	1.45	--	--	--	--	--
30 - 287	1.65	--	--	--	--	--
287 +	1.80	--	--	--	--	--
<i>Winter (Nov - Apr)</i>						
0 - 12	\$1.00	--	--	--	--	--
13 - 19	1.45	--	--	--	--	--
20 - 191	1.65	--	--	--	--	--
191 +	1.80	--	--	--	--	--
<i>Summer (May - Oct)</i>						
0 - 18		\$1.20	\$1.20	\$1.50	\$1.50	\$1.50
19 - 29		1.60	1.60	2.00	2.00	2.00
30 - 50		1.74	1.74	2.17	2.17	2.17
50 +		1.86	1.86	2.33	2.33	2.33
<i>Winter (Nov - Apr)</i>						
0 - 12		\$1.20	\$1.20	\$1.50	\$1.50	\$1.50
13 - 19		1.60	1.60	2.00	2.00	2.00
20 - 40		1.74	1.74	2.17	2.17	2.17
40 +		1.86	1.86	2.33	2.33	2.33
Commercial	N/A	\$1.84	\$1.84	\$2.18	\$2.18	\$2.18
Multi-Family	N/A	\$1.61	\$1.61	\$2.01	\$2.01	\$2.01
High User	\$1.27	\$1.27	\$1.27	\$1.59	\$1.59	\$1.59
Irrigation	N/A	\$1.92	\$1.92	\$2.40	\$2.40	\$2.40

[1] - The proposed FY 2017-18 rates will be effective January 1, 2018

[2] - LIRA rate is only available to residential customers who meet the requirements and is funded through other non rate revenues

As can be seen in Table ES - 5, the service charge rate structure has been maintained and the proposed rates have been adjusted to reflect the overall revenue needs of the water utility based on the revenue requirement and cost of service analysis unit costs for FY 2017-18. The proposed consumption charges are based on each customer class's contribution to the costs of the system and are based on the unit costs calculated and shown in Table ES - 4. It is recommended that the proposed rates be effective January 1, 2018.

Section 5 of this report provides a detailed discussion of the present and proposed water rates.

Water Rate Study Recommendations

Based on the results of the water rate study, HDR recommends the following:

- Rate adjustments are necessary to prudently fund operating and capital renewal and replacement expenses.
- Water rates should be adjusted 25.0% on January 1, 2018 (FY 2017-18) and up to 25.0% on July 1, 2019 (FY 2019-20) based on the projection of needs of the water utility.
- The proposed rates reflect the results of the cost of service analysis and the proportional allocation of costs to each customer class of service.
- HDR would recommend the adoption of a multi-year rate plan to implement the proposed rates through FY 2019-20.
- Prior to the implementation of the FY 2019-20 rates the City should complete a review of the water rates to confirm the basis for future proposed rates.

Summary of the Water Rate Study

This completes the summary of the development of the comprehensive water rate study for the City of Tracy. The focus of this study has been the prudent and adequate funding of the utility, and developing the cost-basis for the proposed rates. A full and complete discussion of the development of the comprehensive water rate study can be found in following sections of this report.



1. Introduction and Overview

1.1 Introduction

HDR was retained by the City of Tracy (City) to conduct a comprehensive water rate study. The objective of the rate study was to review the City's operating and capital costs in order to develop a financial plan and develop proposed cost-based and proportional rates for the City's water customers. This study determined the adequacy of the existing water rates and provides the framework and cost basis for any needed future adjustments.

The City owns and operates a water supply, transmission, and distribution system. The costs associated with providing water supply, plus the costs of distributing water to customers, has been developed based on the City's adopted budgets and financial information and included within the development of the proposed rates.

1.2 Goals and Objectives

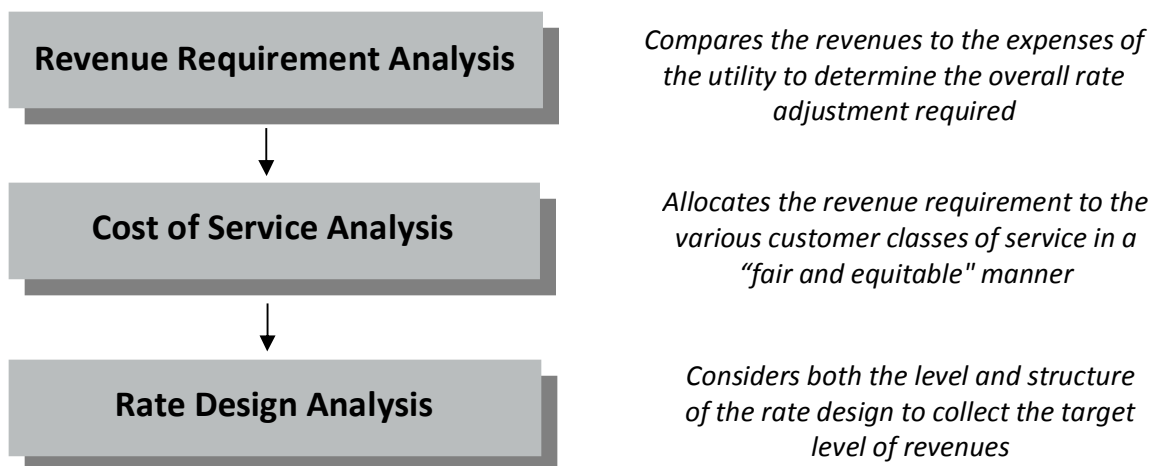
The City had a number of key objectives in developing the water rate study. These key objectives provided a framework for policy decisions in the analysis that follows. These key objectives were as follows:

- Develop the study in a manner that is consistent with the principles and methodologies established by the American Water Works Association (AWWA), M1 Manual, Principles of Water Rates, Fees, and Charges.
- When establishing the City's rates, review and utilize best industry practices, while recognizing and acknowledging the specific and unique characteristics of the City's system.
- Review the City's rates utilizing "generally accepted" rate making methodologies to determine adequacy and equity (proportionality) of the utility rates.
- Develop a final proposed financial plan which adequately supports the utility's funding requirements, while attempting to minimize overall impacts to rates.
- Propose rates designed to meet the legal intent of Article XIII D and recent legal decisions related to Article XIII D.

1.3 Overview of the Rate Study Process

User rates must be set at a level where a utility's operating and capital expenses are met with the revenues received from customers. This is an important point, as failure to achieve this objective may lead to insufficient funds to maintain system integrity. To evaluate the adequacy of the existing rates, a comprehensive rate study is often performed. A comprehensive water rate study consists of three interrelated analyses. Figure 1 - 1 provides an overview of these analyses.

Figure 1 – 1
Overview of the Comprehensive Water Rate Analyses



The above framework for reviewing and evaluating rates was utilized for the City's water system.

1.4 Organization of the Study

This report is organized in a sequential manner that first provides an overview of utility rate setting principles, followed by sections that detail the specific steps used to review the City's water rates. The following sections comprise the City's water rate study report:

- **Section 2** – Overview of Water Rate Setting Principles
- **Section 3** – Development of the Revenue Requirement Analysis
- **Section 4** – Development of Cost of Service Analysis
- **Section 5** – Development of the Proposed Rate Designs

A Technical Appendix is attached at the end of this report, which details the various technical analyses that were undertaken in the preparation of this study.

1.5 Summary

This report will review the comprehensive water rate analyses prepared for the City. This report has been prepared utilizing generally accepted water rate setting techniques as outlined in the AWWA M1 Manual.



2. Overview of Water Rate Setting Principles

2.1 Introduction

This section of the report provides background information about the water rate setting process, including descriptions of generally accepted principles, types of utilities, methods of determining a revenue requirement, the cost of service analysis, and rate design. This information is useful for gaining a better understanding of the details presented in Sections 3 through 5 of this report.

2.2 Generally Accepted Rate Setting Principles

As a practical matter, all utilities should consider setting their rates around some generally accepted or global principles and guidelines. Utility rates should be:

- Cost-based, equitable, and set at a level that meets the utility’s full revenue requirement.
- Easy to understand and administer.
- Designed to conform to “generally accepted” rate setting techniques.
- Stable in their ability to provide adequate revenues for meeting the utility’s financial, operating, and regulatory requirements.
- Established at a level that is stable from year-to-year from a customer’s perspective.
- Meet legal and regulatory requirements.

2.3 Determining the Revenue Requirement

Most public utilities utilize the “cash basis”¹ approach for establishing the revenue requirement for rate setting purposes. This approach conforms to most public utility budgetary requirements. A public utility totals its cash expenditures for a period of time to determine required revenues. The revenue requirement for a public utility is usually comprised of the following costs or expenses:

- **Total Operating Expenses:** This includes a utility’s operation and maintenance (O&M) expenses, plus any applicable taxes or transfer payments (e.g., reserve transfers). Operation and maintenance expenses include the materials, electricity, labor, supplies, etc., necessary to provide service.
- **Total Capital Expenses:** Capital expenses are calculated by adding debt service payments (principal and interest) to capital improvements financed with rate revenues. In lieu of including capital improvements financed with rate revenues, a utility sometimes includes depreciation expense to stabilize the annual revenue requirement.

¹ “Cash basis” as used in the context of rate setting is not the same as the terminology used for accounting purposes and recognition of revenues and expenses. As used for rate setting, “cash basis” simply refers to the specific cost components to be included within the revenue requirement analysis.

Under the “cash basis” approach, the sum of the total O&M expenses plus the total capital expenses equals the utility’s revenue requirement during any selected period of time (historical or projected).

Table 2 – 1 Cash versus Utility Basis Comparison			
Cash Basis		Utility Basis (Accrual)	
+	O&M Expenses	+	O&M Expenses
+	Taxes/Transfer Payments	+	Taxes/Transfer Payments
+	Capital Improv. Funded From Rates (≥ Depreciation Expense)	+	Depreciation Expense
+	Debt Service (Principal + Interest)	+	Return on Investment
=	Total Revenue Requirement	=	Total Revenue Requirement

Note that the two portions of the capital expense component (debt service and capital improvements financed from rates) are necessary under the cash basis approach because utilities generally cannot finance all their capital facilities with long-term debt. At the same time, it is often difficult to pay for capital expenditures on a “pay-as-you-go” basis given that some major capital projects may have significant rate impacts upon a utility, even when financed with long-term debt. Many utilities have found that some combination of pay-as-you-go funding and long-term financing will often lead to minimization of rate increases over time.

2.4 Analyzing Cost of Service

After the total revenue requirement is determined, it is equitably distributed to the users of the service. The distribution, analyzed through a cost of service analysis, reflects the cost relationships for producing and delivering water services. A cost of service analysis requires three analytical steps:

1. Costs are **functionalized** or grouped into the various cost categories related to providing service (supply, distribution, pumping, etc.). This step is largely accomplished by the utility’s accounting system.
2. The functionalized costs are then **allocated** to specific cost components. Allocation refers to the arrangement of the functionalized data into cost components. For example, a water utility’s costs are typically allocated as average day, peak day, or customer-related.
3. Once the costs are allocated into components, they are proportionally **distributed** to the customer classes of service (e.g., residential, non-residential, irrigation). The distribution is based on each customer class’ relative contribution (proportional share) of each cost component (i.e., benefits received from and burdens placed on the system and its resources). For example, customer-related costs are distributed to each class of service based on the total number of customers in that class of service. Once costs are

distributed, the unit costs from each customer class of service required to achieve cost-based rates can be determined.

2.5 Designing Water Rates

Rates that meet the utility’s objectives are designed based on both the revenue requirement and the cost of service analysis. This approach results in rates that are strictly cost-based and does not consider other non-cost based goals and objectives (conservation, economic development, ability to pay, revenue stability, etc.). In designing the final proposed rates, factors such as ability to pay, continuity of past rate philosophy, economic development, ease of administration, and customer understanding may be taken into consideration. However, the proposed rates must take into consideration each customer class’s proportional share of costs allocated through the cost of service analysis to meet the legal requirements.

2.6 Economic Theory and Rate Setting

One of the major justifications for a comprehensive rate study is founded in economic theory. Economic theory suggests that the price of a commodity must roughly equal its cost if equity among customers is to be maintained. This statement’s implications on utility rate designs are significant. For example, a water utility usually incurs capacity-related costs to meet summer lawn watering needs. It follows that the customers who create excessive peak demands on the system and create the need for upsizing of the distribution system should pay for those over-sized facilities in proportion to their contribution to total peaking requirements. When costing and pricing techniques are refined, consumers have a more accurate understanding of what the commodity costs to produce and deliver.

“Economic theory suggests that the price of a commodity must roughly equal its cost if equity among customers is to be maintained.”

2.7 Summary

This section of the report has provided a brief introduction to the general principles, techniques, and economic theory used to set water rates. These principles and techniques will become the basis for the City’s water rate study.



3. Development of the Revenue Requirement

3.1 Introduction

This section describes the development of the revenue requirement for the City’s water utility. The City provided detailed revenue and expenses data (e.g., adopted budgets, audited financial statements) for the water system that allowed for the development of the revenue requirement. The revenue requirement analysis is the first analytical step in the comprehensive rate study process. This analysis determines the adequacy of the City’s overall water rates at current rate levels. From this analysis, a determination can be made as to the overall level of rate adjustment needed to provide adequate and prudent funding for both operating and capital needs. HDR developed an independent analysis based on information provided by the City as part of the development of the proposed cost-based rates.

3.2 Determining the Revenue Requirement

In developing the City’s water revenue requirement, the water utility, as an enterprise fund, must financially “stand on its own” and be properly funded. That is, no transfers from other City funds occur to support the water utility’s operating and capital funding needs. As a result, the revenue requirement analysis, as developed herein, assumes the full and proper funding needed to operate and maintain the City’s water system on a financially sound and prudent basis.

3.3 Establishing a Time Frame and Approach

The first step in calculating the revenue requirement for the City’s water utility was to establish a time frame for the revenue requirement analysis. For this study, the revenue requirement was developed for the six-year time period of FY 2016-17 – FY 2021-22. This included the budget year [FY 2016-17] followed by a projected five-year rate setting period [FY 2017-18 – FY 2021-22]. Reviewing a multi-year time period is recommended since it attempts to identify any major expenses that may be on the horizon. By anticipating future financial requirements, the City can begin planning for these changes sooner, thereby minimizing short-term rate impacts and overall long-term rate levels.

The second step in determining the revenue requirement for the City was to decide on the basis of accumulating costs. In this particular case, for the revenue requirement analysis a “cash basis” approach was utilized. The “cash basis” approach is the most common methodology used by municipal utilities to set their revenue requirement. This is also the methodology that the City has historically used to establish its water revenue requirement. Table 3 - 1 provides a summary of the “cash basis” approach and cost components used to develop the City’s water revenue requirement.

Table 3 – 1 Overview of the City’s “Cash Basis” Revenue Requirement

+	Water Operation and Maintenance Expenses
+	Transfers
+	Debt Service (Principal + Interest) – Existing and Future
+	Rate Funded Capital
<u>±</u>	<u>Reserve Funding</u>
=	Total Water Revenue Requirement
<u>-</u>	<u>Miscellaneous Revenues</u>
=	Net Revenue Requirement (Balance Required from water Rates)

Given a time period around which to develop the revenue requirement and a method to accumulate the costs, the focus shifts to the development and projection of the revenues and expenses of the City’s comprehensive water rate study.

The primary financial inputs in the development of the revenue requirement were the City’s FY 2016-17 adopted budget, the FY 2015-16 billed customer and consumption data, and the current water capital improvement plan. Presented below is a detailed discussion of the steps and key assumptions contained in the development of the projections of the City’s water revenue requirement analysis.

3.4 Projecting Rate and Other Miscellaneous Revenues

Once the method and time period for developing the revenue requirement was established, the next step is to develop a projection of the water rate revenues, at present rate levels. In general, this process involved developing projected billing units for each customer group (e.g., residential, multi-family, commercial, high user, irrigation). The billing units for each customer group were then multiplied by the applicable current water rates. This method of

“ . . . the State of California implemented additional required conservation savings in 2016 which will impact the level of consumption and resulting consumption based revenues.”

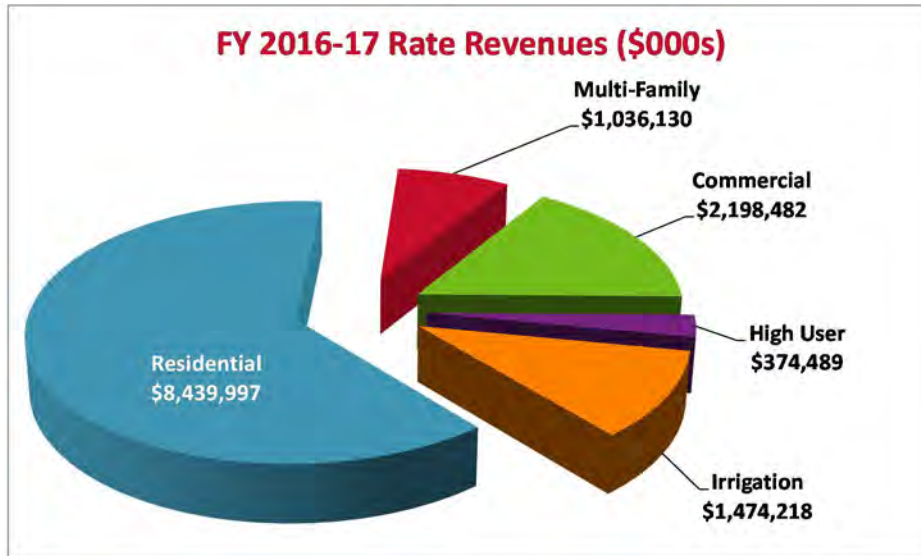
independently calculating revenues links the projected revenues used within the analysis to the projected billing units. It also helps to confirm that the billing units used within the study are reasonable for purposes of projecting future revenues, allocating costs and, ultimately, establishing proposed rates.

A key aspect of the projection of water rate revenues was to develop a projection of consumption levels considering the recent drought. In addition, the State of California implemented additional required conservation savings through 2016 which impacted the level of consumption and resulting consumption-based revenues. The last two fiscal years of consumption data was reviewed to obtain a better projection of future customer consumption characteristics. In an effort to reflect anticipated future consumption levels, and in discussion with City staff, it was determined that the consumption levels of FY 2015-16 would be used as

they appear to reflect “normal” consumption for the next several years given customers response to the drought and changes in behavior as a result of conservation practices.

The City currently has a single rate structure for all customers, with the exception being the high user customer class which is charged a different consumption charge. However, as noted above, the projection of revenues, and subsequent cost allocation, is based on specific customer classes of service. Given this, a revenue projection was developed for each of the proposed customer classes of service. The majority of the City’s rate revenues are derived from the Residential class. The City also has customer classes of Multi-Family, Commercial, High User, and Irrigation. In total,

and at current rate levels, the City is projected to receive approximately \$13.5 million in rate revenue in FY 2016-17 assuming recent water consumption levels. Over time, the study has assumed a conservative level of customer growth that is less than 0.5% / year. This results in rate revenues



increasing to approximately \$13.9 million in FY 2021-22 as a result of the estimated growth on the system.

In addition to rate revenues, the City receives miscellaneous revenues from operations. These are revenues related to interest earnings, fees, and other miscellaneous revenues. In total, the City is projected to receive approximately \$235,000 in miscellaneous revenues in FY 2016-17. This amount is anticipated to decrease slightly over the projected five-year rate setting period and be approximately \$216,000 in FY 2021-22.

On a combined basis, taking into account the rate revenues and the miscellaneous revenues, the City’s water utility has total projected revenues of approximately \$13.8 million in FY 2016-17, increasing to approximately \$14.2 million by FY 2021-22.

3.5 Projecting Operation and Maintenance Expenses

Operation and maintenance (O&M) expenses are incurred by the City to provide water service (supply, treatment, and distribution) as well as to operate and maintain the existing infrastructure. As mentioned, the City provided detailed O&M expenses and capital improvement needs for the water utility based on the FY 2016-17 adopted budget. The budgeted O&M expenses were projected over the time period based on annual inflationary factors experienced by the City and the general economy.

Based on the FY 2016-17 budget, the total O&M expenses for the City are \$13.5 million. Over the planning horizon, total O&M expenses for the City are projected to increase to approximately \$17.7 million by FY 2021-22 based on historical inflationary impacts. This reflects an inflationary increase of slightly more than 4.0% per year.

3.6 Projecting Capital Funding Needs

A key component in the development of the water revenue requirement was properly and adequately funding capital improvement needs. One of the major issues facing utilities across the U.S. is the amount of deferred capital projects and the funding pressure from growth/expansion-related improvements. The proper and adequate funding of capital projects is an important issue for all water utilities and is not just a local issue or concern of the City.

In general, there are three types of capital projects that a utility may need to fund. These include the following types:

- Renewal & replacement projects
- Growth/capacity expansion projects
- Regulatory-related projects

A renewal and replacement project is essentially a project required for maintaining the existing system that is in place today. As the existing plant or pipelines become worn out, obsolete, etc., the utility should be making continuous investments to maintain the integrity of the facilities. In contrast to this, a utility may make capital investments to expand the capacity of facilities to accommodate future capacity needs (customers). Finally, certain projects may be a function of a regulatory requirement in which the Federal or State government mandates the need for an improvement to the system to meet a regulatory standard. Understanding these different types of capital projects is important because it may help to explain why costs are increasing and the cost drivers for any needed rate adjustment. In addition, and more importantly, the way in which projects are funded may vary by the type of capital project. For example, renewal and replacement projects may be paid for via rates and funded on a “pay-as-you-go basis.” In contrast to this, growth or capacity expansion projects may be funded via the collection of development or connection fees (i.e., growth-related charges) in which new development pays an equitable share of the cost of facilities necessary to serve their development(impact). Finally, regulatory projects may be funded by a variety of different means, which may include rates, long-term debt, grants, etc.

While the above discussion appears to neatly divide capital projects into three clearly defined categories, the reality of working with specific capital projects may be more complex. For example, a pump may be replaced, but while being replaced, it is up-sized to accommodate greater capacity to serve increasing demands or new development. There are many projects that share these “joint” characteristics. At the same time, projects may not be “replacement” related, but rather “improvement” related.

For purposes of developing the capital funding plan the City provided its long-term capital improvement plan (CIP) which has been summarized in Table 3 - 2 along with the expected

funding sources developed as part of the rate study. As a note, the capital projects only reflect those projects funded through water rates. Projects related to future development or growth and expansion on the system, is funded through developer contributions. As a result, these projects are not included within the capital funding analysis as these projects are not funded with rate revenues.

Table 3 – 2
Summary of the Capital Improvement Plan (\$000)

	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021-22
Capital Improvement Projects						
Aquifer Storage & Recovery Program	\$100	\$0	\$0	\$0	\$0	\$0
Water Main - MacArthur Drive	0	116	0	0	0	0
Water Sys. Capacity Maint. Mangmnt	25	0	0	0	0	0
WTP - Water Filter Replacement	50	0	0	0	0	0
SCADA Replacement	180	0	0	0	0	0
Water Main Replcmnt Prog - FY 2016-17	330	0	0	0	0	0
Conjunctive Groundwater Use Study	63	0	0	0	0	0
Water Mtr Replcmnt Prog - FY 2016-17	800	0	0	0	0	0
Plant Equipment Replcmnts - FY 2016-17	260	0	0	0	0	0
WTP - Influent Pump Station Meter	10	0	0	0	0	0
WTP - Baffle Curtain Replacement	100	0	0	0	0	0
WTP - Valve Replacement	100	0	0	0	0	0
Water Purch. for Semitropic Water Stor.	275	282	290	298	306	314
Water Line Replacement Program	0	385	396	406	417	428
Water Line Replacement - 20th - 23rd St	0	0	2,510	0	0	0
Water Line Replacement - Bessie Ave	0	1,294	0	0	0	0
Water Filter Replacement Program	0	0	580	0	0	0
Water Meter Replacement Program	0	800	800	800	800	800
Less: Deferred Capital Projects ^[1]	0	(2,000)	(3,500)	0	0	0
Total Capital Projects	\$2,293	\$878	\$1,076	\$1,504	\$1,523	\$1,543
Less: Outside Funding Sources						
Capital Reserves	\$2,293	\$878	\$776	\$904	\$573	\$243
Rate Funded Capital	\$0	\$0	\$300	\$600	\$950	\$1,300

[1] Capital projects were deferred to allow for a transition to cost-based rates over a multi-year period. After the implementation of the FY 2019/20 the City's rates will reflect the full funding of the current capital improvement plan.

As can be seen in Table 3 - 2, there are a number of projects which vary from year-to-year. In addition, it is important to note that the City has deferred capital improvements in FY 2017/18 and FY 2018/19 to allow for a transition to sufficient funding levels. The capital improvements

are primarily related to renewal and replacement of aging water mains. While the total amount required to fund projects may vary from year-to-year, the rate study capital funding plan has attempted to provide a consistent funding source for capital improvements. In this case, rates will annually fund an amount ranging from \$300,000 to \$1.3 million (as highlighted in Table 3 - 2). As a point of reference, the City's annual depreciation expense was approximately \$9.1 million for FY 2015/16.

A desirable and recommended minimum funding target for rate funded capital is an amount equal to or greater than annual depreciation expense. While this financial plan does not meet this minimum target level of funding annual depreciation expense, the proposed rate adjustments will move the City closer to funding annual depreciation expense over the long-term. The City will need to continue to increase the rate funded capital figure as there is still a substantial difference between the annual depreciation expense and the amount of rate funded capital. This will become progressively more important to fund as the City's water system continues to age and the demand for funding renewal and replacement projects increases. It is important to note and understand that depreciation expense is not the same as replacement cost. Thus, funding an amount which exceeds depreciation expense (i.e., greater than \$9.1 million) is both prudent and appropriate. In developing this financial plan, HDR and the City have attempted to minimize rate impacts while funding the necessary short-term capital improvement projects of the City. As a result, the City has delayed projects to minimize rates to the greatest extent possible. These projects will be funded in future years as revenues are available or funding sources become available.

3.7 Projection of Debt Service

The City currently has one (1) outstanding debt issue for the water utility, the State Loan for Safe Drinking Water. The total annual debt service payment is approximately \$1.3 million per year. As shown in Table 3 - 2, no additional (new) long-term debt issues are assumed over the FY 2016-17 – FY 2021-22 time period.

It is also important to note that the water utility borrowed money from the wastewater utility. This interfund loan was for \$2.0 million and is at 0.0% interest. Although the timing of the repayment is still to be determined by City staff, for preparation of the rate study, and establishing a funding plan to repay the loan, the analysis has shown the repayment over three years starting in FY 2019-20 at \$666,667 per year.

As part of this study HDR is not providing municipal advice as it relates to bonds, terms, or structures of debt issuance. Rather, this study is simply identifying the existing annual debt service payments for rate setting purposes.

3.8 Reserve Funding

The final component of the revenue requirement analysis is the transfer to, or from, reserves to either maintain prudent ending fund balances or for future funding of specific projects. As shown below in Table 3 - 3, in FY 2017-18 reserves are being used to meet operating needs. Then, in future years as rates are adjusted and reach sufficient levels, funds are being transferred back to the operating and capital reserves to fund projects as well as meet

minimum target levels. A more detailed discussion of the City’s water reserve funds in provided in Section 3.10.

3.9 Summary of the Revenue Requirement

Given the above projections of revenues and expenses, a summary of the City’s water revenue requirement analysis can be developed. In developing the revenue requirement analysis, consideration was given to the financial planning considerations of the City. In particular, emphasis was placed on minimizing rates, yet still having adequate funds to support the operational activities and capital improvement needs throughout the projected time period. Presented below in Table 3 - 3 is a summary of the City’s revenue requirement based on projected expenses and current rates. Detailed exhibits of this analysis can be found in the Technical Appendices.

Table 3 - 3						
Summary of the Revenue Requirement Analysis (\$000)						
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Revenues						
Rate Revenues	\$13,523	\$13,591	\$13,659	\$13,727	\$13,830	\$13,934
Misc. Revenues	<u>235</u>	<u>213</u>	<u>212</u>	<u>217</u>	<u>229</u>	<u>238</u>
Total Revenues	\$13,758	\$13,804	\$13,871	\$13,945	\$14,060	\$14,172
Expenses						
O & M Expenses	\$13,545	\$14,127	\$14,739	\$15,382	\$16,059	\$16,769
Transfers	1,026	1,088	1,153	1,222	1,296	1,373
Net Annual Debt Service	1,258	1,258	1,258	1,925	1,925	1,925
Rate Funded Capital	0	0	300	600	950	1,300
Reserve Funding	<u>0</u>	<u>(970)</u>	<u>(165)</u>	<u>2,537</u>	<u>1,610</u>	<u>643</u>
Total Expenses	\$15,829	\$15,503	\$17,286	\$21,666	\$21,839	\$22,010
Bal./ (Def.) of Funds	(\$2,070)	(\$1,699)	(\$3,415)	(\$7,722)	(\$7,779)	(\$7,838)
<i>Bal. as a % of Rate Rev.</i>	<i>15.3%</i>	<i>12.5%</i>	<i>25.0%</i>	<i>56.3%</i>	<i>56.3%</i>	<i>56.3%</i>
Proposed Rate Adjustment	0.0%	25.0%	0.0%	25.0%	0.0%	0.0%
Add'l Rev. from Rate Adj.	\$0	\$1,699	\$3,415	\$7,722	\$7,779	\$7,838
Total Bal./ (Def.) of Funds	(\$2,070)	\$0	(\$0)	\$0	\$0	\$0

As can be seen, the revenue requirement has summed the O&M, transfers, annual debt service, rate funded capital, and reserve funding. The total revenue requirement is then compared to the total sources of funds which are the rate revenues, at present rate and consumption levels, and other miscellaneous revenues. From this comparison a balance or deficiency of funds in each year can be determined. This balance or deficiency of funds is then compared to the rate revenues to determine the level of revenue adjustment needed to meet the revenue

requirement. It is important to note the “Bal./(Def.) of Funds” row is cumulative. That is, any adjustments in the initial years will reduce the deficiency in the later years.

In FY 2017-18 the overall levels of water rate revenues need to be increased by 25.0% to meet the operating and capital needs of the water utility. As noted, this includes a deferral of capital projects in FY 2017/18 of approximately \$2.0 million to allow for a transition to cost-based rates over a multi-year period. It is proposed that this rate increase will be effective January 1, 2018. Historically, the City has set rates for a two year period, or every other year. Given this, the next adjustment is proposed for July 1, 2019 and is proposed to be up to 25.0%. In FY 2017-18 the proposed rate adjustment is projected to be implemented in January 1, 2018, which is 6 months after the fiscal year begins in July. As a result, the rate adjustment will only be in effect for 6 months of FY 2017-18. This deficiency is primarily driven by the decreased rate revenue from declining consumption due to drought conditions as well as inflationary increases in O&M costs and the need to fund renewal and replacement projects to maintain the system.

Based on the revenue requirement analysis developed herein, HDR has concluded that the City will need to adjust water rates starting in FY 2017-18 with a 25.0% adjustment to water rate revenues. After that, an adjustment of up to 25.0% is recommended for FY 2019-20. Based on the rate transition plan, as can be seen above in Table 3 – 3, the proposed annual rate adjustments (yellow shaded line) have been developed to meet the operating and capital needs of the City’s water utility.

3.10 Reserve Levels

In addition to the revenue requirement analysis, a key element of determining the financial health and sustainability of the City’s water utility is to review the level of available reserve levels. Utilities can have several different reserves each with a different purpose. The typical types of reserves utilities maintain are generally referenced as an operating reserve, a capital reserve, a connection (growth) fee, and in some cases an emergency or rate stabilization reserve. Each of these funds should have a target minimum ending balance that, if reached or falls below, is a signal that the City should review the revenue sources associated with each fund. The minimum ending balances will vary depending on the purpose of the fund and the expected revenue sources.

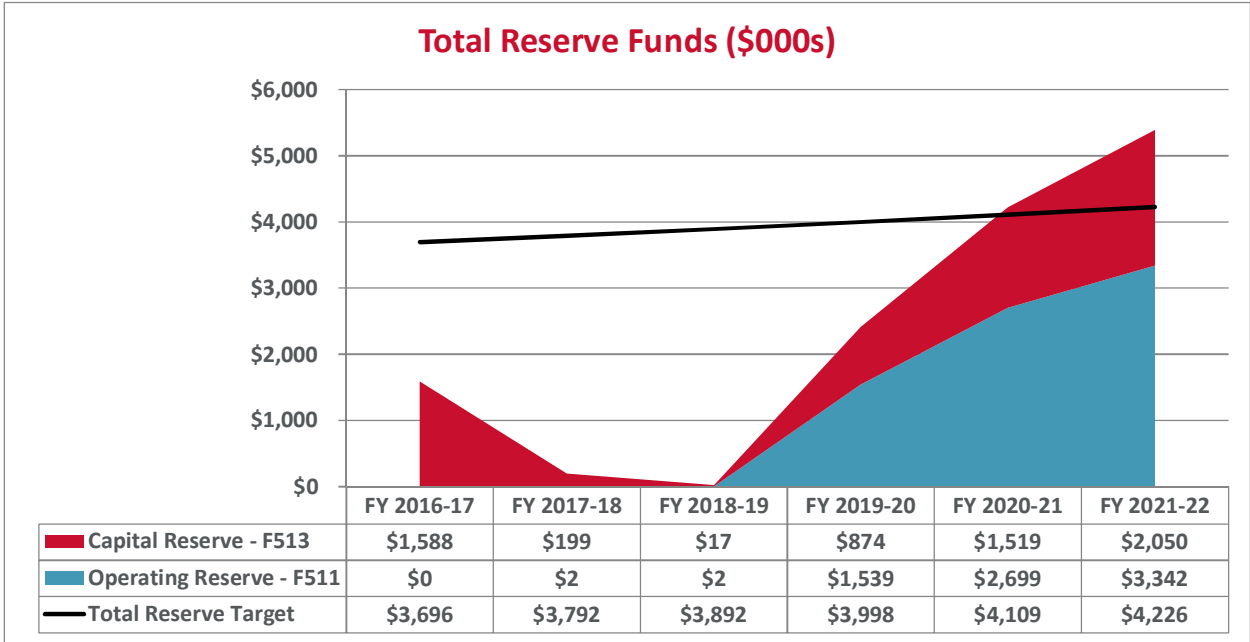
For the City, there are two primary funds for the water utility. These are the operating and capital funds. Each of these is discussed further below.

■ Operating Reserve – F511

The operating reserve is in place to meet the City’s annual cash flow needs. The target minimum ending balance for an operating reserve is 60 days of annual O&M expenses. This target results in a minimum ending balance of approximately \$2.6 million on average over the five-year rate setting period. This target minimum is in place to help the utility target an amount that will be able to fund operations of the water utility should any unforeseen event adversely affect the City’s water rate revenues. Over the five-year rate setting period the operating reserve is not funded and has an ending balance which is less than the target minimum until after the FY 2019/20 rate adjustment is implemented.

■ **Capital Reserve – F513**

The capital reserve is used as the primary funding source for capital improvement projects. This fund is also used to track the collection of annual connection fee revenues from new customers connecting to the system. Similarly to the operating reserve, the capital reserve has a minimum level which the City targets in order to fund an emergency repair from a catastrophic event, for example. The capital reserve, this target is the average annual capital projects over the review period which is \$2.4 million during the review period. Over the 5-year period, the City is not projected to maintain the capital reserve above the minimum target until after the implementation of the FY 2019/20 rate adjustment. The City should continue to fund the capital reserve and monitor the balance to make sure the ending fund balance transitions to meeting the target minimum.



Each of these funds was reviewed during the development of the rate study process with the focus being on meeting the target ending fund balances.

3.11 Debt Service Coverage Ratios

When long-term debt is issued, and specifically for municipal revenue bonds, the City enters into an agreement that requires a specific level of revenue be generated each year in excess of O&M expenses and annual debt service payments. This is known as a debt service coverage ratio. As noted previously, the City only has one (1) outstanding debt issuance as well as an interfund loan from the wastewater utility. Based on the proposed revenue adjustments, and subsequent increase in revenues, the City will be meeting the required debt service coverage ratios. As noted, HDR is not providing municipal advice as it relates to the City meetings its debt service coverage ratios. The City will need to work with its outside financial advisor or legal counsel to determine the appropriate debt service coverage ratio calculation to meet legal bond covenants.

3.12 Consultant's Conclusions

The revenue requirement developed above has indicated the need for annual revenue increases to adequately fund the City's operating and capital needs for the water utility. The proposed rate revenue adjustment is 25.0% on January 1, 2018 (FY 2017-18), followed by up to a 25.0% adjustment on July 1, 2019 (FY 2019-20). HDR has reached this conclusion for the following reasons:

- Revenue adjustments are necessary to meet the operating and capital costs of providing water service to the City's customers.
- Revenue adjustments are necessary to reflect the reduction in annual water consumption due to the recent drought and State mandated conservation targets.
 - This new level of consumption is reflective of the new level of water consumption for the foreseeable future.
- The proposed revenue adjustments enhance the City's financial health and provide long-term sustainable funding levels.
- Prior to the end of the financial planning projected period, the City should complete a review of the water revenue levels and costs at that time.

In reaching this conclusion, HDR would recommend that the City adopt the proposed rate revenue adjustments for FY 2017-18 and FY 2019-20 in order to provide the funding for the operating expenses and capital improvement program.



4. Development of the Cost of Service Analysis

4.1 Introduction

In the previous section, the revenue requirement analysis focused on the total sources and application of funds required to adequately fund the City's water utility. This section will provide an overview of the cost of service analysis developed for the City.

A cost of service analysis determines the equitable allocation of the total revenue requirement proportionally between the various customer classes of service (e.g., residential, multi-family, commercial, high user, irrigation). The previously developed revenue requirement was utilized in the development of the cost of service analysis.

4.2 Objectives of a Cost of Service Study

There are two primary objectives in conducting a cost of service analysis:

- Equitably allocate the City's revenue requirement among the customer classes of service; and
- Derive average unit costs (i.e., cost-based rates) for subsequent rate designs.

The objectives of the cost of service analysis are different from determining a revenue requirement. As noted in the previous section, a revenue requirement analysis determines the utility's overall financial needs, while the cost of service analysis determines the fair and equitable (proportional) manner to collect the revenue requirement from each customer class of service.

The results of the cost of service analysis determine the unit costs, for each customer class, which are used in the development of the final proposed rate designs. The cost of service analysis provides a per unit cost of water consumption based on each customer class's equitable (proportional) share of costs. For example, a water utility incurs costs primarily related to average day, peak day, and customer-related cost components. A water utility must build sufficient capacity² to meet peak capacity needs. Therefore, those customers contributing to those peak demands on the system should pay their proportional share of the costs to provide the capacity in the system. The unit costs provide the relationship between these components which are then used to set cost-based rates.

² System capacity is the system's ability to supply water to all delivery points at the time when demanded. Coincident peaking factors are calculated for each customer class at the time of greatest system demand. The time of greatest demand is known as peak demand. Both the operating costs and capital assets related costs incurred to accommodate the peak demands are generally allocated to each customer class based upon the class's contribution to the peak month, day or hour event.

4.3 Determining the Customer Classes of Service

The first step in a cost of service analysis is to determine the customer classes of service. As part of the cost of service analysis, the customer characteristics (monthly consumption patterns) were reviewed. Based on the review, customer classes of service were established that reflect like customers, in both a customer type and customer use characteristics (e.g., peaking factors). Based on this review, the following customer classes of service were used to develop the cost of service analysis:

- Residential
- Multi-Family
- Commercial
- High User
- Irrigation

In determining classes of service for cost of service purposes, the objective is to group customers together into similar or homogeneous groups based upon similar facility requirements and/or demand characteristics. Currently, the City has a single rate structure for the residential, multi-family, commercial, and irrigation customers. The proposed customer classes of service reflect the consumption patterns of each customer type. For example, separately metered irrigation customers have a different peaking factor and consumption use characteristics than a commercial customer. This is a key aspect of the cost of service analysis that allows for the appropriate equitable (proportional) allocation of costs to establish the proposed rates for each customer class of service.

For example, a residential customer class and rate schedule, which are single-family customers, was developed based on the consumption patterns of residential customers who typically peak in the summer based on outdoor watering needs. It should also be noted that the consumption patterns of residential customers is similar from customer to customer. However, when reviewing multi-family customers (e.g., apartments), the consumption levels can vary between customers depending on the number of living units. Given this difference in overall consumption patterns, it was appropriate to establish a separate class of service to reflect the impacts the multi-family customers place on the system. The commercial customer class is for those customers that are not residential, multi-family, or irrigation. These are primarily businesses (restaurants, offices, grocery stores, etc.) and consumption levels can also vary greatly depending on the end use of water. Finally, irrigation customers are those customers that have a separate meter specifically for outdoor watering. Given the consumption patterns of the irrigation customers, low consumption levels in the winter and high consumption in the summer, these customers were separated and a specific rate structure developed based on the irrigation customer patterns. Based on these customer classes of service, each with their own unique customer consumption characteristics, the cost of service can be developed.

4.4 General Cost of Service Procedures

In order to determine the cost to serve each customer class of service on the City's water system, a cost of service analysis is conducted. A cost of service analysis utilizes a three-step approach to review costs. These steps take the form of functionalization, allocation, and

distribution. Provided below is a detailed discussion of the water cost of service study conducted for the City, and the specific steps taken within the analysis. The approach used for the City's study conforms to generally accepted cost of service methodologies as outlined in the AWWA M1 manual.

4.4.1 Functionalization of Costs

The first analytical step in the cost of service process is called functionalization. Functionalization is the arrangement of expenses and asset (e.g., wells, distribution system) data by major operating functions (e.g., supply, transmission, storage, distribution). Within this study, there was a limited amount of functionalization of the cost data since it was largely accomplished within the City's system of accounts.

4.4.2 Allocation of Costs

The second analytical task performed in a water cost of service study is the allocation of the costs. The allocation of costs examines why the expenses were incurred or what type of need is being met. The following cost allocators were used to develop the cost of service analysis:

- **Commodity Related Costs:** Commodity costs are those costs which tend to vary with the total quantity of water consumed by a customer. Commodity costs are those incurred under average load (demand) conditions and are generally specified for a period of time such as a month or year. Chemicals or utilities (electricity) are examples of commodity-related cost as these costs tend to vary based upon the total demand of water. For the proposed tiered rate structure for residential, the commodity costs are allocated for each tier based on the total consumption billed in each tier based on the proposed tier sizes.
- **Capacity Related Costs:** Capacity costs are those which vary with peak demand, or the maximum rates of flow to customers. System capacity is required when there are large demands for water placed upon the system (e.g., summer lawn watering). For water utilities, capacity related costs are generally related to the sizing of facilities needed to meet a customer's maximum water demand at any point in time. For example, portions of distribution storage reservoirs, pumps, and mains (pipes) must be adequately sized to meet for this particular type of requirement. Similar to the commodity related costs, capacity related costs are allocated for each tier based on the peaking factor for those customers in each tier to reflect the costs associated with higher consumption in each tier.
- **Customer Related Costs:** Customer costs are those costs which vary with the number of customers on the water system. They do not vary with system output or consumption levels. These costs are also sometimes referred to as readiness to serve or availability costs. Customer costs may also sometimes be further classified as either actual or weighted. Actual customer costs vary proportionally, from customer to customer, with the addition or deletion of a customer regardless of the size of the customer. An example of an actual customer cost is postage for mailing bills. This cost does not vary from customer to customer, regardless of the size or consumption characteristics of the customer. In contrast, a weighted customer cost reflects a disproportionate cost, from customer to customer, with the addition or deletion of a customer. Examples of weighted customer costs are items such as meter maintenance expenses, where a large commercial customer requires a significantly more expensive meter than a typical residential customer.

- **Public Fire Protection Related Costs:** Fire protection costs are those costs related to the public fire protection functions. Usually, such costs are those related to public fire hydrants and the over-sizing of mains and distribution storage reservoirs for fire protection purposes
- **Revenue Related Costs:** Some costs associated with the utility may vary with the amount of revenue received by the utility. An example of a revenue related cost would be a utility tax which is based on the gross utility revenue.

4.5 Development of the Distribution Factors

Once the allocation process is complete, and the customer groups have been defined, the various allocated costs were distributed to each customer group. The City's allocated costs were allocated to the previously identified customer groups using the following distribution factors; see Exhibits 6 – 10 in the Technical Appendix.

- **Commodity Distribution Factor:** As noted earlier, commodity-related costs vary with the total water consumption. Therefore, the commodity distribution factor was based on the projected total metered consumption plus losses for each class of service and tier for the projected test period. As noted, the consumption reflects the projected new baseline consumption levels. These projected levels are based on estimates of customer behavior changing due to customers response to the recent drought (e.g., 2012 -2016). A distribution factor was developed for each tier for the proposed residential rates to reflect the consumption in each tier.
- **Capacity Distribution Factor:** The capacity distribution factor was developed based on the assumed contribution to peak day use of each class. Peak day use by customer class of service and tier was developed using peaking factors for each customer group and tier. In this particular case, the peaking factor was defined as the relationship between peak day contribution and average day use and determined for each customer group based on a review of the average month to peak month usage. Given an estimated peaking factor, the peak day contribution for each class of service was developed. The peak factors were developed for each tier of the proposed residential rate structure based on the consumption in each tier which reflects the increased peaking factor for those customers using higher levels of consumption.
- **Customer Distribution Factor:** Customer costs vary with the number of customers on the system. Two basic types of customer distribution factors were identified – actual and weighted. The distribution factors for actual customers was based on the projection of the number of customers developed within the revenue requirement. The weighted customer distribution factors is also broken down further into two factors which attempt to reflect the disproportionate costs associated with serving different types of customers. The first weighted customer factor is for customer service and accounting. This weighted customer allocation factor takes into account the fact that it may take more time to read a meter and process a bill for various customers. The second weighted customer distribution factor is for meters and services. This factor attempts to reflect the different costs and capacity demands associated with providing larger sized meters. For example, there is a significant cost difference associated with replacing a

3/4" meter compared to a 6" meter. This cost difference is reflected within the allocation factor.

- **Public Fire Protection Distribution Factor:** The development of the distribution factor for public fire protection expenses involved an analysis of each class of service and their fire flow requirements. The analysis took into account the gallon per minute fire flow requirements in the event of a fire, along with the duration of the required flow. The fire flow rates used within the distribution factor were based on industry standards and similar experiences with other water cost of service studies. The minimum fire flow requirements are then multiplied by the number of customers in each class of service, and the assumed duration of the fire, to determine the class' prorated fire flow requirements.
- **Revenue Related Distribution Factor:** The revenue related distribution factor was developed from the projected rate revenues for FY 2017-18 for each customer class of service. These same revenues were used within the revenue requirement analysis discussed previously.

As mentioned before, in a typical cost of service study, the distribution factors represent a group of similar customers such as residential, multi-family, commercial, irrigation, and high users. However, to meet the intent of Proposition 218, additional cost detail was needed when allocating costs. To reflect this, and as noted above, the commodity and capacity distribution factors were developed by customer class and by tier (residential) to develop the cost basis for the proposed rates (i.e., unit costs).

4.6 Functionalization and Allocation of Plant in Service

As noted, one of the first steps of the cost of service is the functionalization and allocation of plant in service. In performing the functionalization of plant in service, HDR utilized the City's historical plant (asset) records. Once the plant assets were functionalized, the analysis shifted to the allocation of the asset. The allocation process included reviewing each group of assets and determining which cost allocator the assets were related to. For example, the City assets were allocated as: commodity-related, capacity-related, customer-related, revenue-related, public fire protection-related, or a direct assignment. Provided below is a summary of the allocation process. The following approach is based on the methodology as described in the AWWA M1 Manual.

Source of supply – Source of supply was allocated as peak day related. Based on the operation of the system, the source of supply assets were 55.0% to commodity and 45.0% to capacity. This classification reflects the City's system peak demand (capacity needs) in relation to the system average day use (base needs) as source of supply assets provide both average day and peak day service.

Treatment – Treatment was classified the same as supply; 55.0% to commodity and 45.0% to capacity. This reflects the purpose of the treatment facilities, to meet both average day and peak day needs of the system.

Storage – Storage reservoirs, or water tanks, are typically designed to meet at least two types of needs –peak use demands and fire protection. The total storage capacity of the City’s reservoirs was examined and consideration given to the capacity required for fire protection under a fire event scenario. This amount of capacity, in relation to the total storage capacity, is considered fire protection related. The balance of storage capacity is considered to be in place to meet peak use demands. This resulted in 91.1% of the storage costs being assigned to customer, or the meters and services factor, and the remaining 8.9% to be assigned to the fire protection component.

Transmission & Distribution – Transmission and distribution lines (mains) are typically assumed to provide three types of costs. First, a distribution system must be in place to meet a customer’s minimum use requirements for water. This portion of the distribution main plant investment is considered to be a customer related cost, or a function of the number of customers on the system. Next, a portion of the distribution system mains is considered a function of meeting peak flow requirements on the system. Distribution mains must be sized to adequately meet the maximum (peak) flows demanded by customers. This portion of the distribution main plant investment is considered capacity related. Finally, distribution mains must also be over-sized for public fire flow demands. This final portion of over-sizing for distribution plant investment is classified as public fire protection-related. Based upon an analysis of the City’s distribution main size and lengths, a minimum system analysis was completed to develop the assignment of the distribution mains as 40.0% customer-related, 54.2% capacity-related, and 5.8% fire protection related.

Table 4 - 1 provides a summary of the basic functionalization and allocation of the major water plant items. A more detailed exhibit of the functionalization and allocation of City’s water plant (assets) can be found in the Technical Appendix.

Table 4 - 1 Summary of the Allocation of Water Plant in Service				
Category	Commodity Related	Capacity Related	Customer Related	Fire Protection
Source of Supply	55.0%	45.0%	0.0%	0.0%
Treatment	55.0%	45.0%	0.0%	0.0%
Pumping	0.0%	100.0%	0.0%	0.0%
Transmission & Distribution	0.0%	54.0%	40.2%	5.8%
Storage	0.0%	0.0%	91.1%	8.9%
General Plant	28.9%	49.4%	19.0%	2.7%
Total Net Plant In Service	28.9%	49.4%	19.0%	2.7%

4.7 Functionalization and Allocation of Operating Expenses

As noted in the AWWA M1 Manual, operating expenses are generally functionalized and allocated in a manner similar to the corresponding plant account. For example, maintenance of distribution mains is typically allocated in the same manner (allocation percentages) as the

plant account for distribution mains. This approach to allocating the City’s operating expenses was used for this analysis. The City does separate some of its O&M expenses by function (e.g., supply, distribution), however, not all of the O&M is functionalized which is not uncommon for utilities. As a result, the approach to allocate the operating expenses was based on the classification of the plant, or asset data, which reflects the investment made by the City to provide service.

For the City’s study, the revenue requirement for FY 2017-18 was functionalized and allocated based on the approach noted above. As noted earlier, the City utilized a cash basis revenue requirement, which was comprised of operation and maintenance expenses, debt service, and change in working capital. Provided in Table 4 - 2 is a summary of the allocation of the water revenue requirement to the cost classifiers.

Table 4 - 2 Summary of the Classification of the Revenue Requirement (\$000)							
	Total	Commodity	Capacity	Actual Customer	Wt. Cust Mtrs & Srvcs	Fire Protection	Direct Assign.
Net Revenue Requirement	\$15,290	\$3,326	\$5,372	\$1,356	\$4,682	\$199	\$354

4.8 Major Assumptions of the Cost of Service Study

A number of key assumptions were used within the City’s cost of service study. Below is a brief discussion of the major assumptions used.

- A test period is used for the cost of service analysis in order to select the expenses which should be allocated. The revenue and expense data was previously developed within the revenue requirement study for FY 2017-18.
- A cash basis approach was utilized which conforms to generally accepted water cost of service approaches and methodologies.
- The allocation of plant in service was developed based upon generally accepted cost allocation techniques (i.e., AWWA M1 Manual). Furthermore, they were developed using the City’s specific system data and customer information.
- Consumption by tier and class of service used within this study was developed for each class of service from historical usage information provided by the City.
- Peak day capacity allocation factors were developed based upon each customer group’s, and tier where applicable, average to peak month relationship.

4.9 Summary Results of the Cost of Service Analysis

In summary form, the cost of service analysis began by functionalizing the City’s revenue requirement. The functionalized revenue requirement was then allocated into the various cost

components. The individual allocation totals were then distributed to the various customer classes of service based on the appropriate distribution factor. For example, commodity related costs were allocated based on the commodity allocation factor which was based on annual water consumption. Each customer class is allocated their proportional share of commodity costs based on total annual water consumption. Similarly, capacity costs were allocated proportionally based on the capacity allocation factor. This factor reflects the peaking characteristics of each class, and tier where applicable. In this way, each class, or tier, is allocated the proportional share of costs allocated to the capacity component.

The distributed expenses for each customer class were then aggregated to determine each customer class’s overall revenue responsibility. Shown below in Table 4 – 3 is a summary of the distributed costs to each customer class of service.

Table 4 – 3 Summary of the Allocation of the Water Revenue Requirement (\$000)						
Cost Classifier	Total Costs	Residential	Multi-Family	Commercial	High User	Irrigation
Commodity	\$3,326	\$2,074	\$477	\$241	\$154	\$381
Capacity	5,372	2,873	1,004	419	204	872
Actual Customer	1,356	1,255	44	37	0	20
Customer Acctg.	0	0	0	0	0	0
Meters & Services	4,682	3,801	449	219	8	205
Public Fire Protection	199	150	26	22	0	0
Revenue Related	0	0	0	0	0	0
Direct Assignment	<u>354</u>	<u>123</u>	<u>100</u>	<u>51</u>	<u>0</u>	<u>80</u>
Total	\$15,290	\$10,276	\$2,100	\$989	\$366	\$1,559

The cost of service study equitably allocates the operating and capital costs to each customer class with their respective benefit received from and burdens placed on the water system (proportional allocation). From these results, a determination can be made as to the equity of the current rates and if each customer class is “paying their fair share” of the costs of providing service. Provided in Table 4 - 4 is a summary of the cost of service analysis.

Table 4 - 4
Summary of the Water Cost of Service Analysis (\$000)

Class of Service	Present Rate Revenues	Allocated Costs	\$ Difference	% Difference
Residential	\$8,482	\$10,276	(\$1,793)	21.1%
Multi-Family	2,209	2,100	110	-5.0%
Commercial	1,041	989	52	-5.0%
High User	376	366	10	-2.6%
Irrigation	<u>1,482</u>	<u>1,559</u>	<u>(77)</u>	<u>5.2%</u>
Total	\$12,109	\$13,731	(\$1,622)	12.5%

The results of the analysis show that some cost differences exist between the various customer classes of service. Specifically, the results show that the residential customer revenues do not fund the total allocated costs, while the other customer classes revenues exceeds the allocated costs. This is due to the proportional allocation of costs and residential customers having the majority of the average day, peak day, and customer related costs based on the total consumption, peak factors, and number of customers.

It is important to understand that a cost of service analysis is based on one year’s O&M expense data and projected customer usage information. Given this, the results of the cost of service analysis may change from year to year. As the City continues to monitor rates and cost of service results through future studies, future cost of service adjustments may be necessary to reflect costs and customer consumption patterns at that time. While the cost allocation is important to the overall rate setting process, the basis for the proposed rates is the unit costs. The unit costs are the allocated costs, by cost component, divided by the appropriate consumption unit. For example, commodity related costs are divided by the total consumption by customer and tier. A more detailed analysis of the development of the unit costs is provided in Section 5 of this report.

4.10 Consultant’s Conclusions and Recommendations

Given the requirements of Article XIII D, section 6 the results of the cost of service will be used to establish the proposed rate designs for each of the City’s customer classes of service. A more detailed discussion of the use of the cost of service results, and unit costs, is provided in the rate design section (Section 5) of this report.

4.11 Summary of the Cost of Service Analysis

This section of the report has provided the recommendations resulting from the cost of service analysis developed for the City’s water utility. This analysis was prepared using generally accepted cost of service techniques as provided in the AWWA M1 Manual. The following section of the report will provide a summary of the present and proposed rates for the City’s water utility.



5. Development of the Rate Designs

5.1 Introduction

The final step of the City's water rate study is the design of rates to collect the desired levels of revenues, based on the results of the revenue requirement and cost of service analyses. In reviewing City's rates, consideration is given to the level of the rates as well as the structure of the rates. The level of rates reflects the amount of revenues that should be collected while the structure of the rates is how it is collected (charged) from the customers.

The overall revenue level for the City has been established in the revenue requirement analysis (Section 3) while the equitable allocation of costs between the various customer classes has been developed in the cost of service analysis (Section 4) which provides the revenue levels to be collected from each class of service.

5.2 Rate Design Criteria and Considerations

Prudent rate administration dictates that several criteria must be considered when setting utility rates. Some of these rate design criteria are listed below:

- Rates which are easy to understand from the customer's perspective
- Rates which are easy for the City to administer
- Consideration of the customer's ability to pay
- Continuity, over time, of the rate making philosophy
- Policy considerations (encourage efficient use, economic development, etc.)
- Provide revenue stability from month to month and year to year
- Promote efficient allocation of the resource
- Equitable and non-discriminatory (cost-based)
- Legally Defensible

It is important that the City provide its customers with a proper price signal as to what their consumption and peaking (demand) requirements are costing. This goal may be approached through rate level and structure. When developing the proposed rate designs, all the above listed criteria were taken into consideration. However, it should be noted that it is difficult, if not impossible, to design a rate that meets all the goals and objectives listed above. For example, it may be difficult to design a rate that takes into consideration the customer's ability to pay, and one which is cost-based. In designing rates, there are always trade-offs between these various goals and objectives.

5.3 Development of Cost-Based Water Rates

Developing cost-based and equitable rates is of paramount importance in developing proposed water rates. While always a key consideration in developing rates, meeting the legal requirements, and documenting the steps taken to meet the requirements, has been in the forefront with the recent legal challenges in the State of California on water rates. Given this,

the City's proposed water rates have been developed to meet the legal requirements of California constitution article XIII D, section 6 (Article XIII D). A key component of Article XIII D is the development of rates which reflect the cost of providing service and are proportionally allocated among the various customer classes of service. HDR would point out that there is no single prescribed methodology for equitably assigning costs to the various customer groups. The American Water Works Association (AWWA) M1 Manual clearly delineates various methodologies which may be used to establish cost-based rates. Article XIII D does not prescribe a particular methodology for establishing cost-based rates; consequently, HDR developed the City's proposed water rates based on the methodologies provided in the AWWA M1 Manual to meet the requirements of Article XIII D and recent legal decisions to provide an administrative record of the steps taken to establish the City's water rates.

HDR is of the opinion that the proposed rates comply with legal requirements of Article XIII D. HDR reaches this conclusion based upon the following:

- **The revenue derived from water rates does not exceed the funds required to provide the property related service (i.e., water service).** The proposed rates are designed to collect the overall revenue requirements of the City's water utility.
- **The revenues derived from water rates shall not be used for any purpose other than that for which the fee or charge is imposed.** The revenues derived from the City's water rates are used exclusively to operate and maintain the City's water system.
- **The amount of a fee or charge imposed upon a parcel or person as an incident of property ownership shall not exceed the proportional costs of the service attributable to the parcel.** This study has focused almost exclusively on the issue of proportional assignment of costs to customer classes of service. The proposed rates have appropriately grouped customers into customer classes of service (residential, multi-family, commercial, high user, irrigation) that reflect the varying consumption patterns and system requirements of each customer class of service. The grouping of customers and rates into these classes of service creates the equity and fairness expected under Article XIII D by having differing rates by customer classes of service which reflect both the level of revenue to be collected by the utility, but also the manner in which these costs are incurred and equitably assigned to customer classes of service based upon their proportional impacts and burdens on City's the water system.

The City currently has the same rate structure for all customer classes of service that includes both a monthly service charge, which varies by meter size, and a 4-tiered commodity charge. The exception is a uniform consumption charge for the high user customers.

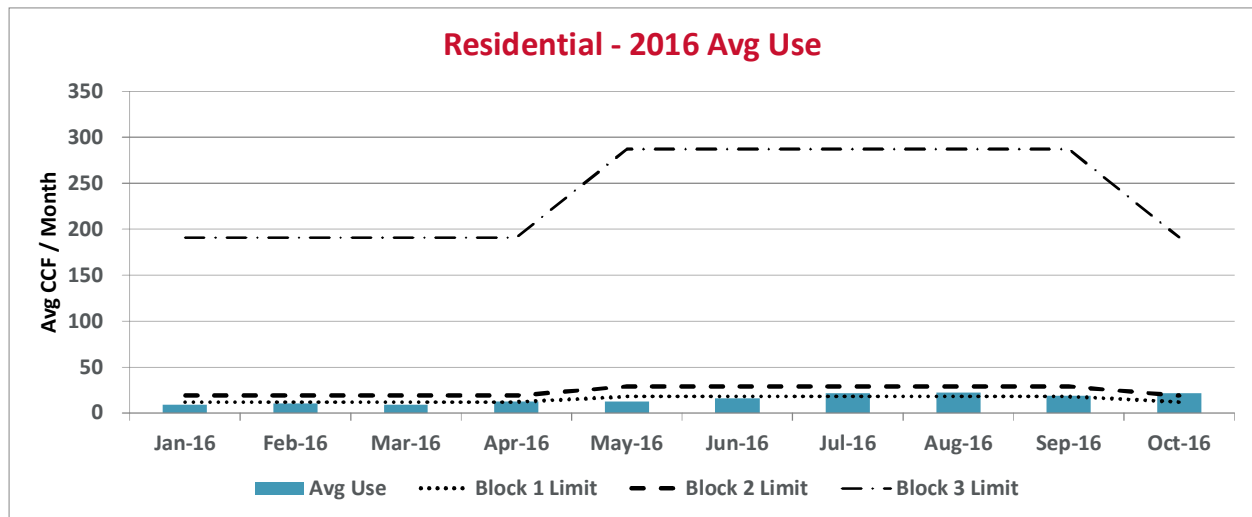
In discussion with the City, it was determined that this rate study would review and establish customer classes that reflect customer consumption characteristics. Under this approach, all customers would be charged the same monthly service charge which varies by meter size. For the consumption charge, the residential customer class will maintain a 4-tiered rate structure. For multi-family, commercial, high user, and irrigation customer classes, the consumption charge will be a uniform rate, however the level will vary by class based on the cost of service

results. Developing a separate rate for each customer class that reflects the consumption patterns and impacts placed on the system provides the cost-basis and meets the intent of Proposition 218 because the City has acquired different water sources at different costs to meet these different consumption demands.

As a part of this study, HDR developed a water rate design discussion to clearly demonstrate and support the proposed water rates and tiered pricing. The following discussion provides a more detailed analysis of the costing techniques and methodologies used to support the City’s proposed rate design.

5.3.1 Determination of Sizing and Number of Tiers

The first step in reviewing the City’s current, and proposed, tiered rate structure is to identify the number of tiers and determine the size of the tiers. After reviewing the customer consumption patterns, it was determined that the current tier sizes did not reflect the



consumption patterns of the residential customers as the tier sizes were initially developed for all customers including those with much higher demand. As an example, the fourth tier was for consumption greater than 287 CCF (hundred cubic feet). However, this tier size does not reflect the consumption patterns of the typical residential customer. Given this, the seasonal tiered rate structure was maintained for residential customers. However, the sizing of the tiers was revised to reflect residential consumption patterns and the impact these patterns have on the City’s water supplies and costs. In reviewing the residential consumption patterns, the proposed tiers were established based on typical winter water use, typical summer water use, typical peak summer water use, and all use over typical peak summer use. In this way the tier sizes reflect the typical residential water consumption patterns of the City’s customers. This is important as the cost of service analysis distributes cost to each tier and the basis for each tier is the consumption. Provided below in Table 5 - 1 is a summary of the typical residential consumption patterns.

**Table 5 - 1
Present and Proposed Residential Consumption Summary**

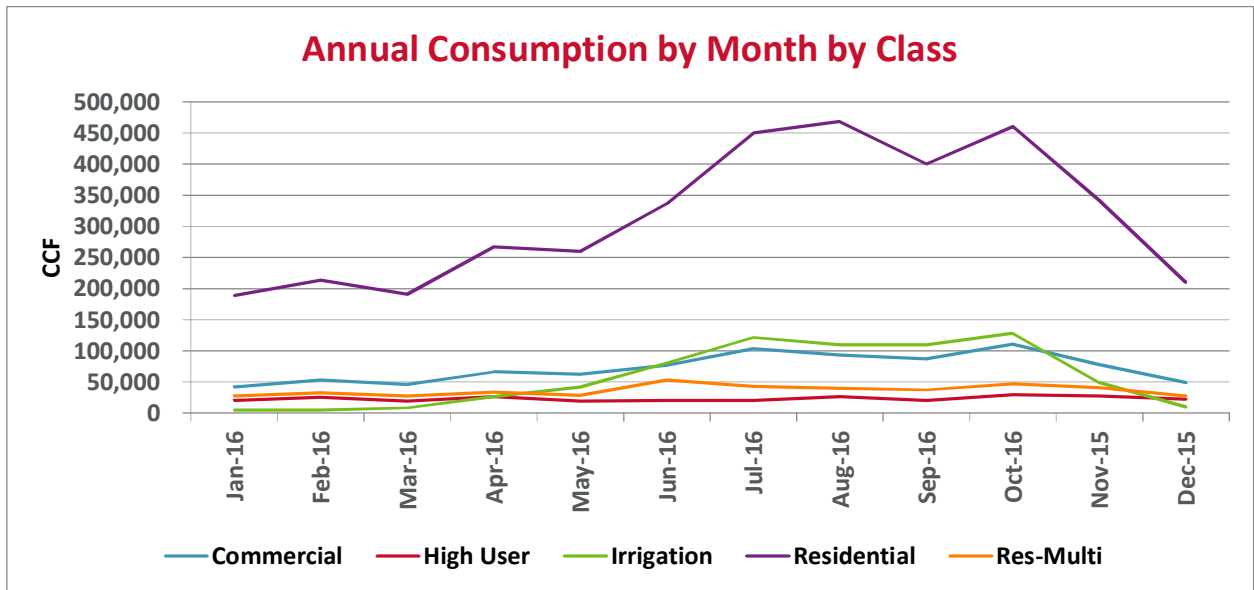
Average Winter Use	Average Summer Use	Average Max Summer Use
11 CCF	18 CCF	28 CCF

It is important to note that these are averages of customer use. Therefore, there are customers both above, and below, these values. However, rate setting is based on the typical consumption patterns of the customer class of service. In this case, based on the average use in the different seasons, which requires the City to have adequate water supply and distribution capacity to meet the overall customer demands. Shown in Table 5 – 2 are the present and proposed tier sizes for Residential.

**Table 5 - 2
Present and Proposed Residential Tier Sizes**

Present Tier Sizes		Proposed Tier Sizes	
Summer			
Tier 1	0 – 18 CCF	Tier 1	0 – 18 CCF
Tier 2	19 – 29 CCF	Tier 2	19 – 29 CCF
Tier 3	30 – 287 CCF	Tier 3	30 – 50 CCF
Tier 4	287 + CCF	Tier 4	50 + CCF
Winter			
Tier 1	0 – 12 CCF	Tier 1	0 – 12 CCF
Tier 2	13 – 19 CCF	Tier 2	13 – 19 CCF
Tier 3	20 – 191 CCF	Tier 3	20 – 40 CCF
Tier 4	191 + CCF	Tier 4	40 + CCF

In reviewing the residential consumption patterns, the proposed tiers were established based on typical winter water use, typical summer water use, typical peak summer water use, and all use over typical peak summer use. In this way the tier sizes reflect the typical residential water consumption patterns of the City’s customers. This is important as the cost of service analysis distributes cost to each tier and the basis for each tier is the consumption. As can be seen from the chart below, the residential customers have a significant peak on the system. As a result, the residential customers should bear the costs of providing that capacity in the system.



As can be seen from the above chart, all other customer classes of service have a relatively flat consumption pattern. In other words, the difference in winter use and summer use is not significant. The exception to this is irrigation customers as there is a noticeable peak in summer consumption. However, while residential consumption patterns are relatively homogenous, irrigation customer consumption patterns are not given the variation in irrigable area. Similar to the commercial customer tier discussion, developing tiers for irrigation customers based on consumption is difficult, and may not reflect watering needs given the irrigable area. A more detailed discussion of the peaking factors by customer class is provided 5.4.2.

Given this, all customers other than residential are proposed to be charged a uniform consumption charge (a non-tiered approach). This is proposed for several reasons. First, in a review of the peaking factors for each of these customer classes of service there was a very minimal peak factor for other customers and as shown above, the consumption pattern is relatively flat. Second, it is difficult to develop an equitable tier size that reflects the various types of customer's usage characteristics. That is, just because one customer uses a large amount of water does not necessarily mean that the customer is using water inefficiently. Given this, it is difficult, if not impossible, to develop an equitable tiered rate structure for a customer group that has varying levels of consumption. While the overall level of consumption varied between customers within the customer classes, the overall peaking for the multi-family, commercial, and irrigation customers within the class are very similar. As a result of these factors, a uniform rate is a generally accepted rate structure for these non-residential customers.

After the number and size of tiers and the seasonal periods have been identified, the pricing of the tiers and seasons is the next analytical step.

5.3.2 Establishing the Cost-Basis for Pricing Tiers

Given past legal decisions regarding water rates, HDR has concluded that utilities have available to them at least three technical approaches to be able to demonstrate (i.e., cost justify) the individual pricing of the tiers. These technical approaches encompass the following areas:

1. Cost differences in water supply (i.e., stacking of water supply resources to tiers).
2. Cost differences from high peak use consumers (relationship of average use to peak use).
3. Direct assignment of costs to specific tiers (conservation program costs, etc.).

In certain cases, the cost differences may be related to the cost of water supply when a utility has more than one source of water supply. Additionally, this water supply approach may also include the cost of alternative water supplies (i.e., recycled or reuse water). For example, reuse water may be assigned to higher tiers to reflect outdoor use or the need for additional/alternative water supply to meet the demands of the high use customers.

The second possible source of cost differences for the pricing of tiers is related to high-peak use (peak demand) customers. Customers that use more water create greater demands and costs on the system. A water supply and distribution system must be sized to meet these peak use requirements. In other words, on the hottest day of the year when everyone is watering their lawn, the supply and distribution system must be sized to meet those peak use demands. Economic theory clearly states that equity is achieved when those that create the demand event, pay for the demand event. In this particular case, this has implications upon the equitable allocation of capacity-related costs to the different usage tiers (low use vs. high peak use).

Finally, certain costs may be directly assigned to specific tiers. For example, a conservation program which focuses on outdoor water use may be directly assigned to the water tiers, or seasons, which are most directly related to outdoor use. The direct assignment to a specific price tier will create a price differential for that tier.

For the City's study, the focus of the analysis was on the second method of determining the cost impacts and cost differences associated with peak use. The pricing of the tiers, or uniform rate, was developed to provide the cost-basis and meet the requirements of Prop. 218.

5.4 Development of the Unit Costs for Rate Designs

To begin the assignment of costs related to specific tiers, the results of the cost of service analysis is utilized. As noted in Section 4, the cost of service analysis allocates the revenue requirement between the various cost components of average use (commodity), peak use (capacity), and customer (actual and weighted). However, the results provided in Table 4 - 2 which allocated the totals to the various customer classes of service are further allocated between the rate structure components (e.g., service charge, commodity charge, tiers). Provided in Table 5 – 3 is a summary of the classification of the FY 2017-18 revenue requirement from the cost of service analysis (same as Table 4 - 2).

Table 5 - 3
Summary of the Classification of the Revenue Requirement (\$000)

	Total	Commodity	Capacity	Actual Customer	Wt. Cust Mtrs & Srvcs	Fire Protection	Direct Assign.
Net Revenue Requirement	\$15,290	\$3,326	\$5,372	\$1,356	\$4,682	\$199	\$354

The total of the above allocated costs, of approximately \$15.3 million, is the same as the total costs allocated in Table 4 - 2 of the cost of service analysis. This allocation of the total revenue requirement for FY 2017-18 is then distributed to the various customer classes of service. Prior to the recent legal decisions, the analyses would have been complete. However, given the legal requirement to provide the cost-basis for each rate, both fixed and variable pricing, the allocated costs are further distributed between the various rate structure components based on the corresponding distribution factors. The distribution factors were discussed for the costs of service in Section 4 of this report. For example, the commodity costs are divided through by each customer class’s consumption and tier for residential. Provided below is a discussion of the approach used to allocate the revenue requirement between the various customer classes of service as established in Sections 3 and 4 to the various rate components for each customer class of service.

5.4.1 Commodity Allocation Factor

The commodity allocation factor is based on the average annual use for each of the customer classes of service, and more importantly by tier or seasons. For the development of the pricing of the proposed rates the following customer class components were used:

- Residential – Tier 1
- Residential – Tier 2
- Residential – Tier 3
- Residential – Tier 4
- Commercial – All Consumption
- Multi-Family – All Consumption
- High User – All Consumption
- Irrigation – All Consumption

To develop the commodity allocation factor for each customer class, the usage for each class was divided by the total usage of the system. This produces the percent of the system that each class is responsible for and, therefore, their contribution to commodity related costs. Provided below in Table 5 – 4 is a summary of the commodity allocation factor. As a note, the consumption for the residential tiers is based on the proposed tier sizing previously discussed.

Table 5 - 4
Summary of the Commodity Allocation Factor

<i>Reference</i> Calculation	<i>A</i>	<i>B</i>	<i>C</i> C = A + B	<i>D</i>
	FY 2017-18 Consumption (CCF)	Est. System Losses (CCF)	Total Annual Use (CCF)	% of Total
Residential				
Tier 1	2,712,957	529,027	3,241,984	44.7%
Tier 2	586,988	114,463	701,451	9.7%
Tier 3	336,695	65,656	402,351	5.5%
Tier 4	<u>151,436</u>	<u>29,530</u>	<u>180,966</u>	<u>2.3%</u>
Residential Total	3,788,076	738,675	4,526,751	62.3%
Commercial	870,605	169,768	1,040,373	14.3%
Multi-Family	440,570	85,911	526,481	7.3%
High User	280,790	54,754	335,544	4.6%
Irrigation	<u>695,637</u>	<u>135,649</u>	<u>831,286</u>	<u>11.4%</u>
Total	6,075,678	1,184,757	7,260,435	100.0%

As can be seen, the development of the commodity distribution factor is fairly straightforward. It is important to note that the distribution factor is based on of the amount of water for each class including the assumed losses on the system. As an example, Tier 1 consumption of the residential class of service represents 44.7% of the total consumption on the system. As a result, 44.7 % of the commodity related costs are then allocated to Tier 1 of the residential customers.

This approach is used for each of the customer classes of service for each rate component, either tier or uniform. Using the costs allocated to the commodity component in the cost of service analysis from Table 5 - 3, and the commodity distribution factor in Table 5 - 4, the distribution of costs to each tier or customer class can be developed. The summary of the distributed commodity costs are shown below in Table 5 – 5.

**Table 5 - 5
Allocated Commodity Costs (\$000s)**

<i>Reference Calculation</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D D = B / C</i>
	% of Total	Commodity Costs	Water Sales (CCF)	Unit Cost (\$/CCF)
Residential				
Tier 1	44.7%	\$1,485	2,712,957	\$0.55
Tier 2	9.1%	321	586,988	0.55
Tier 3	8.6%	184	336,695	0.55
Tier 4	<u>0.0%</u>	<u>1</u>	<u>151,436</u>	0.55
Residential Total	62.3%	\$2,074	3,788,076	
Commercial	14.3%	\$477	870,605	\$0.55
Multi-Family	7.3%	\$241	440,570	\$0.55
High User	4.6%	\$154	280,790	\$0.55
Irrigation	<u>11.4%</u>	<u>\$381</u>	<u>695,637</u>	\$0.55
Total	100.0%	\$3,326	6,075,678	

The figures in column A are from column D in Table 5 – 4. The costs shown in column B are based on the total commodity related costs from column A of Table 5 – 3. Column C is from column A in Table 5 – 4, or the actual consumption that is billed to the customers.

From the unit costs developed in Table 5 – 5 above, the per unit cost basis of the tiered and uniform rates can be determined for the commodity related costs identified in the cost of service analysis (Column D). For example, for the proposed residential tier 1 rate, the commodity component is \$0.55 per CCF. This applies to each tier and customer class (e.g., multi-family, commercial, high user, irrigation).

5.4.2 Capacity Allocation Factor

The capacity allocation factor utilizes the same customer classes, and tiers, as has been established for the cost of service study. Whereas commodity costs are related to the volume of water used by each class of service by tier or season, capacity is related to how the class uses that water in each tier or annually. Customers use water in different ways and at different times, thus creating different usage patterns and resulting in different peaking factors. These usage patterns drive how the City must size the system to meet the demands of customers regardless of when they occur. To determine the allocation by tier or annually, peaking factors need to be developed for each customer class of service tier or season. The peaking factors for each class of service must be estimated due to a lack of specific metered data related to peak day usage by each class of service. One method discussed in the AWWA M1 Manual used to estimate a class’s peaking factor is to review the average monthly volume of water consumed

and compare it to the maximum monthly usage of water. By dividing the maximum month by the average month, a peak-day factor is calculated. Essentially, this factor provides a seasonal surrogate for the difference between the average use and peak day use in each tier or season. For example, if a customer used 10 CCF per month on average and in the peak month 15 CCF was used, the peaking factor would be 1.50 (15 / 10 = 1.50). In this example, the peaking factor is stating that the maximum usage in a month is 1.50 time higher than the average usage per month.

For the City’s study the consumption patterns of each customer were reviewed and a peaking factor developed for the class, or tier, based on the City’s actual customer consumption characteristics using the above discussed approach. For the residential customers a peaking factor for both the winter and summer season was calculated for customers that stayed within each of the tiers. In other words, a peak factor for each residential customer, by tier was developed to depending on the amount of water used in the winter and summer. The average of these two peaking factors was used to determine the peak factor for the residential tiers. Similarly, the average peaking factor for the multi-family, commercial, high use, and irrigation customer classes was developed based on annual consumption comparing average month to peak month for each customer in each customer class. Shown below in Table 5 – 6 is a summary of the capacity allocation factor for each customer class.

Table 5 - 6 Summary of the Capacity Allocation Factor				
<i>Reference Calculation</i>	<i>A</i>	<i>B</i>	<i>C</i> <i>C = A * B</i>	<i>D</i>
	Average Consumption (MGD)	Peaking Factors	Peak Day Use (MGD)	% of Total
Residential				
Tier 1	6.64	1.16	7.68	33.1%
Tier 2	1.44	1.65	2.37	10.2%
Tier 3	0.82	1.89	1.56	6.7%
Tier 4	<u>0.37</u>	2.11	<u>0.78</u>	<u>3.4%</u>
Residential Total	9.28		13.70	53.5%
Commercial	2.13	2.03	4.33	18.7%
Multi-Family	1.08	1.68	1.81	7.8%
High User	0.69	1.28	0.88	3.8%
Irrigation	<u>1.70</u>	2.21	<u>3.76</u>	<u>16.2%</u>
Total	14.88		23.18	100.0%

Table 5 – 6 above shows the development of the capacity distribution factor. For example, based on the City’s residential customer consumption data, those customers that stayed within

tier 1 have a peak factor of 1.16. In other words, those customers that stay within tier 1 use 1.16 times more water in the peak period than on average. This is compared to customers in the remaining tiers which show a higher peaking factor based on how the customers in these tiers consume water. These peaking factors were developed around the City’s specific customers consumption patterns. Similar to the distribution of commodity costs to the tiers or customer classes, the capacity related costs are distributed in the same manner. For example, 33.1% of the capacity costs are allocated to Tier 1 of the residential customers based on column D in Table 5 - 6. To determine this, the average day use (column A) of each tier or class is multiplied by the peaking factor (column B). The total peak use by tier or class is divided by the system total peak use to develop the proportional distribution.

Table 5 – 7 provides a summary of the distributed capacity costs to each tier and season.

Table 5 - 7 Allocated Capacity Costs (\$000s)				
<i>Reference Calculation</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D D = B / C</i>
	% of Total	Capacity Costs	Water Sales (CCF)	Unit Cost (\$/CCF)
Residential				
Tier 1	33.1%	\$1,781	2,712,957	\$0.66
Tier 2	10.2%	549	586,988	0.94
Tier 3	6.7%	362	336,695	1.07
Tier 4	<u>3.4%</u>	<u>181</u>	<u>151,436</u>	1.20
Residential Total	53.5%	\$2,873	3,788,076	
Commercial	18.7%	\$1,004	870,605	\$1.15
Multi-Family	7.8%	\$419	440,570	\$0.95
High User	3.8%	\$204	280,790	\$0.73
Irrigation	<u>16.2%</u>	<u>\$872</u>	<u>695,637</u>	\$1.25
Total	100.0%	\$5,372	6,075,678	

The figures in column A are from column D in Table 5 – 6. The costs shown in column B are based on the total capacity related costs from column B of Table 5 – 3. Column C is from column A in Table 5 – 4. For example, the proposed rate for tier 1 includes a capacity component cost of \$0.66 per CCF while the tier 4 capacity cost is \$1.20 per CCF. This difference reflects the costs associated with providing consumption at higher tiers and the costs of providing that capacity.

Combining the unit costs from the commodity and capacity unit costs result in the basis of the tiered or uniform rate pricing. It is important to note that there is an additional \$0.11/CCF from

the costs classified as direct assignment related costs as identified in Table 4 - 2 and 5 - 3. The direct assignment costs were related to conservation costs and therefore, was assigned only to the 2nd through 4th tiers for residential, commercial, multi-family, and irrigation customers. This cost was calculated by totaling the amount which equals \$353,920 and dividing it by the total consumption amount of the applicable tiers/classes of 3,081,931 CCF ($\$353,920 / 3,081,931 = \$0.11/\text{CCF}$). It is important to note that these costs were assigned to specific tiers based on associated costs; therefore, not all tiers receive directly assigned costs.

The summary Table 5 – 8 below shows the summation of the costs for each tier / rate. This table sums the costs from Table 5 – 5 column D and Table 5 – 7 column D and the additional \$0.11/CCF.

Table 5 - 8					
Summary of the Unit Costs for Rate Design					
<i>Reference</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>
	Commodity Costs (\$/CCF)	Capacity Costs (\$/CCF)	Direct Assignment Costs (\$/CCF)	Total Unit Cost (\$/CCF)	Differential (\$/CCF)
Residential					
Tier 1	\$0.55	\$0.66	\$0.00	\$1.20	<i>N/A</i>
Tier 2	0.55	0.94	0.11	1.60	<i>\$0.40</i>
Tier 3	0.55	1.07	0.11	1.74	<i>0.14</i>
Tier 4	0.55	1.20	0.11	1.86	<i>0.12</i>
Commercial	\$0.55	\$1.15	\$0.11	\$1.82	<i>N/A</i>
Multi-Family	\$0.55	\$0.95	\$0.11	\$1.61	<i>N/A</i>
High User	\$0.55	\$0.73	\$0.00	\$1.27	<i>N/A</i>
Irrigation	\$0.55	\$1.25	\$0.11	\$1.92	<i>N/A</i>

The results shown in Table 5 – 8 above are the basis for the City’s consumption pricing for the proposed tiered and uniform rate structures. The analysis and costs shown above have been developed in compliance with the recent legal decisions related to developing cost-based water rates.

It is also important to note that the customer related costs are used to establish the monthly service charge which varies by meter size. As a result, the total customer costs were divided by the number of equivalent meters on the system. An equivalent meter uses the capacity ratio of a 5/8-inch meter to the larger meter sizes to determine the pricing for each meter size. In this way the meter charge reflects the equitable proportion of fixed costs on the system based on the capacity demands the customer can place on the system based on the size of the meter. Shown below in Table 5 – 9 is a summary of the customer related costs and customer charge development.

Table 5 - 9
Summary of the Customer Charge for Rate Design

	AWWA Ratio	Cost <i>(\$ / Acct. / Mo)</i>
Total Customer Costs	\$6,237,692	
Total 5/8" Meter Equiv. ^[1]	35,118	
Cost per Equiv. Meter	\$14.80	
5/8" & 3/4"	1.00	\$14.80
5/8" & 3/4" LIRA	0.00	0.00
1"	1.67	24.72
1" LIRA	0.00	0.00
1.5"	3.33	49.28
2"	5.33	78.88
3"	10.00	148.00
4"	16.67	246.72
6"	33.33	493.28
8"	53.33	789.28
10"	76.67	1,134.72

[1] – Based on AWWA equivalent meter ratios based on safe operating conditions in the AWWA M1 Manual

5.5 Summary of the Present and Proposed Water Rates

Given the development of the unit costs for rate design purposes, the next step is to develop the proposed rates for the next five year period. As a note, the proposed rates are being developed for the test year FY 2017-18 based on the unit costs as developed in the cost of service analysis. Provided in the following is a summary of the present and proposed rates for each customer class of service for each year of the review period.

As noted, the residential rate structure has maintained the four tier structure with modifications to the tier sizes to reflect the City's residential customer consumption characteristics. In addition, a uniform rate structure is proposed for the new customer classes of multi-family and irrigation. The proposed commercial rate structure is also a uniform rate. As noted, the proposed uniform rate structure was recommended for these customer classes given their customer characteristics and the variation in overall consumption. In other words, for each of these three customer classes there is a wide range of total consumption amounts and developing a tier structure that is equitable to all customers within the class is not possible. As a note, the high user customer rate structure maintains the current rate structure. The proposed rates reflect the results of the revenue requirement and cost of service analysis. Provided below in Table 5 - 10 is a summary of the current and proposed rates for the City's customers. As noted, the proposed rates in are based on the previously discussed unit costs.

Table 5 - 10
Summary of the Present and Proposed Water Rates

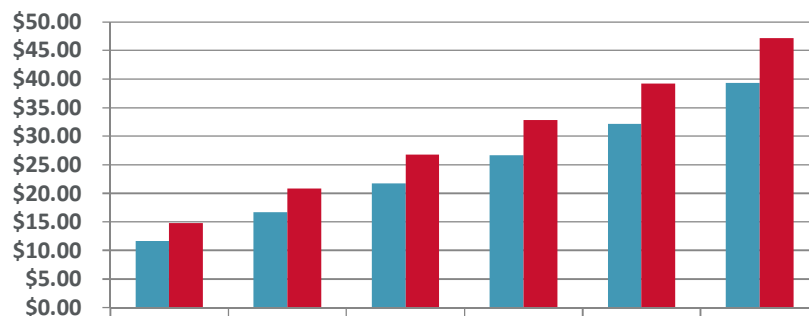
	Present Rate	FY 2017-18^[1]	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Service Charge	\$ / Acct. / Mo.					
5/8" & 3/4"	\$11.70	\$14.80	\$14.80	\$18.50	\$18.50	\$18.50
5/8" & 3/4" LIRA ^[2]	0.00	0.00	0.00	0.00	0.00	0.00
1"	20.40	24.72	24.72	30.90	30.90	30.90
1" LIRA ^[2]	0.00	0.00	0.00	0.00	0.00	0.00
1.5"	46.65	49.28	49.28	61.61	61.61	61.61
2"	82.75	78.88	78.88	98.61	98.61	98.61
3"	186.25	148.00	148.00	185.00	185.00	185.00
4"	331.25	246.72	246.72	308.40	308.40	308.40
6"	745.25	493.28	493.28	616.61	616.61	616.61
8"	1,325.05	789.28	789.28	986.61	986.61	986.61
10"	2,070.40	1,134.72	1,134.72	1,418.40	1,418.40	1,418.40
Commodity Charge	\$ / CCF					
Residential						
<i>Summer (May - Oct)</i>						
0 - 18	\$1.00	--	--	--	--	--
19 - 29	1.45	--	--	--	--	--
30 - 287	1.65	--	--	--	--	--
287 +	1.80	--	--	--	--	--
<i>Winter (Nov - Apr)</i>						
0 - 12	\$1.00	--	--	--	--	--
13 - 19	1.45	--	--	--	--	--
20 - 191	1.65	--	--	--	--	--
191 +	1.80	--	--	--	--	--
<i>Summer (May - Oct)</i>						
0 - 18		\$1.20	\$1.20	\$1.50	\$1.50	\$1.50
19 - 29		1.60	1.60	2.00	2.00	2.00
30 - 50		1.74	1.74	2.17	2.17	2.17
50 +		1.86	1.86	2.33	2.33	2.33
<i>Winter (Nov - Apr)</i>						
0 - 12		\$1.20	\$1.20	\$1.50	\$1.50	\$1.50
13 - 19		1.60	1.60	2.00	2.00	2.00
20 - 40		1.74	1.74	2.17	2.17	2.17
40 +		1.86	1.86	2.33	2.33	2.33
Commercial	N/A	\$1.84	\$1.84	\$2.18	\$2.18	\$2.18
Multi-Family	N/A	\$1.61	\$1.61	\$2.01	\$2.01	\$2.01
High User	\$1.27	\$1.27	\$1.27	\$1.59	\$1.59	\$1.59
Irrigation	N/A	\$1.92	\$1.92	\$2.40	\$2.40	\$2.40

[1] - The proposed FY 2017-18 rates will be effective January 1, 2018

[2] - LIRA rate is only available to residential customers who meet the requirements and is funded through other non rate revenues

It is important to note that the bill impacts will not only vary between customer classes, as the cost of service results show cost differences, but also customers in the same class. This is due to the tier/uniform pricing being based on the costs associate with the test year and allocated based on a snapshot of consumption characteristics. Shown below are typical customer bill impacts; these are not meant to be prescriptive for projecting a customers' bill impact but rather representative.

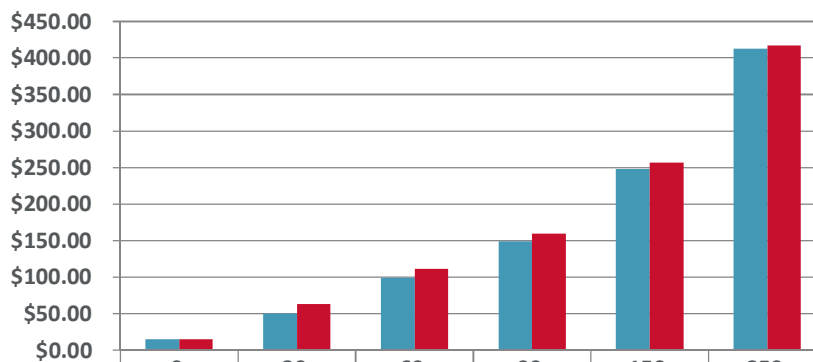
Residential Bill Comparison - 5/8" & 3/4" Meter (summer)



	0	5	10	15	20	25
Present Rates	\$11.70	\$16.70	\$21.70	\$26.70	\$32.15	\$39.40
Proposed Rates	\$14.80	\$20.80	\$26.80	\$32.80	\$39.20	\$47.20

CCF

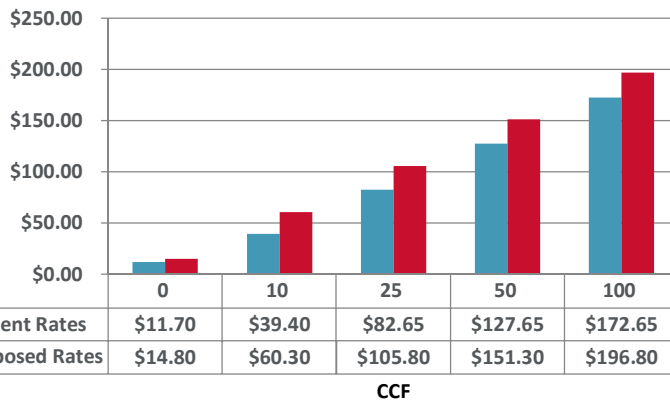
Multi-Family Bill Comparison -5/8" & 3/4" Meter



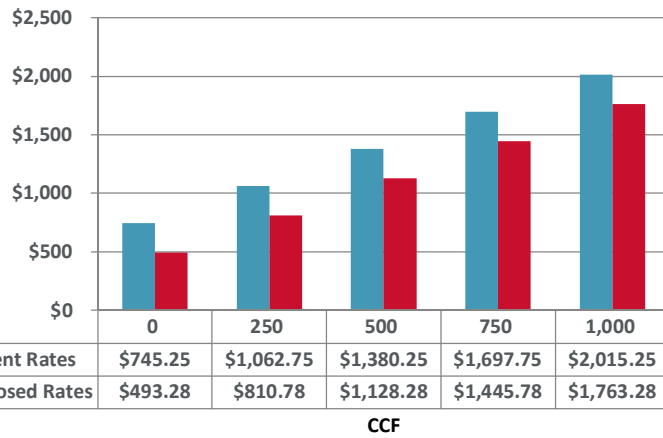
	0	30	60	90	150	250
Present Rates	\$14.80	\$49.75	\$99.25	\$148.75	\$247.75	\$412.75
Proposed Rates	\$14.80	\$63.10	\$111.40	\$159.70	\$256.30	\$417.30

CCF

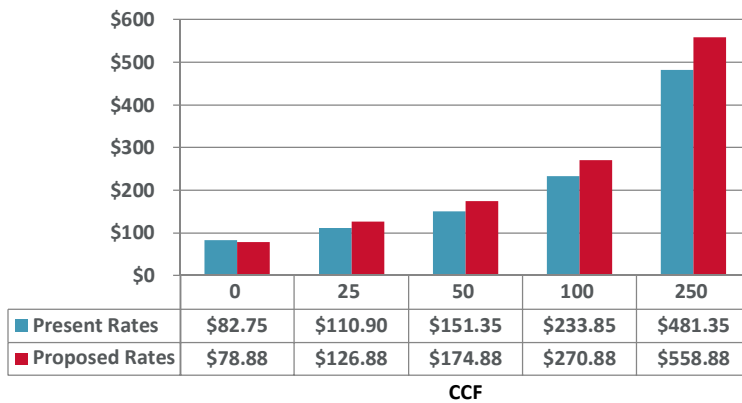
Commercial Bill Comparison - 5/8 & 3/4" Meter (summer)



High User Bill Comparison - 6" Meter



Irrigation Bill Comparison - 2" Meter (summer)



5.6 Summary of the Proposed Rate Revenues

The rates for each customer class of service meet the results of the revenue requirement and cost of service results. Provided in Table 5 - 11 is a summary of the revenue targets based on the revenue requirement and cost of service analyses for the FY 2017-18 proposed rate adjustment.

Table 5 - 11 Comparison of the FY 2017-18 Proposed Revenues and Allocated Costs (\$000's)			
	Present Revenues	Allocated Revenues	Proposed Revenues
Single Family	\$8,482	\$10,276	\$10,055
Commercial	2,209	2,100	2,211
Multi-Family	1,041	989	1,010
High User	376	366	368
Irrigation	<u>1,482</u>	<u>1,559</u>	<u>1,622</u>
Total	\$13,591	\$15,290	\$15,267

The proportional allocation of costs to the various customer classes of service is based on City budgeted O&M expenses as well as capital projects as identified in the revenue requirement analysis. Additionally, actual consumption data was used from 2016 to allocate costs to specific customer classes and tiers, where applicable. Any discrepancy in the summation of the totals are due to rounding. A more detailed analysis of the projection of the proposed revenues is included within the Technical Appendix of this report.

This concludes the discussion of the proposed water rates. Detailed exhibits for the various rate designs are included within the water technical appendices.

5.7 Water Rate Study Recommendations

Based on the results of the water rate study, HDR recommends the following:

- Revenue adjustments are necessary to prudently fund operating and capital renewal and replacement expenses.
- Water revenues should be adjusted 25.0% based on the proposed rates as part of this study starting in FY 2017-18.
 - The proposed rates would be effective January 1, 2018.
- Water revenues should be adjusted up to 25.0% in FY 2019-20
 - The proposed rates would be effective July 1, 2019
- The proposed rates reflect the results of the cost of service analysis and the proportional allocation of costs to the various customer classes of service.
- Prior to the end of the financial planning projected period, the City should complete a

review of the water revenue levels and costs at that time.

5.8 Summary of the Water Rate Study

This completes the analysis for the City of Tracy’s water utility. This study has provided a comprehensive review and development of proposed water rates for the City. Adoption of the proposed water rates will allow the City to meet its current and projected water system financial obligations for the time period reviewed based on the assumed customer growth, capital plan and deferred capital, and inflationary increases in operating costs. Should these assumptions change, the proposed rate adjustments may also need to be revised to reflect the current conditions.



Technical Appendix

City of Tracy
Water Cost of Service Study
Revenue Requirement Summary
Exhibit 1

	Budgeted	Projected				
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Revenue						
Rate Revenues	\$13,523,316	\$13,590,933	\$13,658,887	\$13,727,182	\$13,830,136	\$13,933,862
Non-Operating Revenues	235,000	212,904	212,105	217,340	229,423	238,465
Total Revenues	\$13,758,316	\$13,803,837	\$13,870,993	\$13,944,522	\$14,059,559	\$14,172,327
Expenses						
Total Public Works Department - 23	\$4,135,820	\$4,354,392	\$4,585,494	\$4,829,868	\$5,088,295	\$5,361,607
Total Utilities Department - 25	9,088,940	9,436,617	9,800,308	10,180,857	10,579,151	10,996,130
Total Development Services - 31	90,810	95,156	99,745	104,594	109,716	115,129
Total Capital Projects - 71	229,080	241,066	253,745	267,158	281,349	296,363
Total O&M Expenses	\$13,544,650	\$14,127,230	\$14,739,294	\$15,382,477	\$16,058,511	\$16,769,229
Transfers	\$1,026,240	\$1,087,814	\$1,153,083	\$1,222,268	\$1,295,604	\$1,373,341
Net Annual Debt Service	\$1,257,920	\$1,257,920	\$1,257,920	\$1,924,586	\$1,924,586	\$1,924,586
Rate Funded Capital	\$0	\$0	\$300,000	\$600,000	\$950,000	\$1,300,000
Transfer To / (From) Reserves	\$0	(\$970,260)	(\$164,582)	\$2,536,731	\$1,610,308	\$642,968
Total Revenue Requirement	\$15,828,810	\$15,502,704	\$17,285,715	\$21,666,062	\$21,839,010	\$22,010,124
Balance/(Deficiency) of Funds	(\$2,070,493)	(\$1,698,867)	(\$3,414,722)	(\$7,721,540)	(\$7,779,451)	(\$7,837,797)
Bal/(Def.) as a % of Rate Rev.	15.3%	12.5%	25.0%	56.3%	56.3%	56.3%
Proposed Rate Adjustment	0.0%	25.0%	0.0%	25.0%	0.0%	0.0%
Add'l Revenue from Adj.	\$0	\$1,698,867	\$3,414,722	\$7,721,540	\$7,779,451	\$7,837,797
Total Bal/(Def.) of Funds	(\$2,070,493)	\$0	\$0	\$0	(\$0)	\$0
Additional Rate Increase Needed	15.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Avg Monthly Res Bill (5/8 x 3/4" Meter + 15 CCF)	\$26.70	\$32.80	\$32.80	\$41.00	\$41.00	\$41.00
Total Reserve Funds	\$1,587,589	\$201,025	\$18,567	\$2,413,058	\$4,217,829	\$5,391,495
Total Target Ending Fund Balance	\$3,695,928	\$3,791,694	\$3,892,307	\$3,998,036	\$4,109,165	\$4,225,995

City of Tracy
 Water Cost of Service Study
 Exhibit 2
 Escalation Factors

	<i>Budgeted</i>	<i>Projected</i>				
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Revenues						
Customer Growth	0.5%	0.5%	0.5%	0.5%	0.8%	0.8%
Flat	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Miscellaneous Revenues	0.5%	0.5%	0.5%	0.5%	0.8%	0.8%
Expenses						
Labor	Budgeted	6.0%	6.0%	6.0%	6.0%	6.0%
Materials & Supplies	Budgeted	2.5%	2.5%	2.5%	2.5%	2.5%
Equipment	Budgeted	4.0%	4.0%	4.0%	4.0%	4.0%
Miscellaneous	Budgeted	1.5%	1.5%	1.5%	1.5%	1.5%
Utilities	Budgeted	4.0%	4.0%	4.0%	4.0%	4.0%
Purchased Water	Budgeted	2.5%	2.5%	2.5%	2.5%	2.5%
Flat	Budgeted	0.0%	0.0%	0.0%	0.0%	0.0%
Insurance	Budgeted	3.0%	3.0%	3.0%	3.0%	3.0%
Interest	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
New Debt Service						
Low Interest Loans						
Term in Years	20	20	20	20	20	20
Rate	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Revenue Bond						
Term in Years	20	20	20	20	20	20
Rate	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%

City of Tracy
Water Cost of Service Study
Exhibit 3
Revenue Requirement

	<i>Budgeted</i>		<i>Projected</i>				<i>Notes</i>
	<i>FY 2016-17</i>	<i>FY 2017-18</i>	<i>FY 2018-19</i>	<i>FY 2019-20</i>	<i>FY 2020-21</i>	<i>FY 2021-22</i>	
Revenues							
Rate Revenues							
Residential	\$8,439,997	\$8,482,197	\$8,524,608	\$8,567,231	\$8,631,485	\$8,696,221	As Customer Growth
Multi-Family	1,036,130	1,041,311	1,046,517	1,051,750	1,059,638	1,067,585	As Customer Growth
Commercial	2,198,482	2,209,475	2,220,522	2,231,624	2,248,362	2,265,224	As Customer Growth
High User	374,489	376,362	378,244	380,135	382,986	385,858	As Customer Growth
Irrigation	1,474,218	1,481,589	1,488,997	1,496,442	1,507,665	1,518,973	As Customer Growth
Total Rate Revenues	\$13,523,316	\$13,590,933	\$13,658,887	\$13,727,182	\$13,830,136	\$13,933,862	
Non-Operating Revenues							
Interest - Operating	\$25,000	\$1,854	\$0	\$4,174	\$14,658	\$22,090	Calc'd on Reserve Balances
Receivables	190,000	190,950	191,905	192,864	194,311	195,768	As Customer Growth
Fiscal	5,000	5,025	5,050	5,075	5,113	5,152	As Miscellaneous Revenues
Other Revenue	15,000	15,075	15,150	15,226	15,340	15,455	As Miscellaneous Revenues
Total Non-Operating Revenues	\$235,000	\$212,904	\$212,105	\$217,340	\$229,423	\$238,465	
Total Revenues	\$13,758,316	\$13,803,837	\$13,870,993	\$13,944,522	\$14,059,559	\$14,172,327	
Public Works Department - 23							
Water Distribution							
Personnel Expenses	\$839,100	\$889,446	\$942,813	\$999,382	\$1,059,344	\$1,122,905	As Labor
Contracted Service	17,670	18,730	19,854	21,045	22,308	23,646	As Labor
Commodities	111,140	113,919	116,766	119,686	122,678	125,745	As Materials & Supplies
ISC Charges	207,200	210,308	213,463	216,665	219,915	223,213	As Miscellaneous
ROW Maint	1,501,300	1,591,378	1,686,861	1,788,072	1,895,357	2,009,078	As Labor
Total Water Distribution	\$2,676,410	\$2,823,781	\$2,979,757	\$3,144,849	\$3,319,601	\$3,504,588	
Water Meters							
Personnel Expenses	\$963,020	\$1,020,801	\$1,082,049	\$1,146,972	\$1,215,791	\$1,288,738	As Labor
Contracted Service	27,450	29,097	30,843	32,693	34,655	36,734	As Labor
Commodities	286,370	293,529	300,867	308,389	316,099	324,001	As Materials & Supplies
ISC Charges	119,230	121,018	122,834	124,676	126,546	128,445	As Miscellaneous
Total Water Meters	\$1,396,070	\$1,464,446	\$1,536,593	\$1,612,731	\$1,693,091	\$1,777,918	
Utilities Standby							
Personnel Expenses	\$40,800	\$43,248	\$45,843	\$48,593	\$51,509	\$54,600	As Labor
Contracted Service	500	530	562	596	631	669	As Labor
Commodities	1,650	1,691	1,734	1,777	1,821	1,867	As Materials & Supplies
ISC Charges	20,390	20,696	21,006	21,321	21,641	21,966	As Miscellaneous
Total Utilities Standby	\$63,340	\$66,165	\$69,144	\$72,287	\$75,603	\$79,101	
Total Public Works Department - 23	\$4,135,820	\$4,354,392	\$4,585,494	\$4,829,868	\$5,088,295	\$5,361,607	

City of Tracy
Water Cost of Service Study
Exhibit 3
Revenue Requirement

	<i>Budgeted</i>	<i>Projected</i>					<i>Notes</i>
	<i>FY 2016-17</i>	<i>FY 2017-18</i>	<i>FY 2018-19</i>	<i>FY 2019-20</i>	<i>FY 2020-21</i>	<i>FY 2021-22</i>	
Utilities Department - 25							
Utilities Administration							
Personnel Expenses	\$422,110	\$447,437	\$474,283	\$502,740	\$532,904	\$564,878	As Labor
Contracted Service	47,000	49,820	52,809	55,978	59,336	62,897	As Labor
Commodities	250	256	263	269	276	283	As Materials & Supplies
ISC Charges	14,880	15,103	15,330	15,560	15,793	16,030	As Miscellaneous
Total Utilities Administration	\$484,240	\$512,616	\$542,684	\$574,546	\$608,310	\$644,088	
Utilities Engineering							
Contracted Service	\$28,100	\$29,786	\$31,573	\$33,468	\$35,476	\$37,604	As Labor
Commodities	12,000	12,300	12,608	12,923	13,246	13,577	As Materials & Supplies
Total Utilities Engineering	\$40,100	\$42,086	\$44,181	\$46,390	\$48,721	\$51,181	
Water Management							
Personnel Expenses	\$209,900	\$222,494	\$235,844	\$249,994	\$264,994	\$280,894	As Labor
Contracted Service	96,350	102,131	108,259	114,754	121,640	128,938	As Labor
Commodities	4,580	4,695	4,812	4,932	5,055	5,182	As Materials & Supplies
ISC Charges	19,120	19,407	19,698	19,993	20,293	20,598	As Miscellaneous
Other Payments	29,050	29,486	29,928	30,377	30,833	31,295	As Miscellaneous
Total Water Management	\$359,000	\$378,212	\$398,540	\$420,051	\$442,815	\$466,906	
Water Wells & Pumps							
Personnel Expenses	\$215,200	\$228,112	\$241,799	\$256,307	\$271,685	\$287,986	As Labor
Contracted Service	405,490	429,819	455,609	482,945	511,922	542,637	As Labor
Commodities	58,490	59,952	61,451	62,987	64,562	66,176	As Materials & Supplies
ISC Charges	34,310	34,825	35,347	35,877	36,415	36,962	As Miscellaneous
Other Payments	170	173	175	178	180	183	As Miscellaneous
Total Water Wells & Pumps	\$713,660	\$752,881	\$794,380	\$838,294	\$884,765	\$933,944	
Water Plant Maintenance							
Personnel Expenses	\$612,300	\$649,038	\$687,980	\$729,259	\$773,015	\$819,396	As Labor
Contracted Service	61,280	64,957	68,854	72,985	77,365	82,006	As Labor
Commodities	42,900	43,973	45,072	46,199	47,354	48,537	As Materials & Supplies
ISC Charges	27,160	27,567	27,981	28,401	28,827	29,259	As Miscellaneous
Total Water Plant Maintenance	\$743,640	\$785,535	\$829,887	\$876,844	\$926,559	\$979,198	

City of Tracy
Water Cost of Service Study
Exhibit 3
Revenue Requirement

	<i>Budgeted</i>	<i>Projected</i>					<i>Notes</i>
	<i>FY 2016-17</i>	<i>FY 2017-18</i>	<i>FY 2018-19</i>	<i>FY 2019-20</i>	<i>FY 2020-21</i>	<i>FY 2021-22</i>	
Utilities Laboratory							
Personnel Expenses	\$234,500	\$248,570	\$263,484	\$279,293	\$296,051	\$313,814	As Labor
Contracted Service	94,490	100,159	106,169	112,539	119,291	126,449	As Labor
Commodities	42,670	43,737	44,830	45,951	47,100	48,277	As Materials & Supplies
ISC Charges	31,360	31,830	32,308	32,792	33,284	33,784	As Miscellaneous
Total Utilities Laboratory	\$403,020	\$424,297	\$446,791	\$470,576	\$495,726	\$522,324	
Water Plant Operations							
Personnel Expenses	\$1,076,000	\$1,140,560	\$1,208,994	\$1,281,533	\$1,358,425	\$1,439,931	As Labor
Contracted Service	4,444,270	4,555,377	4,669,261	4,785,993	4,905,643	5,028,284	As Purchased Water
Commodities	766,840	786,011	805,661	825,803	846,448	867,609	As Materials & Supplies
ISC Charges	37,170	37,728	38,293	38,868	39,451	40,043	As Miscellaneous
Other Payments	21,000	21,315	21,635	21,959	22,289	22,623	As Miscellaneous
Total Water Plant Operations	\$6,345,280	\$6,540,990	\$6,743,844	\$6,954,156	\$7,172,255	\$7,398,489	
Total Utilities Department - 25	\$9,088,940	\$9,436,617	\$9,800,308	\$10,180,857	\$10,579,151	\$10,996,130	
Utilities Engineering - Water							
Personnel Expenses	\$58,300	\$61,798	\$65,506	\$69,436	\$73,602	\$78,019	As Labor
Contracted Service	8,000	8,480	8,989	9,528	10,100	10,706	As Labor
ISC Charges	24,510	24,878	25,251	25,630	26,014	26,404	As Miscellaneous
Total Utilities Engineering - Water	\$90,810	\$95,156	\$99,745	\$104,594	\$109,716	\$115,129	
Capital Projects - 71							
Water Improvements							
Personnel Expenses	\$10,000	\$10,600	\$11,236	\$11,910	\$12,625	\$13,382	As Labor
Contracted Service	180,000	190,800	202,248	214,383	227,246	240,881	As Labor
Other Payments	39,080	39,666	40,261	40,865	41,478	42,100	As Miscellaneous
Total Water Improvements	\$229,080	\$241,066	\$253,745	\$267,158	\$281,349	\$296,363	
Total Capital Projects - 71	\$229,080	\$241,066	\$253,745	\$267,158	\$281,349	\$296,363	
Total Operations & Maintenance	\$13,544,650	\$14,127,230	\$14,739,294	\$15,382,477	\$16,058,511	\$16,769,229	

City of Tracy
Water Cost of Service Study
Exhibit 3
Revenue Requirement

	<i>Budgeted</i>		<i>Projected</i>				<i>Notes</i>
	<i>FY 2016-17</i>	<i>FY 2017-18</i>	<i>FY 2018-19</i>	<i>FY 2019-20</i>	<i>FY 2020-21</i>	<i>FY 2021-22</i>	
Transfers							
FD101 If Reimbursement	\$179,340	\$190,100	\$201,506	\$213,597	\$226,413	\$239,997	As Labor
FD125 If Reimbursement	487,500	516,750	547,755	580,620	615,458	652,385	As Labor
FD125 Indirect Costs	304,400	322,664	342,024	362,545	384,298	407,356	As Labor
Spec Reserves - Leave	55,000	58,300	61,798	65,506	69,436	73,602	As Labor
Total Transfers	\$1,026,240	\$1,087,814	\$1,153,083	\$1,222,268	\$1,295,604	\$1,373,341	
Annual Debt Service							
State Water Loan	\$1,257,920	\$1,257,920	\$1,257,920	\$1,257,920	\$1,257,920	\$1,257,920	Schedule - 2.34% for 20 Yrs
New SRF Loans	0	0	0	0	0	0	Calc @ 2.5% for 20 Yrs
New Revenue Bonds	0	0	0	0	0	0	Calc @ 5.5% for 20 Yrs
Interfund Repayment	0	0	0	666,667	666,667	666,667	\$2.0 million owed
Total Annual Debt Service	\$1,257,920	\$1,257,920	\$1,257,920	\$1,924,586	\$1,924,586	\$1,924,586	
Less Connection Fees	\$0	\$0	\$0	\$0	\$0	\$0	
Net Annual Debt Service	\$1,257,920	\$1,257,920	\$1,257,920	\$1,924,586	\$1,924,586	\$1,924,586	
Rate Funded Capital	\$0	\$0	\$300,000	\$600,000	\$950,000	\$1,300,000	\$9,091,701 FY 2015-16 Dep. Exp
Transfer To / (From) Reserves							
To/(From) Operating Reserve - F511	\$0	\$1,854	(\$0)	\$1,536,731	\$1,160,308	\$642,968	
To/(From) Capital Reserve - F513	0	(972,115)	(164,582)	1,000,000	450,000	0	
Total Transfer To / (From) Reserves	\$0	(\$970,260)	(\$164,582)	\$2,536,731	\$1,610,308	\$642,968	
Total Revenue Requirement	\$15,828,810	\$15,502,704	\$17,285,715	\$21,666,062	\$21,839,010	\$22,010,124	
Bal/(Def.) of Funds	(\$2,070,493)	(\$1,698,867)	(\$3,414,722)	(\$7,721,540)	(\$7,779,451)	(\$7,837,797)	
Rate Adj. as a % of Rate Rev.	15.3%	12.5%	25.0%	56.3%	56.3%	56.3%	
Proposed Rate Adjustment	0.0%	25.0%	0.0%	25.0%	0.0%	0.0%	
Add'l Revenue from Adj.	\$0	\$1,698,867	\$3,414,722	\$7,721,540	\$7,779,451	\$7,837,797	
Total Bal/(Def.) of Funds	(\$2,070,493)	\$0	\$0	\$0	(\$0)	\$0	
Additional Rate Increase Needed	15.3%	0.0%	0.0%	0.0%	0.0%	0.0%	

City of Tracy
Water Cost of Service Study
Exhibit 3
Revenue Requirement

	<i>Budgeted</i>		<i>Projected</i>				<i>Notes</i>
	<i>FY 2016-17</i>	<i>FY 2017-18</i>	<i>FY 2018-19</i>	<i>FY 2019-20</i>	<i>FY 2020-21</i>	<i>FY 2021-22</i>	
Debt Service Coverage Ratio (DSC)							
Before Rate Adjustment	0.17	0.00	0.00	0.00	0.00	0.00	
After Rate Adjustment	0.17	1.09	2.02	3.26	3.00	2.72	
Avg Monthly Res Bill (5/8 x 3/4" Meter + 15 CCF)							
After Proposed Rate Adjustment	\$26.70	\$32.80	\$32.80	\$41.00	\$41.00	\$41.00	
Annual \$ Change		6.10	0.00	8.20	0.00	0.00	
Cumulative Change		6.10	6.10	14.30	14.30	14.30	
Operating Reserve - F511							
Beginning Balance	\$0	\$0	\$1,854	\$1,854	\$1,538,585	\$2,698,893	
Plus: Additions	0	1,854	0	1,536,731	1,160,308	642,968	
Less: Uses of Funds	0	0	(0)	0	0	0	
Ending Balance	\$0	\$1,854	\$1,854	\$1,538,585	\$2,698,893	\$3,341,862	
<i>Target: 60 days of O&M</i>	<i>\$2,226,518</i>	<i>\$2,322,284</i>	<i>\$2,422,898</i>	<i>\$2,528,626</i>	<i>\$2,639,755</i>	<i>\$2,756,586</i>	
Capital Reserve - F513							
Beginning Balance	\$1,129,759	\$1,295,034	\$199,170	\$16,713	\$874,473	\$1,518,936	
Plus: Additions	0	0	0	1,000,000	450,000	0	
Wastewater Loan	2,000,000	0	0	0	0	0	
Plus: Connection Fees	750,530	754,283	758,054	761,844	767,558	773,315	As Customer Growth
Less: Uses of Funds	(2,292,700)	(1,850,147)	(940,512)	(904,084)	(573,095)	(242,618)	
Ending Balance	\$1,587,589	\$199,170	\$16,713	\$874,473	\$1,518,936	\$2,049,633	
<i>Target: Average Annual CIP (5-year)</i>	<i>\$1,469,410</i>	<i>\$1,469,410</i>	<i>\$1,469,410</i>	<i>\$1,469,410</i>	<i>\$1,469,410</i>	<i>\$1,469,410</i>	
Total Reserve Funds	\$1,587,589	\$201,025	\$18,567	\$2,413,058	\$4,217,829	\$5,391,495	
<i>Total Target Ending Fund Balance</i>	<i>\$3,695,928</i>	<i>\$3,791,694</i>	<i>\$3,892,307</i>	<i>\$3,998,036</i>	<i>\$4,109,165</i>	<i>\$4,225,995</i>	

City of Tracy
Water Cost of Service Study
Exhibit 4
Capital Improvement Plan

Inflation 2.7%

Capital Projects	Project #	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	Total	Notes
Capital Improvement Projects									
Aquifer Storage & Recovery Program	75078	\$100,000	\$0	\$0	\$0	\$0	\$0	\$100,000	F513
Water Main - MacArthur Drive	75108	0	116,462	0	0	0	0	116,462	F513
Water Dist. Sys. Capacity Maint. Mangmnt Sys.	75113	25,000	0	0	0	0	0	25,000	F513
WTP - Water Filter Replacement	75126	50,000	0	0	0	0	0	50,000	F513
SCADA Replacement	75130	180,000	0	0	0	0	0	180,000	F513
Water Main Replacement Program - FY 2016/17	75136	330,000	0	0	0	0	0	330,000	F513
Conjunctive Groundwater Use Study	75137	62,700	0	0	0	0	0	62,700	F513
Water Meter Replacement Program - FY 2016/17	75138	800,000	0	0	0	0	0	800,000	F513
Plant Equipment Replacements - FY 2016/17	75139	260,000	0	0	0	0	0	260,000	F513
WTP - Influent Pump Station Meter	75140	10,000	0	0	0	0	0	10,000	F513
WTP - Baffle Curtain Replacement	75141	100,000	0	0	0	0	0	100,000	F513
WTP - Valve Replacement	75142	100,000	0	0	0	0	0	100,000	F513
Water Purch. for Semitropic Water Storage	75991	275,000	282,425	290,050	297,882	305,925	314,185	1,765,467	F511
Water Line Replacement Program	75PP-001b	0	385,125	395,523	406,203	417,170	428,434	2,032,454	F513
Water Line Replacement - 20th to 23rd St	75PP-077	0	0	2,510,255	0	0	0	2,510,255	F513
Water Line Replacement - Bessie Ave	75PP-097	0	1,294,020	0	0	0	0	1,294,020	F513
Water Filter Replacement Program	75PP-105	0	0	580,101	0	0	0	580,101	F513
Water Meter Replacement Program	75PP-107b	0	800,000	800,000	800,000	800,000	800,000	4,000,000	F513
Less: Deferred Capital Projects	Multiple	0	(2,000,000)	(3,500,000)	0	0	0	(5,500,000)	Multiple
Total Capital Projects		\$2,292,700	\$878,032	\$1,075,930	\$1,504,084	\$1,523,095	\$1,542,618	\$8,816,459	
Future Unidentified Projects		\$0	\$0	\$0	\$0	\$0	\$0	\$0	
To Capital Reserves		\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Total Capital Improvement Projects		\$2,292,700	\$878,032	\$1,075,930	\$1,504,084	\$1,523,095	\$1,542,618	\$8,816,459	
Less: Outside Funding Sources									
Operating Reserve - F511		\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Capital Reserve - F513		2,292,700	878,032	775,930	904,084	573,095	242,618	12,550,992	
New SRF Loans		0	0	0	0	0	0	0	
New Revenue Bonds		0	0	0	0	0	0	0	
Total Outside Funding Sources		\$2,292,700	\$878,032	\$775,930	\$904,084	\$573,095	\$242,618	\$5,666,459	
Rate Funded Capital		\$0	\$0	\$300,000	\$600,000	\$950,000	\$1,300,000	\$1,850,000	

City of Tracy
Water Cost of Service Study
Exhibit 5
Revenues at Present Rates - FY 2016-17

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-15	Dec-15	Total	
Residential														
Service Charge	\$ / Mo.													
5/8" & 3/4"	\$11.70	9,484	9,484	9,484	9,484	9,484	9,484	9,484	9,484	9,484	9,484	9,484	9,484	
5/8" & 3/4" LIRA	0.00	757	757	757	757	757	757	757	757	757	757	757	757	
1"	20.40	11,140	11,140	11,140	11,140	11,140	11,140	11,140	11,140	11,140	11,140	11,140	11,140	
1" LIRA	0.00	597	597	597	597	597	597	597	597	597	597	597	597	
1.5"	46.65	8	8	8	8	8	8	8	8	8	8	8	8	
2"	82.75	0	0	0	0	0	0	0	0	0	0	0	0	
3"	186.25	0	0	0	0	0	0	0	0	0	0	0	0	
4"	331.25	0	0	0	0	0	0	0	0	0	0	0	0	
6"	745.25	0	0	0	0	0	0	0	0	0	0	0	0	
8"	1,325.05	0	0	0	0	0	0	0	0	0	0	0	0	
10"	2,070.40	0	0	0	0	0	0	0	0	0	0	0	0	
		21,986	21,986	21,986	21,986	21,986	21,986	21,986	21,986	21,986	21,986	21,986	21,986	
Total Fixed Charge Revenue		\$338,592	\$338,592	\$338,592	\$338,592	\$338,592	\$338,592	\$338,592	\$338,592	\$338,592	\$338,592	\$338,592	\$4,063,104	
Consumption Charge	\$ / CCF													
<i>Summer (May - Oct)</i>														
0 - 18	\$1.00	--	--	--	--	220,241	260,924	298,425	304,169	286,260	306,206	--	--	1,676,225
19 - 29	1.45	--	--	--	--	23,861	43,294	75,913	82,344	61,816	80,000	--	--	367,228
30 - 287	1.65	--	--	--	--	15,265	32,342	75,421	81,784	51,832	74,356	--	--	331,000
287 +	1.80	--	--	--	--	267	0	7	0	507	73	--	--	854
<i>Winter (Nov - Apr)</i>														
0 - 12	\$1.00	152,262	164,974	155,764	189,338	--	--	--	--	--	--	210,256	164,138	1,036,732
13 - 19	1.45	18,915	23,910	18,934	38,480	--	--	--	--	--	--	59,702	23,665	183,606
20 - 191	1.65	17,896	24,597	16,580	39,266	--	--	--	--	--	--	71,643	22,260	192,242
191 +	1.80	0	0	0	0	--	--	--	--	--	--	174	15	189
		189,073	213,481	191,278	267,084	259,634	336,560	449,766	468,297	400,415	460,635	341,775	210,078	3,788,076
Total Consumption Revenue		\$209,217	\$240,229	\$210,575	\$309,923	\$280,507	\$377,065	\$532,956	\$558,511	\$462,329	\$545,025	\$415,348	\$235,208	\$4,376,893
Total Residential		\$547,809	\$578,821	\$549,167	\$648,515	\$619,099	\$715,657	\$871,548	\$897,103	\$800,921	\$883,617	\$753,940	\$573,800	\$8,439,997

City of Tracy
 Water Cost of Service Study
 Exhibit 5
 Revenues at Present Rates - FY 2016-17

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-15	Dec-15	Total	
Multi-Family														
Service Charge	\$ / Mo.													
5/8" & 3/4"	\$11.70	452	452	452	452	452	452	452	452	452	452	452	452	
5/8" & 3/4" LIRA	0.00	30	30	30	30	30	30	30	30	30	30	30	30	
1"	20.40	61	61	61	61	61	61	61	61	61	61	61	61	
1" LIRA	0.00	0	0	0	0	0	0	0	0	0	0	0	0	
1.5"	46.65	28	28	28	28	28	28	28	28	28	28	28	28	
2"	82.75	38	38	38	38	38	38	38	38	38	38	38	38	
3"	186.25	15	15	15	15	15	15	15	15	15	15	15	15	
4"	331.25	14	14	14	14	14	14	14	14	14	14	14	14	
6"	745.25	9	9	9	9	9	9	9	9	9	9	9	9	
8"	1,325.05	3	3	3	3	3	3	3	3	3	3	3	3	
10"	2,070.40	0	0	0	0	0	0	0	0	0	0	0	0	
		650	650	650	650	650	650	650	650	650	650	650	650	
Total Fixed Charge Revenue		\$29,097	\$29,097	\$29,097	\$29,097	\$29,097	\$29,097	\$29,097	\$29,097	\$29,097	\$29,097	\$29,097	\$349,166	
Consumption Charge	\$ / CCF													
<i>Summer (May - Oct)</i>														
0 - 18	\$1.00	--	--	--	--	7,932	8,467	8,987	8,724	8,491	9,049	--	--	51,650
19 - 29	1.45	--	--	--	--	2,328	2,718	3,431	3,156	2,815	3,389	--	--	17,837
30 - 287	1.65	--	--	--	--	11,616	13,374	16,100	15,473	14,936	18,041	--	--	89,540
287 +	1.80	--	--	--	--	7,177	28,819	14,736	12,582	11,136	16,941	--	--	91,391
<i>Winter (Nov - Apr)</i>														
0 - 12	\$1.00	5,957	6,179	5,942	6,282	--	--	--	--	--	6,347	5,993	36,700	
13 - 19	1.45	2,076	2,321	2,026	2,480	--	--	--	--	--	2,570	2,082	13,555	
20 - 191	1.65	10,556	12,632	10,671	13,435	--	--	--	--	--	15,147	10,650	73,091	
191 +	1.80	9,384	11,622	8,565	11,549	--	--	--	--	--	16,739	8,947	66,806	
		27,973	32,754	27,204	33,746	29,053	53,378	43,254	39,935	37,378	47,420	40,803	27,672	440,570
Total Consumption Revenue		\$43,276	\$51,307	\$41,904	\$52,834	\$43,393	\$86,349	\$67,052	\$61,478	\$57,262	\$74,225	\$65,196	\$42,689	\$686,964
Total Multi-Family		\$72,373	\$80,404	\$71,001	\$81,931	\$72,490	\$115,447	\$96,149	\$90,575	\$86,359	\$103,322	\$94,293	\$71,786	\$1,036,130

City of Tracy
Water Cost of Service Study
Exhibit 5
Revenues at Present Rates - FY 2016-17

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-15	Dec-15	Total
Commercial													
Service Charge	\$ / Mo.												
5/8" & 3/4"	244	244	244	244	244	244	244	244	244	244	244	244	244
1"	180	180	180	180	180	180	180	180	180	180	180	180	180
1.5"	63	63	63	63	63	63	63	63	63	63	63	63	63
2"	210	210	210	210	210	210	210	210	210	210	210	210	210
3"	29	29	29	29	29	29	29	29	29	29	29	29	29
4"	26	26	26	26	26	26	26	26	26	26	26	26	26
6"	13	13	13	13	13	13	13	13	13	13	13	13	13
8"	5	5	5	5	5	5	5	5	5	5	5	5	5
10"	3	3	3	3	3	3	3	3	3	3	3	3	3
	773	773	773	773	773	773	773	773	773	773	773	773	773
Total Fixed Charge Revenue	\$63,382	\$63,382	\$63,382	\$63,382	\$63,382	\$63,382	\$63,382	\$63,382	\$63,382	\$63,382	\$63,382	\$63,382	\$760,580
Consumption Charge	\$ / CCF												
<i>Summer (May - Oct)</i>													
0 - 18	--	--	--	--	8,033	8,430	8,717	8,924	8,698	9,239	--	--	52,041
19 - 29	--	--	--	--	3,119	3,421	3,735	3,848	3,687	4,052	--	--	21,862
30 - 287	--	--	--	--	25,117	27,928	35,880	32,861	31,538	36,836	--	--	190,160
287 +	--	--	--	--	26,128	37,263	55,776	47,713	43,357	61,060	--	--	271,297
<i>Winter (Nov - Apr)</i>													
0 - 12	5,477	5,820	5,707	6,171	--	--	--	--	--	--	6,460	5,617	35,252
13 - 19	2,014	2,222	2,178	2,491	--	--	--	--	--	--	2,762	2,153	13,820
20 - 191	16,421	19,093	17,816	23,332	--	--	--	--	--	--	27,016	18,590	122,268
191 +	18,763	26,066	20,791	34,457	--	--	--	--	--	--	41,289	22,539	163,905
	42,675	53,201	46,492	66,451	62,397	77,042	104,108	93,346	87,280	111,187	77,527	48,899	870,605
Total Consumption Revenue	\$69,265	\$87,464	\$75,685	\$110,303	\$101,029	\$126,545	\$173,732	\$154,608	\$144,124	\$185,802	\$129,362	\$79,983	\$1,437,902
Total Commercial	\$132,647	\$150,846	\$139,067	\$173,685	\$164,411	\$189,927	\$237,113	\$217,989	\$207,506	\$249,184	\$192,743	\$143,364	\$2,198,482

City of Tracy
 Water Cost of Service Study
 Exhibit 5
 Revenues at Present Rates - FY 2016-17

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-15	Dec-15	Total	
Irrigation														
<u>Service Charge</u>	<u>\$ / Mo.</u>													
5/8" & 3/4"	\$11.70	12	12	12	12	12	12	12	12	12	12	12	12	
1"	20.40	108	108	108	108	108	108	108	108	108	108	108	108	
1.5"	46.65	29	29	29	29	29	29	29	29	29	29	29	29	
2"	82.75	189	189	189	189	189	189	189	189	189	189	189	189	
3"	186.25	13	13	13	13	13	13	13	13	13	13	13	13	
4"	331.25	2	2	2	2	2	2	2	2	2	2	2	2	
6"	745.25	3	3	3	3	3	3	3	3	3	3	3	3	
8"	1,325.05	1	1	1	1	1	1	1	1	1	1	1	1	
10"	2,070.40	0	0	0	0	0	0	0	0	0	0	0	0	
		357	357	357	357	357	357	357	357	357	357	357	357	
Total Fixed Charge Revenue		\$25,981	\$25,981	\$25,981	\$25,981	\$25,981	\$25,981	\$25,981	\$25,981	\$25,981	\$25,981	\$25,981	\$311,769	
<u>Consumption Charge</u>	<u>\$ / CCF</u>													
<i>Summer (May - Oct)</i>														
0 - 18	\$1.00	--	--	--	--	4,917	5,583	5,700	5,903	5,974	6,038	--	--	34,115
19 - 29	1.45	--	--	--	--	2,434	2,988	3,258	3,370	3,412	3,481	--	--	18,943
30 - 287	1.65	--	--	--	--	22,332	33,954	46,452	45,802	47,469	48,996	--	--	245,005
287 +	1.80	--	--	--	--	11,842	38,186	66,200	54,378	53,358	69,565	--	--	293,529
<i>Winter (Nov - Apr)</i>														
0 - 12	\$1.00	1,030	1,208	1,364	2,740	--	--	--	--	--	3,779	1,581	11,702	
13 - 19	1.45	395	431	580	1,303	--	--	--	--	--	1,958	694	5,361	
20 - 191	1.65	2,624	2,232	4,975	12,521	--	--	--	--	--	24,288	5,273	51,913	
191 +	1.80	1,130	827	1,665	9,864	--	--	--	--	--	18,888	2,695	35,069	
		5,179	4,698	8,584	26,428	41,525	80,711	121,610	109,453	110,213	128,080	48,913	10,243	695,637
Total Consumption Revenue		\$7,966	\$7,004	\$13,411	\$43,044	\$66,610	\$134,675	\$206,230	\$184,243	\$185,290	\$217,146	\$80,692	\$16,139	\$1,162,449
Total Irrigation		\$33,947	\$32,985	\$39,392	\$69,025	\$92,590	\$160,655	\$232,211	\$210,224	\$211,270	\$243,127	\$106,672	\$42,120	\$1,474,218

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-15	Dec-15	Total	
High User														
Service Charge	\$ / Mo.													
2" High User		0	0	0	0	0	0	0	0	0	0	0	0	0
6" High User		2	2	2	2	2	2	2	2	2	2	2	2	2
		2	2	2	2	2	2	2	2	2	2	2	2	2
Total Fixed Charge Revenue	\$1,491	\$1,491	\$1,491	\$1,491	\$1,491	\$1,491	\$1,491	\$1,491	\$1,491	\$1,491	\$1,491	\$1,491	\$1,491	\$17,886
Consumption Charge	\$ / CCF													
All Use	20,815	25,615	19,245	26,935	19,635	20,750	21,025	26,295	20,735	30,035	27,250	22,455		280,790
Total Consumption Revenue	\$26,435	\$32,531	\$24,441	\$34,207	\$24,936	\$26,353	\$26,702	\$33,395	\$26,333	\$38,144	\$34,608	\$28,518		\$356,603
Total High User	\$27,926	\$34,022	\$25,932	\$35,698	\$26,427	\$27,843	\$28,192	\$34,885	\$27,824	\$39,635	\$36,098	\$30,008		\$374,489
Revenue Detail														
Residential														
Fixed	\$338,592	\$338,592	\$338,592	\$338,592	\$338,592	\$338,592	\$338,592	\$338,592	\$338,592	\$338,592	\$338,592	\$338,592	\$338,592	\$4,063,104 48.1%
Variable	209,217	240,229	210,575	309,923	280,507	377,065	532,956	558,511	462,329	545,025	415,348	235,208		4,376,893 51.9%
Commercial														
Fixed	\$63,382	\$63,382	\$63,382	\$63,382	\$63,382	\$63,382	\$63,382	\$63,382	\$63,382	\$63,382	\$63,382	\$63,382	\$63,382	\$760,580 34.6%
Variable	69,265	87,464	75,685	110,303	101,029	126,545	173,732	154,608	144,124	185,802	129,362	79,983		1,437,902 65.4%
High User														
Fixed	\$1,491	\$1,491	\$1,491	\$1,491	\$1,491	\$1,491	\$1,491	\$1,491	\$1,491	\$1,491	\$1,491	\$1,491	\$1,491	\$17,886 4.8%
Variable	26,435	32,531	24,441	34,207	24,936	26,353	26,702	33,395	26,333	38,144	34,608	28,518		356,603 95.2%
Irrigation														
Fixed	25,981	25,981	25,981	25,981	25,981	25,981	25,981	25,981	25,981	25,981	25,981	25,981	25,981	\$311,769 21.1%
Variable	7,966	7,004	13,411	43,044	66,610	134,675	206,230	184,243	185,290	217,146	80,692	16,139		1,162,449 78.9%
	\$742,329	\$796,673	\$753,557	\$926,923	\$902,527	\$1,094,082	\$1,369,064	\$1,360,202	\$1,247,521	\$1,415,562	\$1,089,454	\$789,292		\$12,487,186

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-15	Dec-15	Total
Summary													
Customer Accounts													
Residential	21,986	21,986	21,986	21,986	21,986	21,986	21,986	21,986	21,986	21,986	21,986	21,986	21,986
Multi-Family	650	650	650	650	650	650	650	650	650	650	650	650	650
Commercial	773	773	773	773	773	773	773	773	773	773	773	773	773
High User	2	2	2	2	2	2	2	2	2	2	2	2	2
Irrigation	357	357	357	357	357	357	357	357	357	357	357	357	357
	23,768	23,768	23,768	23,768	23,768	23,768	23,768	23,768	23,768	23,768	23,768	23,768	23,768
Consumption													
Residential	189,073	213,481	191,278	267,084	259,634	336,560	449,766	468,297	400,415	460,635	341,775	210,078	3,788,076
Multi-Family	27,973	32,754	27,204	33,746	29,053	53,378	43,254	39,935	37,378	47,420	40,803	27,672	440,570
Commercial	42,675	53,201	46,492	66,451	62,397	77,042	104,108	93,346	87,280	111,187	77,527	48,899	870,605
High User	20,815	25,615	19,245	26,935	19,635	20,750	21,025	26,295	20,735	30,035	27,250	22,455	280,790
Irrigation	5,179	4,698	8,584	26,428	41,525	80,711	121,610	109,453	110,213	128,080	48,913	10,243	695,637
	285,715	329,749	292,803	420,644	412,244	568,441	739,763	737,326	656,021	777,357	536,268	319,347	6,075,678
Total Revenue													
Residential	\$547,809	\$578,821	\$549,167	\$648,515	\$619,099	\$715,657	\$871,548	\$897,103	\$800,921	\$883,617	\$753,940	\$573,800	\$8,439,997
Multi-Family	\$72,373	\$80,404	\$71,001	\$81,931	\$72,490	\$115,447	\$96,149	\$90,575	\$86,359	\$103,322	\$94,293	\$71,786	\$1,036,130
Commercial	132,647	150,846	139,067	173,685	164,411	189,927	237,113	217,989	207,506	249,184	192,743	143,364	2,198,482
High User	27,926	34,022	25,932	35,698	26,427	27,843	28,192	34,885	27,824	39,635	36,098	30,008	374,489
Irrigation	33,947	32,985	39,392	69,025	92,590	160,655	232,211	210,224	211,270	243,127	106,672	42,120	1,474,218
	814,702	877,077	824,558	1,008,854	975,017	1,209,528	1,465,213	1,450,777	1,333,880	1,518,884	1,183,747	861,079	\$13,523,316
													Total Fixed Revenue
													\$5,153,339
													Total Variable Revenue
													7,333,847
													FY 2016-17 Budget
													\$13,320,000
													<i>Difference</i>
													\$203,316
													<i>Percent</i>
													1.5%
													FY 2015-16 Est.
													\$12,877,000
													<i>Difference</i>
													\$646,316
													<i>Percent</i>
													5.0%

City of Tracy
 Water Cost of Service Study
 Exhibit 6
 Commodity Allocation Factor

	Recent 12 Mo. Consumption (CCF)	19.5% Losses [1]	Net Water Delivered (Flow + Loss)	Base Consumption (MGD)	Component % of Total	Total % of Total
Residential						62.3%
Tier 1	2,712,957	529,027	3,241,984	6.64	44.7%	
Tier 2	586,988	114,463	701,451	1.44	9.7%	
Tier 3	336,695	65,656	402,351	0.82	5.5%	
Tier 4	151,436	29,530	180,966	0.37	2.5%	
Commercial [3]	870,605	169,768	1,040,373	2.13	14.3%	14.3%
Multi-Family	440,570	85,911	526,481	1.08	7.3%	7.3%
High User	280,790	54,754	335,544	0.69	4.6%	4.6%
Irrigation [3]	695,637	135,649	831,286	1.70	11.4%	11.4%
Total	6,075,678	1,184,757	7,260,435	14.88	100.0%	100.0%

Water Production [2] 14.90

Notes

[1] - Estimated; includes non-revenue water

[2] - Water System Average Day Data Provided by City - 2012 Master Plan Table 4-8

[3] - Includes City water consumption

(COM)

City of Tracy
 Water Cost of Service Study
 Exhibit 7
 Capacity Allocation Factor

	Average Consumption (MGD)	Peaking Factors [1]	Peak Day Use (MGD)	Component % of Total	Class % of Total
Residential					53.5%
Tier 1	6.64	1.16	7.68	33.1%	
Tier 2	1.44	1.65	2.37	10.2%	
Tier 3	0.82	1.89	1.56	6.7%	
Tier 4	0.37	2.11	0.78	3.4%	
Commercial	2.13	2.03	4.33	18.7%	18.7%
Multi-Family	1.08	1.68	1.81	7.8%	7.8%
High User	0.69	1.28	0.88	3.8%	3.8%
Irrigation	1.70	2.21	3.76	16.2%	16.2%
	-----		-----	-----	-----
Total	14.88		23.18	100.0%	100.0%
		Historical Peak Day [2]	27.10		

Notes

[1] - Tier relationship based on peak to average month usage; data from 11/2015 - 10/2016

[2] - Water System Peak Day Data Provided by City - 2012 Master Plan Table 4-8

(CAP)

City of Tracy
 Water Cost of Service Study
 Exhibit 8
 Customer Allocation Factors

	<i>Actual Customer</i>		<i>Customer Service & Acctng.</i>			<i>Meters & Services</i>	
	Number of Meters	% of Total	Weighting Factor	Number of Wt. Accts.	% of Total	Weighted Customer [1]	% of Total
Residential	21,986	92.5%	1.00	21,986	88.8%	29,868	81.2%
Commercial	773	3.3%	1.00	773	3.1%	3,527	9.6%
Multi-Family	650	2.7%	2.50	1,625	6.6%	1,723	4.7%
High User	2	0.0%	5.00	10	0.0%	67	0.2%
Irrigation	357	1.5%	1.00	357	1.4%	1,613	4.4%
Total	23,768	100.0%		24,751	100.0%	36,798	100.0%

Notes

[1] - Based on number of equivalent meters using the City's current meter equivalencies; see Table 1

(AC)

(WCA)

(WCMS)

Development of Equivalent Meter Allocation Factor

Table 1

Number of Meters											
	5/8" & 3/4"	1"	1.5"	2"	3"	4"	6"	8"	10"	Total	% of Total
Residential	10,241	11,737	8	0	0	0	0	0	0	21,986	92.5%
Commercial	244	180	63	210	29	26	13	5	3	773	3.3%
Multi-Family	482	61	28	38	15	14	9	3	0	650	2.7%
High User	0	0	0	0	0	0	2	0	0	2	0.0%
Irrigation	12	108	29	189	13	2	3	1	0	357	1.5%
Total Meters	10,979	12,086	128	437	57	42	27	9	3	23,768	
Equivalency Factor [1]	1.00	1.67	3.33	5.33	10.00	16.67	33.33	53.33	76.67		
Equivalent Meters											
	5/8" & 3/4"	1"	1.5"	2"	3"	4"	6"	8"	10"	Total	Weighting Factor
Residential	10,241	19,601	27	0	0	0	0	0	0	29,868	1.36
Commercial	244	301	210	1,119	290	433	433	267	230	3,527	4.56
Multi-Family	482	102	93	203	150	233	300	160	0	1,723	2.65
High User	0	0	0	0	0	0	67	0	0	67	33.33
Irrigation	12	180	97	1,007	130	33	100	53	0	1,613	4.52
Total Equivalent Meters	10,967	20,003	330	1,322	440	667	733	427	230	35,118	
Notes											

[1] - Based on AWWA meter equivalencies based on safe operating conditions from the AWWA M1 Manual

City of Tracy
 Water Cost of Service Study
 Exhibit 9
 Public Fire Allocation Factor

	Number of Meters	Fire Prot. Requirements (gals/min) [1]	Duration (minutes)	Total FP Requirements (1,000 g/min)	% of Total
Residential	21,986	1,000	90	1,978,740	75.5%
Commercial	773	2,500	180	347,850	13.3%
Multi-Family	650	2,500	180	292,500	11.2%
High User	2	5,000	240	2,400	0.1%
Irrigation	357	0	0	0	0.0%
Total	23,768			2,621,490	100.0%

Notes

(FP)

City of Tracy
 Water Cost of Service Study
 Exhibit 10
 Revenue Related Allocation Factor

	Projected FY 2017-18	% of Total
Residential	\$8,482,197	62.4%
Multi-Family	1,041,311	7.7%
Commercial	2,209,475	16.3%
High User	376,362	2.8%
Irrigation	1,481,589	10.9%
Total	\$13,590,933	100.0%

Notes

(RR)

DRAFT

City of Tracy
Water Cost of Service Study
Exhibit 11
Net Plant In Service

	Net Plant 06/30/15	Commodity (COMM)	Capacity (CAP)	Customer Related			Public Fire Protection (FP)	Revenue Related (RR)	Direct Assign. (DA)	Basis of Classification
				Actual Customer (AC)	Cust. Acctg. (WCA)	Meters & Services (WCMS)				
Source of Supply	\$23,185,932	\$12,752,263	\$10,433,670	\$0	\$0	\$0	\$0	\$0	\$0	55.0% COMM 45.0% CAP
Total Source of Supply	\$23,185,932	\$12,752,263	\$10,433,670	\$0	\$0	\$0	\$0	\$0	\$0	
Treatment	\$64,326,577	\$35,379,617	\$28,946,960	\$0	\$0	\$0	\$0	\$0	\$0	55.0% COMM 45.0% CAP
Total Treatment	\$64,326,577	\$35,379,617	\$28,946,960	\$0	\$0	\$0	\$0	\$0	\$0	
Pumping	\$3,133,403	\$0	\$3,133,403	\$0	\$0	\$0	\$0	\$0	\$0	100.0% CAP
Total Pumping	\$3,133,403	\$0	\$3,133,403	\$0	\$0	\$0	\$0	\$0	\$0	
Transmission & Distribution										
Mains	\$73,378,019	\$0	\$39,773,762	\$29,351,208	\$0	\$0	\$4,253,049	\$0	\$0	40.0% AC 54.2% CAP 5.8% FP
Meters	209,186	0	0	0	0	209,186	0	0	0	100.0% WCMS
Hydrants	0	0	0	0	0	0	0	0	0	100.0% FP
Total Transmission & Distribution	\$73,587,205	\$0	\$39,773,762	\$29,351,208	\$0	\$209,186	\$4,253,049	\$0	\$0	
Storage	\$2,333,602	\$0	\$0	\$0	\$0	\$2,126,171	\$207,431	\$0	\$0	91.1% WCMS 8.9% FP
Total Storage	\$2,333,602	\$0	\$0	\$0	\$0	\$2,126,171	\$207,431	\$0	\$0	
Plant Before General Plant	\$166,566,720	\$48,131,880	\$82,287,794	\$29,351,208	\$0	\$2,335,357	\$4,460,481	\$0	\$0	
Percent Plant Before General Plant	100.0%	28.9%	49.4%	17.6%	0.0%	1.4%	2.7%	0.0%	0.0%	Factor PBG
General Plant	\$4,880,278	\$1,410,228	\$2,410,970	\$859,968	\$0	\$68,424	\$130,689	\$0	\$0	As Factor PBG
Total General Plant	\$4,880,278	\$1,410,228	\$2,410,970	\$859,968	\$0	\$68,424	\$130,689	\$0	\$0	
Total Net Plant in Service	\$171,446,999	\$49,542,108	\$84,698,764	\$30,211,176	\$0	\$2,403,781	\$4,591,169	\$0	\$0	

City of Tracy
 Water Cost of Service Study
 Exhibit 12
 Distribution Storage

Fire Protection

	Max Gal	Max Minutes	Total
Fire Flow Requirements	5,000	240	1,200,000
Storage Capacity		13.50	13,500,000
% Public Fire Protection			8.9%
% Capacity			91.1%

Source of Supply

Capacity/Commodity

Average Day (MGD)	14.90	COMM	55.0%
Peak Day (MGD)	27.10	(1-COMM)=CAP	45.0%

Distribution Main Analysis

Main Size	Length (ft)	Replcmt \$	Total
2"	820	\$31.00	\$25,420
4"	30,705	38.00	1,166,790
6"	232,614	57.00	13,258,998
8"	238,195	75.00	17,864,625
10"	41,310	94.00	3,883,140
12"	157,326	113.00	17,777,838
-----	-----	-----	-----
14"	27,090	132.00	3,575,880
16"	41,315	151.00	6,238,565
18"	23,789	170.00	4,044,130
20"	12,290	188.00	2,310,520
24"	8,578	226.00	1,938,628
30"	300	283.00	84,900
36"	21,820	339.00	7,396,980
-----	-----	-----	-----
Total 2" - 12"	700,970		\$53,976,811

Customer%

(1) Total (2" - 12") @ 2" Equip	\$21,730,070	40.0%
---------------------------------	--------------	--------------

Capacity

(2) Cost for 2" - 10"	\$36,198,973	
(3) Equip 10" - 12"	\$14,788,644	
1+2-3/4		54.2%

Fire Protection

1-comm-cap		5.8%
------------	--	-------------

FY 2017-18	Commodity (COM)	Capacity (CAP)	Customer Related			Public Fire Protection (FP)	Revenue Related (RR)	Direct Assign. (DA)	Basis of Classification	
			Actual Customer (AC)	Weighted for -						
				Cust. Acctg. (WCA)	Meters & Services (WCMS)					
Public Works Department - 23										
Water Distribution										
Personnel Expenses	\$889,446	\$0	\$482,115	\$355,778	\$0	\$0	\$51,553	\$0	\$0	As Trans & Dist - Mains
Contracted Service	18,730	0	10,153	7,492	0	0	1,086	0	0	As Trans & Dist - Mains
Commodities	113,919	0	61,748	45,567	0	0	6,603	0	0	As Trans & Dist - Mains
ISC Charges	210,308	0	0	0	0	210,308	0	0	0	100.0% WCMS
ROW Maint	1,591,378	0	862,589	636,551	0	0	92,238	0	0	As Trans & Dist - Mains
Total Water Distribution	\$2,823,781	\$0	\$1,416,605	\$1,045,389	\$0	\$210,308	\$151,479	\$0	\$0	
Water Meters										
Personnel Expenses	\$1,020,801	\$0	\$0	\$0	\$0	\$1,020,801	\$0	\$0	\$0	As Meters
Contracted Service	29,097	0	0	0	0	29,097	0	0	0	As Meters
Commodities	293,529	0	0	0	0	293,529	0	0	0	As Meters
ISC Charges	121,018	0	0	0	0	121,018	0	0	0	100.0% WCMS
Total Water Meters	\$1,464,446	\$0	\$0	\$0	\$0	\$1,464,446	\$0	\$0	\$0	
Utilities Standby										
Personnel Expenses	\$43,248	\$0	\$0	\$0	\$0	\$43,248	\$0	\$0	\$0	100.0% WCMS
Contracted Service	530	0	0	0	0	530	0	0	0	100.0% WCMS
Commodities	1,691	0	0	0	0	1,691	0	0	0	100.0% WCMS
ISC Charges	20,696	0	0	0	0	20,696	0	0	0	100.0% WCMS
Total Utilities Standby	\$66,165	\$0	\$0	\$0	\$0	\$66,165	\$0	\$0	\$0	
Total Public Works Department - 23	\$4,354,392	\$0	\$1,416,605	\$1,045,389	\$0	\$1,740,919	\$151,479	\$0	\$0	
Utilities Department - 25										
Utilities Administration										
Personnel Expenses	\$447,437	\$129,293	\$221,044	\$78,844	\$0	\$6,273	\$11,982	\$0	\$0	As Net Plant in Service
Contracted Service	49,820	14,396	24,612	8,779	0	699	1,334	0	0	As Net Plant in Service
Commodities	256	74	127	45	0	4	7	0	0	As Net Plant in Service
ISC Charges	15,103	0	0	0	0	15,103	0	0	0	100.0% WCMS
Total Utilities Administration	\$512,616	\$143,764	\$245,783	\$87,668	\$0	\$22,079	\$13,323	\$0	\$0	

City of Tracy
Water Cost of Service Study
Exhibit 13.1
Classification of the Revenue Requirement

FY 2017-18	Commodity (COM)	Capacity (CAP)	Customer Related			Public Fire Protection (FP)	Revenue Related (RR)	Direct Assign. (DA)	Basis of Classification	
			Actual Customer (AC)	Weighted for -						
				Cust. Acctg. (WCA)	Meters & Services (WCMS)					
Utilities Engineering										
Contracted Service	\$29,786	\$0	\$0	\$0	\$0	\$29,786	\$0	\$0	\$0	100.0% WCMS
Commodities	12,300	0	0	0	0	12,300	0	0	0	100.0% WCMS
Total Utilities Engineering	\$42,086	\$0	\$0	\$0	\$0	\$42,086	\$0	\$0	\$0	
Water Management										
Personnel Expenses	\$222,494	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$222,494	100.0% DA
Contracted Service	102,131	0	0	0	0	0	0	0	102,131	100.0% DA
Commodities	4,695	0	0	0	0	0	0	0	4,695	100.0% DA
ISC Charges	19,407	0	0	0	0	19,407	0	0	0	100.0% WCMS
Other Payments	29,486	0	0	0	0	0	0	0	29,486	100.0% DA
Total Water Management	\$378,212	\$0	\$0	\$0	\$0	\$19,407	\$0	\$0	\$358,805	
Water Wells & Pumps										
Personnel Expenses	\$228,112	\$0	\$228,112	\$0	\$0	\$0	\$0	\$0	\$0	100.0% Cap
Contracted Service	429,819	0	429,819	0	0	0	0	0	0	100.0% Cap
Commodities	59,952	0	59,952	0	0	0	0	0	0	100.0% Cap
ISC Charges	34,825	0	0	0	0	34,825	0	0	0	100.0% WCMS
Other Payments	173	0	173	0	0	0	0	0	0	100.0% Cap
Total Water Wells & Pumps	\$752,881	\$0	\$718,056	\$0	\$0	\$34,825	\$0	\$0	\$0	
Water Plant Maintenance										
Personnel Expenses	\$649,038	\$356,971	\$292,067	\$0	\$0	\$0	\$0	\$0	\$0	As Source of Supply
Contracted Service	64,957	35,726	29,231	0	0	0	0	0	0	As Source of Supply
Commodities	43,973	24,185	19,788	0	0	0	0	0	0	As Source of Supply
ISC Charges	27,567	0	0	0	0	27,567	0	0	0	100.0% WCMS
Total Water Plant Maintenance	\$785,535	\$416,882	\$341,085	\$0	\$0	\$27,567	\$0	\$0	\$0	
Utilities Laboratory										
Personnel Expenses	\$248,570	\$136,714	\$111,857	\$0	\$0	\$0	\$0	\$0	\$0	As Source of Supply
Contracted Service	100,159	55,088	45,072	0	0	0	0	0	0	As Source of Supply
Commodities	43,737	24,055	19,682	0	0	0	0	0	0	As Source of Supply
ISC Charges	31,830	0	0	0	0	31,830	0	0	0	100.0% WCMS
Total Utilities Laboratory	\$424,297	\$215,856	\$176,610	\$0	\$0	\$31,830	\$0	\$0	\$0	

	FY 2017-18	Commodity (COM)	Capacity (CAP)	Customer Related			Public Fire Protection (FP)	Revenue Related (RR)	Direct Assign. (DA)	Basis of Classification
				Actual Customer (AC)	Weighted for -					
				Cust. Acctg. (WCA)	Meters & Services (WCMS)					
Water Plant Operations										
Personnel Expenses	\$1,140,560	\$627,308	\$513,252	\$0	\$0	\$0	\$0	\$0	\$0	As Source of Supply
Contracted Service	4,555,377	1,127,456	922,464	0	0	2,505,457	0	0	0	45.0% SofS 55.0% WCMS
Commodities	786,011	432,306	353,705	0	0	0	0	0	0	As Source of Supply
ISC Charges	37,728	0	0	0	0	37,728	0	0	0	100.0% WCMS
Other Payments	21,315	11,723	9,592	0	0	0	0	0	0	As Source of Supply
Total Water Plant Operations	\$6,540,990	\$2,198,793	\$1,799,012	\$0	\$0	\$2,543,185	\$0	\$0	\$0	
Total Utilities Department - 25	\$9,436,617	\$2,975,295	\$3,280,547	\$87,668	\$0	\$2,720,979	\$13,323	\$0	\$358,805	
Utilities Engineering - Water										
Personnel Expenses	\$61,798	\$0	\$61,798	\$0	\$0	\$0	\$0	\$0	\$0	100.0% Cap
Contracted Service	8,480	0	8,480	0	0	0	0	0	0	100.0% Cap
ISC Charges	24,878	0	0	0	0	24,878	0	0	0	100.0% WCMS
Total Utilities Engineering - Water	\$95,156	\$0	\$70,278	\$0	\$0	\$24,878	\$0	\$0	\$0	
Capital Projects - 71										
Water Improvements										
Personnel Expenses	\$10,600	\$0	\$0	\$0	\$0	\$10,600	\$0	\$0	\$0	100.0% WCMS
Contracted Service	190,800	0	0	0	0	190,800	0	0	0	100.0% WCMS
Other Payments	39,666	0	0	0	0	39,666	0	0	0	100.0% WCMS
Total Water Improvements	\$241,066	\$0	\$0	\$0	\$0	\$241,066	\$0	\$0	\$0	
Total Capital Projects - 71	\$241,066	\$0	\$0	\$0	\$0	\$241,066	\$0	\$0	\$0	
Total Operations & Maintenance	\$14,127,230	\$2,975,295	\$4,767,429	\$1,133,057	\$0	\$4,727,841	\$164,802	\$0	\$358,805	

	FY 2017-18	Commodity (COM)	Capacity (CAP)	Customer Related			Public Fire Protection (FP)	Revenue Related (RR)	Direct Assign. (DA)	Basis of Classification
				Actual Customer (AC)	Weighted for -					
				Cust. Acctg. (WCA)	Meters & Services (WCMS)					
Annual Debt Service										
State Water Loan	\$1,257,920	\$363,494	\$621,441	\$221,662	\$0	\$17,637	\$33,686	\$0	\$0	As Net Plant in Service
New SRF Loans	0	0	0	0	0	0	0	0	0	As Net Plant in Service
New Revenue Bonds	0	0	0	0	0	0	0	0	0	As Net Plant in Service
Total Annual Debt Service	\$1,257,920	\$363,494	\$621,441	\$221,662	\$0	\$17,637	\$33,686	\$0	\$0	
Less Connection Fees	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	As Debt Service
Net Annual Debt Service	\$1,257,920	\$363,494	\$621,441	\$221,662	\$0	\$17,637	\$33,686	\$0	\$0	
Rate Funded Capital	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	100.0% WCMS
Transfer To / (From) Reserves										
To/(From) Operating Reserve - F511	\$1,854	\$536	\$916	\$327	\$0	\$26	\$50	\$0	\$0	As Net Plant in Service
To/(From) Capital Reserve - F513	(972,115)	(280,907)	(480,247)	(171,299)	0	(13,630)	(26,032)	0	0	As Net Plant in Service
Total Transfer To / (From) Reserves	(\$970,260)	(\$280,371)	(\$479,331)	(\$170,972)	\$0	(\$13,604)	(\$25,983)	\$0	\$0	
Total Revenue Requirement	\$15,502,704	\$3,372,758	\$5,446,945	\$1,375,434	\$0	\$4,747,126	\$201,636	\$0	\$358,805	
Less: Non-Operating Revenues										
Interest - Operating	\$1,854	\$403	\$652	\$165	\$0	\$568	\$24	\$0	\$43	As Total Rev Req
Receivables	190,950	41,543	67,091	16,941	0	58,471	2,484	0	4,419	As Total Rev Req
Fiscal	5,025	1,093	1,766	446	0	1,539	65	0	116	As Total Rev Req
Other Revenue	15,075	3,280	5,297	1,337	0	4,616	196	0	349	As Total Rev Req
Total Non-Operating Revenues	\$212,904	\$46,319	\$74,805	\$18,889	\$0	\$65,194	\$2,769	\$0	\$4,928	
Net Revenue Requirement	\$15,289,799	\$3,326,439	\$5,372,140	\$1,356,544	\$0	\$4,681,932	\$198,866	\$0	\$353,878	

FY 2017-18	Residential				Commercial	Multi-Family	High User	Irrigation	Notes
	Tier 1	Tier 2	Tier 3	Tier 4					
Public Works Department - 23									
Water Distribution									
Personnel Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Contracted Service	0	0	0	0	0	0	0	0	0
Commodities	0	0	0	0	0	0	0	0	0
ISC Charges	0	0	0	0	0	0	0	0	0
ROW Maint	0	0	0	0	0	0	0	0	0
Total Water Distribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Water Meters									
Personnel Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Contracted Service	0	0	0	0	0	0	0	0	0
Commodities	0	0	0	0	0	0	0	0	0
ISC Charges	0	0	0	0	0	0	0	0	0
Total Water Meters	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Utilities Standby									
Personnel Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Contracted Service	0	0	0	0	0	0	0	0	0
Commodities	0	0	0	0	0	0	0	0	0
ISC Charges	0	0	0	0	0	0	0	0	0
Total Utilities Standby	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Public Works Department - 23	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Utilities Department - 25									
Utilities Administration									
Personnel Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Contracted Service	0	0	0	0	0	0	0	0	0
Commodities	0	0	0	0	0	0	0	0	0
ISC Charges	0	0	0	0	0	0	0	0	0
Total Utilities Administration	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Utilities Engineering									
Contracted Service	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Commodities	0	0	0	0	0	0	0	0	0
Total Utilities Engineering	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

FY 2017-18	Residential				Commercial	Multi-Family	High User	Irrigation	Notes
	Tier 1	Tier 2	Tier 3	Tier 4					
Water Management									
Personnel Expenses	\$222,494	\$0	\$42,376	\$24,307	\$10,933	\$62,852	\$31,806	\$0	\$50,220
Contracted Service	102,131	0	19,452	11,158	5,018	28,851	14,600	0	23,052
Commodities	4,695	0	894	513	231	1,326	671	0	1,060
ISC Charges	0	0	0	0	0	0	0	0	0
Other Payments	29,486	0	5,616	3,221	1,449	8,329	4,215	0	6,655
Total Water Management	\$358,805	\$0	\$68,338	\$39,199	\$17,631	\$101,358	\$51,292	\$0	\$80,988
Water Wells & Pumps									
Personnel Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Contracted Service	0	0	0	0	0	0	0	0	0
Commodities	0	0	0	0	0	0	0	0	0
ISC Charges	0	0	0	0	0	0	0	0	0
Other Payments	0	0	0	0	0	0	0	0	0
Total Water Wells & Pumps	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Water Plant Maintenance									
Personnel Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Contracted Service	0	0	0	0	0	0	0	0	0
Commodities	0	0	0	0	0	0	0	0	0
ISC Charges	0	0	0	0	0	0	0	0	0
Total Water Plant Maintenance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Utilities Laboratory									
Personnel Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Contracted Service	0	0	0	0	0	0	0	0	0
Commodities	0	0	0	0	0	0	0	0	0
ISC Charges	0	0	0	0	0	0	0	0	0
Total Utilities Laboratory	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Water Plant Operations									
Personnel Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Contracted Service	0	0	0	0	0	0	0	0	0
Commodities	0	0	0	0	0	0	0	0	0
ISC Charges	0	0	0	0	0	0	0	0	0
Other Payments	0	0	0	0	0	0	0	0	0
Total Water Plant Operations	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Utilities Department - 25	\$358,805	\$0	\$68,338	\$39,199	\$17,631	\$101,358	\$51,292	\$0	\$80,988

City of Tracy
Water Cost of Service Study
Exhibit 13.2
Direct Assignment of Expenses

FY 2017-18	Residential				Commercial	Multi-Family	High User	Irrigation	Notes
	Tier 1	Tier 2	Tier 3	Tier 4					
Utilities Engineering - Water									
Personnel Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Contracted Service	0	0	0	0	0	0	0	0	0
ISC Charges	0	0	0	0	0	0	0	0	0
Total Utilities Engineering - Water	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Capital Projects - 71									
Water Improvements									
Personnel Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Contracted Service	0	0	0	0	0	0	0	0	0
Other Payments	0	0	0	0	0	0	0	0	0
Total Water Improvements	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Capital Projects - 71	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Operations & Maintenance	\$358,805	\$0	\$68,338	\$39,199	\$17,631	\$101,358	\$51,292	\$0	\$80,988
Transfers									
FD101 If Reimbursement	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
FD125 If Reimbursement	0	0	0	0	0	0	0	0	0
FD125 Indirect Costs	0	0	0	0	0	0	0	0	0
Spec Reserves - Leave	0	0	0	0	0	0	0	0	0
Total Transfers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Annual Debt Service									
State Water Loan	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
New SRF Loans	0	0	0	0	0	0	0	0	0
New Revenue Bonds	0	0	0	0	0	0	0	0	0
Total Annual Debt Service	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less Connection Fees	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Annual Debt Service	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

FY 2017-18	Residential				Commercial	Multi-Family	High User	Irrigation	Notes
	Tier 1	Tier 2	Tier 3	Tier 4					
Rate Funded Capital	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Transfer To / (From) Reserves									
To/(From) Operating Reserve - F511	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
To/(From) Capital Reserve - F513	0	0	0	0	0	0	0	0	
Total Transfer To / (From) Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Total Revenue Requirement	\$358,805	\$0	\$68,338	\$39,199	\$17,631	\$101,358	\$51,292	\$0	\$80,988
Less: Non-Operating Revenues									
Interest - Operating	\$43	\$0	\$8	\$5	\$2	\$12	\$6	\$0	\$10
Receivables	4,419	0	842	483	217	1,248	632	0	998
Fiscal	116	0	22	13	6	33	17	0	26
Other Revenue	349	0	66	38	17	99	50	0	79
Total Non-Operating Revenues	\$4,928	\$0	\$939	\$538	\$242	\$1,392	\$704	\$0	\$1,112
Net Revenue Requirement	\$353,878	\$0	\$67,400	\$38,660	\$17,388	\$99,966	\$50,588	\$0	\$79,875

City of Tracy
 Water Cost of Service Study
 Exhibit 14
 Allocation of Revenue Requirement - COM, CAP, & DA

		Residential				Commercial	Multi-Family	High User	Irrigation	Factor
		Tier 1	Tier 2	Tier 3	Tier 4					
Commodity	\$3,326,439	\$1,485,346	\$321,376	\$184,341	\$82,911	\$476,657	\$241,212	\$153,733	\$380,862	COM
Capacity	\$5,372,140	\$1,780,783	\$549,133	\$361,736	\$181,192	\$1,004,054	\$418,863	\$204,002	\$872,378	CAP
Direct Assign.	\$353,878	\$0	\$67,400	\$38,660	\$17,388	\$99,966	\$50,588	\$0	\$79,875	Exhibit 15.2
Net Revenue Requirement	\$9,052,456	\$3,266,129	\$937,909	\$584,737	\$281,492	\$1,580,677	\$710,663	\$357,734	\$1,333,115	

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City of Tracy
Water Cost of Service Study
Exhibit 15
Allocation of Revenue Requirement

	Total	Residential	Commercial	Multi-Family	High User	Irrigation	Factor
Commodity	\$3,326,439	\$2,073,975	\$476,657	\$241,212	\$153,733	\$380,862	<i>(COM)</i>
Capacity	\$5,372,140	\$2,872,843	\$1,004,054	\$418,863	\$204,002	\$872,378	<i>(CAP)</i>
Customer							
Actual Customer	\$1,356,544	\$1,254,838	\$44,119	\$37,098	\$114	\$20,376	<i>(AC)</i>
Cust. Acctg.	0	0	0	0	0	0	<i>(WCA)</i>
Meters & Services	4,681,932	3,800,250	448,758	219,221	8,481	205,222	<i>(WCMS)</i>
Total Customer	\$6,038,476	\$5,055,087	\$492,877	\$256,320	\$8,595	\$225,597	
Public Fire Protection	\$198,866	\$150,107	\$26,388	\$22,189	\$182	\$0	<i>(FP)</i>
Revenue Related	\$0	\$0	\$0	\$0	\$0	\$0	<i>(RR)</i>
Direct Assign.	\$353,878	\$123,449	\$99,966	\$50,588	\$0	\$79,875	<i>(DA)</i>
Net Revenue Requirement	\$15,289,799	\$10,275,461	\$2,099,942	\$989,172	\$366,512	\$1,558,712	

City of Tracy
 Water Cost of Service Study
 Exhibit 16
 Summary of Cost of Service

	Total	Residential	Commercial	Multi-Family	High User	Irrigation	Notes
Revenues at Present Rates	\$13,590,933	\$8,482,197	\$2,209,475	\$1,041,311	\$376,362	\$1,481,589	
Net Revenue Requirement	\$15,289,799	\$10,275,461	\$2,099,942	\$989,172	\$366,512	\$1,558,712	
<i>Bal/Def of Funds</i>	(\$1,698,867)	(\$1,793,264)	\$109,533	\$52,139	\$9,850	(\$77,123)	
Required % Change in Rates	12.5%	21.1%	-5.0%	-5.0%	-2.6%	5.2%	

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City of Tracy
Water Cost of Service Study
Exhibit 17
Summary of Unit Costs

	Total	Residential				Commercial	Multi-Family	High User	Irrigation	Notes
		Tier 1	Tier 2	Tier 3	Tier 4					
Consumption Related										
Commodity - \$/CCF	\$0.65	\$0.55	\$0.55	\$0.55	\$0.55	\$0.55	\$0.55	\$0.55	\$0.55	
Capacity - \$/CCF	1.05	0.66	0.94	1.07	1.20	1.15	0.95	0.73	1.25	
DA - \$/CCF	0.11	0.00	0.11	0.11	0.11	0.11	0.11	0.00	0.11	
	\$1.81	\$1.20	\$1.60	\$1.74	\$1.86	\$1.82	\$1.61	\$1.27	\$1.92	
<i>Differential</i>			<i>\$0.40</i>	<i>\$0.14</i>	<i>\$0.12</i>					
Current Rates (FY 2017)		\$1.00	\$1.45	\$1.65	\$1.80	\$1.65	\$1.56	\$1.27	\$1.67	
<i>Differential</i>			<i>\$0.45</i>	<i>\$0.20</i>	<i>\$0.15</i>					
Customer Related										
\$/Acct./Mo	\$3.22	\$3.50				\$1.04	\$1.79	\$4.76	\$4.76	
\$/Wt. Cust. Acctg./Mo	0.00	0.00				0.00	0.00	0.00	0.00	
\$/Wt. Meter/Mo	11.11	10.60				10.60	10.60	10.60	10.60	
RR/FP / Mo.	0.47	0.42				0.62	1.07	0.23	0.00	
	\$14.80	\$14.52				\$12.27	\$13.47	\$15.59	\$15.36	
Current Rates (FY 2017)		\$11.70				\$11.70	\$11.70	\$11.70	\$11.70	
Basic Data										
Consumption (1,000 gallons)	5,099,251	2,712,957	586,988	336,695	151,436	870,605	440,570	280,790	695,637	
# of Accounts	23,409	21,986				773	650	2	357	
# of Wt. Cust (WCA)	24,384	21,986				773	1,625	10	357	
# of Wt. Cust (WCMS)	35,118	29,868				3,527	1,723	67	1,613	

City of Tracy
Rate Schedule - Fixed Charges

	<i>Present Rates</i>	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
		25.0%	0.0%	25.0%	0.0%	0.0%
Service Charge						
5/8" & 3/4"	\$11.70	\$14.80	\$14.80	\$18.50	\$18.50	\$18.50
5/8" & 3/4" LIRA	0.00	0.00	0.00	0.00	0.00	0.00
1"	20.40	24.72	24.72	30.90	30.90	30.90
1" LIRA	0.00	0.00	0.00	0.00	0.00	0.00
1.5"	46.65	49.28	49.28	61.61	61.61	61.61
2"	82.75	78.88	78.88	98.61	98.61	98.61
3"	186.25	148.00	148.00	185.00	185.00	185.00
4"	331.25	246.72	246.72	308.40	308.40	308.40
6"	745.25	493.28	493.28	616.61	616.61	616.61
8"	1,325.05	789.28	789.28	986.61	986.61	986.61
10"	2,070.40	1,134.72	1,134.72	1,418.40	1,418.40	1,418.40

* - LIRA rates are not applicable to all customers and classes

** - LIRA rates are funded by other non rate revenues

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City of Tracy
Rate Schedule - Consumption Charges

	<i>Present Rates</i>	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
		25.0%	0.0%	25.0%	0.0%	0.0%
Consumption Charge						
<i>Summer (May - Oct)</i>						
0 - 18	\$1.00	--	--	--	--	--
19 - 29	1.45	--	--	--	--	--
30 - 287	1.65	--	--	--	--	--
287 +	1.80	--	--	--	--	--
<i>Winter (Nov - Apr)</i>						
0 - 12	\$1.00	--	--	--	--	--
13 - 19	1.45	--	--	--	--	--
20 - 191	1.65	--	--	--	--	--
191 +	1.80	--	--	--	--	--
Residential						
<i>Summer (May - Oct)</i>						
0 - 18	--	\$1.20	\$1.20	\$1.50	\$1.50	\$1.50
19 - 30	--	1.60	1.60	2.00	2.00	2.00
30 - 50	--	1.74	1.74	2.17	2.17	2.17
50 +	--	1.86	1.86	2.33	2.33	2.33
<i>Winter (Nov - Apr)</i>						
0 - 12	--	\$1.20	\$1.20	\$1.50	\$1.50	\$1.50
13 - 20	--	1.60	1.60	2.00	2.00	2.00
20 - 40	--	1.74	1.74	2.17	2.17	2.17
40 +	--	1.86	1.86	2.33	2.33	2.33
Commercial						
All Usage	--	\$1.84	\$1.84	\$2.18	\$2.18	\$2.18
Multi-Family						
All Usage	--	\$1.61	\$1.61	\$2.01	\$2.01	\$2.01
Irrigation						
All Usage	--	\$1.92	\$1.92	\$2.40	\$2.40	\$2.40
High User						
All Usage	\$1.27	\$1.27	\$1.27	\$1.59	\$1.59	\$1.59

<u>City</u>	<u>Water Bill *</u>
Tracy - Current	\$26.70
Tracy - Proposed	\$32.80
Stockton	\$64.45
Lodi	\$38.02
Dublin	\$93.53
Danville	\$44.85
Modesto	\$47.64
Pleasanton	\$69.65
Lathrop	\$67.67
Livermore	\$77.50
Brentwood	\$92.32
Fairfield	\$38.67
Concord	\$74.27

** Assumes 3/4" meter + 15 CCF*

DRAFT

RESOLUTION 2019-_____

SETTING A PUBLIC HEARING ON SEPTEMBER 17, 2019 FOR CONSIDERATION OF THE PROPOSED WATER RATE INCREASE AND DIRECTING STAFF TO TAKE NECESSARY STEPS TO BEGIN THE PROCESS TO ESTABLISH NEW WATER RATES

WHEREAS, A water rate study was prepared in August 2017 and water rates were increased effective January 2018, and

WHEREAS, The water rate study identified that an additional future average water rate increase of approximately \$8.20 per month for a single family home would be necessary in July 2019 to fund the cost of providing potable water service, and

WHEREAS, California law requires that water rates be allocated to all users in proportion to their usage and the cost of providing the service, and

WHEREAS, The City will continue to monitor the increased revenues from the water rate increase to ensure the water fund is in revenue neutral position;

NOW, THEREFORE, BE IT RESOLVED, That the City Council of the City of Tracy sets September 17, 2019, as a public hearing date for the proposed water rate increase and authorizes staff to take necessary steps to begin the process to establish new water rates.

The foregoing Resolution 2019-_____ was adopted by Tracy City Council on the 2nd day of July, 2019, by the following vote:

- AYES: COUNCIL MEMBERS:
- NOES: COUNCIL MEMBERS:
- ABSENT: COUNCIL MEMBERS:
- ABSTAIN: COUNCIL MEMBERS:

MAYOR

ATTEST:

CITY CLERK

AGENDA ITEM 1.D

REQUEST

APPROVE THE PLACEMENT OF A PLAQUE IN THE SPLASH PAD LANDSCAPING OF MCDONALD PARK IN HONOR OF THE LATE FRANK A. GARCIA PER CITY STANDARD POLICY AND PROCEDURES

EXECUTIVE SUMMARY

Family and friends of the late Frank A. Garcia have submitted an application per the City standard policy and procedures to the Parks and Recreation Department to place a plaque honoring Mr. Garcia's legacy. Mr. Garcia served in many roles in the community, with significant impact as a volunteer and with the South Side Community Organization. The applicant is requesting to provide the plaque, is asking the City to complete installation, and the South Side Community Organization has agreed to maintain the plaque.

DISCUSSION

Mr. Frank A. Garcia was born in Tracy, CA and was a longtime volunteer for the community providing his service and time as a youth leader for St. Bernard's Youth Group, homeless advocate, President of the Southside Community Organization, and being involved in many other volunteer efforts within the City. In 2014, Mr. Garcia was recognized for his efforts, receiving the Community Leadership Award from the Tracy Hispanic Business Group. Many have come to support this request, including Mr. Raymond Morelos, President of the South Side Community Organization, who submitted the plaque application on Mr. Garcia's behalf.

The Parks and Recreation Department met with Mr. Morelos to discuss the design and specifications of the plaque, which is incorporated into the current proposal. The South Side Community Organization is fundraising for the purchase of the plaque and is requesting the City to install the fixture. The South Side Community Organization agrees to maintain and replace the plaque in the event it is vandalized, stolen, or damaged. Finally, the proposal meets all of the City's guidelines.

At the June 19, 2019 Parks and Community Services Commission special meeting, after hearing from the public, family and friends, the request was reviewed and discussed as per policy and procedures. The Commission discussed the plaque (Attachment A) and the location of the plaque (Attachment B). The Commission recommended the item for approval of the City Council.

STRATEGIC PLAN

This is a routine operational item and is not related to one of the City Council's Strategic Plans

FISCAL IMPACT

Approval of this item will have an estimated cost of \$1000 in City Staff time and materials. This amount includes the cost for Public Works staff to mount the plaque. This one-time expense will be absorbed within the existing City operating budget.

RECOMMENDATION

That the City Council, by resolution, approve placement of a plaque in the Splash Pad landscaping of McDonald Park in honor of the late Frank A. Garcia.

Prepared by: Thien Nguyen, Recreation Services Supervisor

Reviewed by: Brian MacDonald, Parks & Recreation Director
Don Scholl, Public Works Director
Karin Schnaider, Finance Director
Andrew Malik, Assistant City Manager

Approved by: Jenny Haruyama, City Manager

ATTACHMENTS

Attachment A – Draft of Frank A. Garcia Plaque and Sample Bronze Plaque
Attachment B – McDonald Park Splash Pad Landscape Improvement with Plaque Location

Frank A. Garcia Plaque Draft

Honoring the Legacy of
Frank Arthur Garcia

January 18, 1957 – December 21, 2016

An honorable man of strong faith who dedicated his life to his family, friends and beloved community.

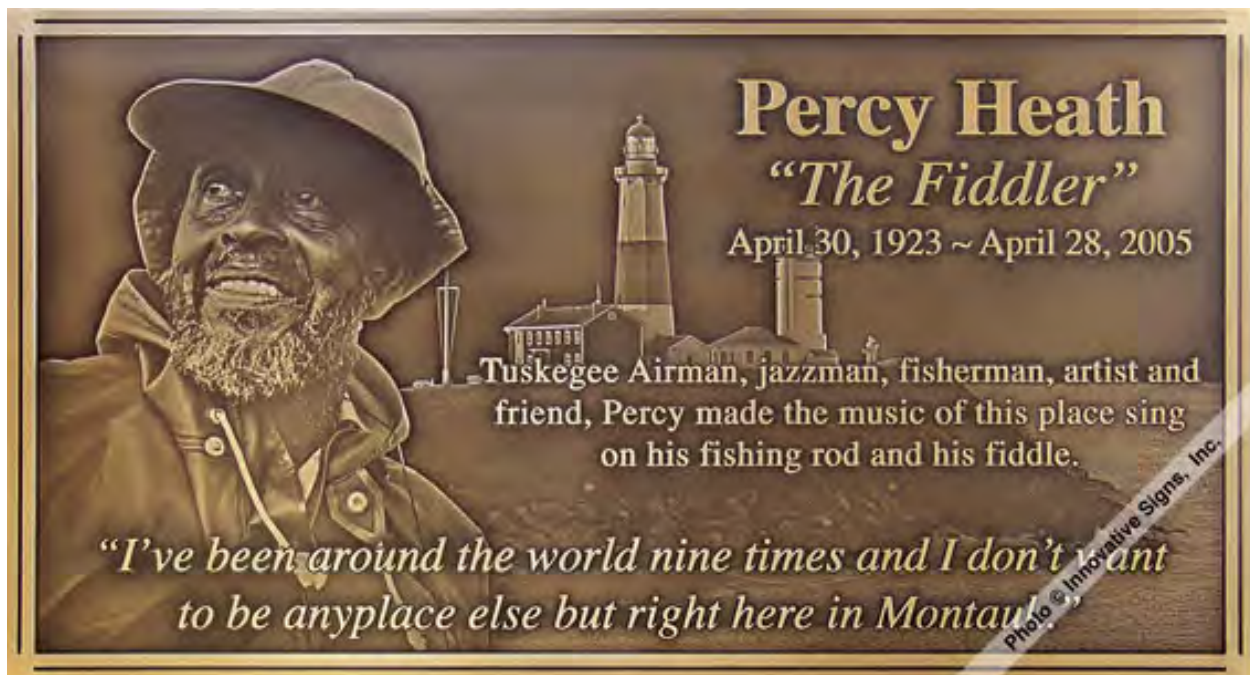
A selfless leader who exemplified the true spirit of volunteerism, compassion and mentorship.

A life spent in service to others.

Donated by the South Side Community Organization

Dedicated: July 16, 2019

Sample of Bronze Plaque



MCDONALD PARK



Key Map

NEW PLAQUE MOUNTED
TO BOULDER

A New Landscaping Around Underground Tank

LANDSCAPE IMPROVEMENTS

06/19/2019



RESOLUTION _____

RESOLUTION APPROVING THE PLACEMENT OF A PLAQUE IN THE SPLASH PAD LANDSCAPING OF MCDONALD PARK IN HONOR OF THE LATE FRANK A. GARCIA

WHEREAS, family and friends of the late Frank A. Garcia have submitted an application to the Parks and Recreation Department to place a plaque honoring Mr. Garcia’s legacy, and

WHEREAS, Mr. Frank A. Garcia was born in Tracy, CA and was a longtime volunteer for the community providing his service and time as a youth leader for St. Bernard’s Youth Group, homeless advocate, serving as President of the Southside Community Organization, and

WHEREAS, the South Side Community Organization is fundraising for the purchase of the plaque and is requesting the City to install the fixture, and the South Side Community Organization agrees to maintain and replace the plaque in the event it is vandalized, stolen, or damaged.

NOW, THEREFORE, BE IT RESOLVED, that the City Council of the City of Tracy approve placement of a plaque in the Splash Pad landscaping of McDonald Park in honor of the late Frank A. Garcia.

* * * * *

The foregoing Resolution _____ was adopted by City Council of the City of Tracy on the 2nd day of July, 2019, by the following vote:

AYES: COUNCIL MEMBERS:
NOES: COUNCIL MEMBERS:
ABSENT: COUNCIL MEMBERS:
ABSTAIN: COUNCIL MEMBERS:

MAYOR

ATTEST:

CITY CLERK

July 2, 2019

AGENDA ITEM 1.E

REQUEST

APPROVE A CHANGE ORDER IN THE AMOUNT OF \$50,000 TO CROSSPOINT GENERAL ENGINEERING, OF PALO CEDRO, CALIFORNIA FOR THE 10TH STREET AND CENTRAL AVENUE DOWNTOWN FESTIVAL LIGHTS PROJECT CIP 71106

EXECUTIVE SUMMARY

City staff requests that the City Council authorize a change order in the amount \$50,000 to install new light poles and festival lights, as part of the Downtown Festival Lights Project – CIP 71106, along Central Avenue between Eleventh Street and Sixth Street.

DISCUSSION

On June 19, 2018, City Council awarded a construction contract to Crosspoint General Engineering, of Palo Cedro, CA for the 10th Street and Central Avenue Downtown Festival Lights Project (CIP 71106), in the amount of \$348,260. The Project consists of installation of permanent festival lighting in the Downtown Business District. Project completion will install decorative lighting fixtures on 10th Street (Central Avenue to A Street), Central Avenue (6th Street to 11th Street) and 6th Street (Central Avenue to D Street) year-round.

Scope of the Project included installation of approximately 3,500 linear feet of LED festival lighting strung across existing streetlights, along with associated additional streetlights. The Project also included assorted electrical modifications.

The Project design, improvement plans, specifications, and contract documents were prepared by the City's Engineering Division staff.

One change order amounting in a credit for (\$11,318) was issued for the Project, which included credit for changing the material of lights.

The amount of contingency, approved by Council, was \$34,826, of which \$3,782 was used during construction.

Current Project costs are as follows:

Construction Contract	\$	348,260
Change Orders	\$	(11,318)
Design support, construction management, inspection, testing, & miscellaneous expenses	\$	6,776
Current Project Costs	\$	343,718
Total Project Budget	\$	400,500
Budget Remaining	\$	56,782

Due to the availability of funds, staff reviewed the final plans and recommends installing another seven new poles to establish visual continuity of the festival lights along Central Avenue and thereby significantly enhancing the Project's aesthetic value.

Staff is proposing to directly purchase seven additional poles and festival lights. The cost of construction of new poles by the Contractor will be \$50,000.

STRATEGIC PLAN

This agenda item supports Goal 4, Objective 3 of the Quality of Life strategy, specifically, to engage in efforts to enhance community aesthetics, explore opportunities to enhance the appearance of City landmarks or point of entry through marking or the built environment.

FISCAL IMPACT

The total Project budget for Central Avenue Downtown Festival Lights Project CIP 71106 is \$400,500. There are sufficient funds available within the Project for the additional change order amount of \$50,000 and no additional appropriations are needed.

RECOMMENDATION

That the City Council, by resolution, approve a change order in the amount of \$50,000 with Crosspoint General Engineering for the installation of new seven poles, appurtenant work, and materials for the 10th Street and Central Avenue Downtown Festival Lights, CIP 71106.

Prepared by: Zabih Zaca, PE, Senior Civil Engineer

Reviewed by: Robert Armijo, PE, City Engineer / Assistant Development Services Director
Karin Schnaider, Finance Director
Andrew Malik, Assistant City Manager

Approved by: Jenny Haruyama, City Manager

RESOLUTION 2019-_____

APPROVING A CHANGE ORDER FOR \$50,000 TO CROSSPOINT GENERAL ENGINEERING, OF PALO CEDRO, CALIFORNIA FOR THE 10TH STREET AND CENTRAL AVENUE DOWNTOWN FESTIVAL LIGHTS PROJECT CIP 71106

WHEREAS, On June 19, 2018, City Council awarded a construction contract to Crosspoint General Engineering, of Palo Cedro, California for the 10th Street and Central Avenue Downtown Festival Lights Project (CIP 71106), in the amount of \$348,260, and

WHEREAS, The Project consists of installation of permanent festival lighting in the Downtown Business District. Project completion will install decorative lighting fixtures on 10th Street (Central Avenue to A Street), Central Avenue (6th Street to 11th Street) and 6th Street (Central Avenue to D Street) year-round, and

WHEREAS, Scope of the Project included installation of approximately 3,500 linear feet of LED festival lighting strung across existing streetlights, along with associated additional streetlights. Project also included assorted electrical modifications, and

WHEREAS, One change order amounting to a credit for (\$11,318.37) was issued for the Project, which included credit for changing the material of lights, and

WHEREAS, The status of budget costs is as follows, and

Construction Contract	\$	348,260
Change Orders	\$	(11,318)
Design support, construction management, inspection, testing, & miscellaneous expenses	\$	6,776
Current Project Costs	\$	343,718
Total Project Budget	\$	400,500
Budget Remaining	\$	56,782

WHEREAS, The original scope of services of the Project was to use existing decorative poles to install Festival Lights with fewer new poles, and

WHEREAS, Due to the availability of funds, staff reviewed the final plans and recommends installing another seven new poles to establish visual continuity, and

WHEREAS, The original contingency amount of \$34,826 was approved by Council, and

WHEREAS, Tracy Municipal Code 2.20.090(b) authorizes the City Manager to approve change orders up to the amount approved by City Council. The recommended change order amount for this Project is \$50,000;

NOW, THEREFORE, BE IT RESOLVED, That the City Council of the City of Tracy hereby approves a change order for \$50,000 with Crosspoint General Engineering for the installation of seven new poles, appurtenant work, and materials for the 10th Street and Central Avenue Downtown Festival Lights Project, CIP 71106.

* * * * *

The foregoing Resolution 2019-_____ was adopted by the Tracy City Council on the 2nd day of July, 2019 by the following vote:

AYES:	COUNCIL MEMBERS:
NOES:	COUNCIL MEMBERS:
ABSENT:	COUNCIL MEMBERS:
ABSTAIN:	COUNCIL MEMBERS:

MAYOR

ATTEST:

CITY CLERK

AGENDA ITEM 3.A

REQUEST

ADOPT RESOLUTION SUPPLEMENTING RESOLUTION NO. 2016-161 TO AUTHORIZE THE ISSUANCE AND SALE OF SPECIAL TAX BONDS FOR THE PURPOSE OF FINANCING AUTHORIZED FACILITIES, AND APPROVING AND AUTHORIZING RELATED DOCUMENTS AND ACTIONS - IMPROVEMENT AREA NO. 1 OF THE CITY OF TRACY COMMUNITY FACILITIES DISTRICT NO. 2016-1 (TRACY HILLS)

EXECUTIVE SUMMARY

For the purpose of financing public facilities and public services for development in the Tracy Hills Specific Plan, the City Council previously acted under the Mello-Roos Community Facilities Act of 1982 (the “Mello-Roos Act”) to establish the following:

- City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) (the “CFD”),
- Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) (“Improvement Area No. 1”), and
- City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) (Future Annexation Area) (the “Future Annexation Area”).

All of the property that is currently in the CFD is located in Improvement Area No. 1.

For the purpose of financing public improvements in Improvement Area No. 1, the City previously issued, for and on behalf of the CFD, its \$32,625,000 initial principal amount Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2018 (the “2018 Bonds”).

Staff recommends that the City Council adopt the referenced resolution (the “2019 Bond Resolution”) for the purpose of authorizing the issuance of a second series of bonds on behalf of the CFD with respect to Improvement Area No. 1 and approving related documents.

DISCUSSION

LOCAL GOALS AND POLICIES

Section 53312.7(a) of the Mello-Roos Act requires the City to consider and adopt local goals and policies concerning the use of the Mello-Roos Act prior to the initiation of proceedings on or after January 1, 1994 to establish a new community facilities district.

The City adopted “Amended Local Goals and Policies for Community Facilities Districts (CFDs)” on February 4, 2014, by Resolution No. 2014-019 (“Goals and Policies”).

The Goals and Policies provide guidance and conditions for the conduct by the City of proceedings for, and the issuance of bonds secured by special taxes levied in, a community facilities district established under the Mello-Roos Act.

CFD FORMATION PROCESS AND APPROVAL OF BONDS

Under the Mello-Roos Act, the City previously formed the CFD and Improvement Area No. 1 for the purpose of financing the public facilities and services described in the City Council's Resolution No. 2016-157 adopted on July 19, 2016 (the "Resolution of Formation"). All of the property that is currently in the CFD is located in Improvement Area No. 1.

In the Resolution of Formation, the City Council also provided for the levy of special taxes upon the land within the CFD and approved a rate and method of apportionment of special taxes for Improvement Area No. 1 (the "Improvement Area No. 1 Rate and Method") and approved an appropriations limit of \$70,000,000 for Improvement Area No. 1 (the "Improvement Area No. 1 Appropriations Limit").

Pursuant to Resolution No. 2016-158, adopted by the City Council on July 19, 2016, the City Council declared the necessity to incur bonded indebtedness and other debt on behalf of the CFD with respect to Improvement Area No. 1 in an aggregate amount not to exceed \$70,000,000 (the "Improvement Area No. 1 Indebtedness Limit").

At an election of the qualified electors in Improvement Area No. 1 held on July 19, 2016, the qualified electors approved the levy of special taxes according to the Improvement Area No. 1 Rate and Method, the Improvement Area No. 1 Bonded Indebtedness Limit and the Improvement Area No. 1 Appropriations Limit.

Pursuant to Resolution No. 2016-161, which was adopted on July 19, 2016 (the "Original Resolution of Issuance"), this Council authorized the issuance of up to \$70,000,000 of bonded indebtedness and other debt on behalf of the CFD with respect to Improvement Area No. 1, directed staff to prepare documentation for such bonded indebtedness and other debt and return to this Council for approval of such documentation, and appointed U.S. Bank National Association as fiscal agent for such bonded indebtedness and other debt (the "Fiscal Agent").

Subsequently, after conducting change proceeds under the Mello-Roos Act, the City Council adopted Resolution No. 2018-169 on August 21, 2018 (the "Resolution of Change") in order, among other things, to increase the Improvement Area No. 1 Indebtedness Limit to \$80,000,000.

As a result of the increase in the Improvement Area No. 1 Indebtedness Limit and the issuance of the 2018 Bonds, the remaining unissued amount of bonded indebtedness of Improvement Area No. 1 is \$47,375,000.

PROPOSED 2019 BONDS

Staff recommends that the City Council adopt the 2019 Bond Resolution to supplement the Original Resolution of Issuance for the following purposes:

- (i) provide for the issuance of the Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2019 (the "2019 Bonds") in a principal amount not to exceed \$18,000,000,
- (ii) approve the sale of the 2019 Bonds to Piper Jaffray & Co. (the "Underwriter"),
- (iii) approve the documents related to the 2019 Bonds, and
- (iv) authorize staff to take all actions necessary related to issuance of the 2019 Bonds.

TERMS OF THE 2019 BONDS

Pursuant to the Resolution, the true interest cost of the 2019 Bonds cannot exceed 6.50% and the principal amount of the 2019 Bonds cannot exceed \$18,000,000. Government Code Section 5852.1 requires the City to obtain and disclose a good faith estimate of certain information about the 2019 Bonds, including the true interest cost, the financing costs, the use of proceeds and the total payment amount, and this information is included in Appendix A of the 2019 Bond Resolution. Based upon current market conditions, the 2019 Bonds are estimated to be issued in the amount of \$14,900,000, which does not include approximately \$1,950,000 of net premium estimated to be generated. Net premium is generated when, on a net aggregate basis for a single issuance of bonds, the price paid for such bonds is higher than the face value of such bonds. At current market conditions, the 2019 Bonds are expected to carry a true interest cost of approximately 4.14%.

The Goals and Policies require a minimum value to lien ratio for special tax financings of 3:1 (the value-to-lien calculation compares (A) the market value of the taxable property in Improvement Area No. 1 to (B) the outstanding principal amount of the 2018 Bonds, the proposed principal amount of the 2019 Bonds and the principal amount of any bonds issued by overlapping community facilities districts and assessment districts). Based on the current draft of the appraisal prepared by Integra Realty Resources (the "Appraiser"), the value of the property in Improvement Area No.1 has been determined to be not less than \$193,910,000, resulting in an estimated value to lien ratio of greater than 3.00:1 per village based on the outstanding principal amount of the 2018 Bonds (\$32,625,000) and the projected \$ principal amount of the 2019 Bonds (there are no overlapping special tax or assessment bonds).

The 2019 Bonds are a limited obligation of the City, payable only from special taxes levied in Improvement Area No. 1 and moneys in the funds and accounts established under the Fiscal Agent Agreement described below. The 2019 Bonds will be payable from special taxes on a parity basis with the outstanding 2018 Bonds.

DOCUMENTS RELATED TO THE 2019 BONDS

The City Council is being asked to approve each of the following:

1. Preliminary Official Statement. The Official Statement is the primary disclosure document for investors in the 2019 Bonds. A Preliminary Official Statement will be circulated to potential investors prior to the pricing of the 2019 Bonds. After

the 2019 Bonds have been priced, a Final Official Statement will be circulated to investors; the Final Official Statement should be identical to the Preliminary Official Statement except for the addition of pricing information (principal amount, interest rates, redemption terms).

The Preliminary Official Statement describes the special taxes to be levied in Improvement Area No. 1, each of the parcels to be taxed, and, based on information by the developers of property in Improvement Area No. 1, the development plans for the parcels within Improvement Area No. 1. The Preliminary Official Statement will also include the appraisal of the taxable parcels in Improvement Area No. 1.

The Preliminary Official Statement is prepared by Jones Hall, serving the City as Bond Counsel and Disclosure Counsel for this transaction, with the assistance of the remainder of the financing team, including City staff; the property owners in Improvement Area No. 1; CSG Advisors Incorporated, the City's municipal advisor ("Municipal Advisor"); the Underwriter; and Goodwin Consulting, the City's special tax consultant ("Special Tax Consultant").

The Preliminary Official Statement has been reviewed and approved for transmittal to the City Council by the City's financing team. The distribution of the Preliminary Official Statement by the City is subject to federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the Preliminary Official Statement to include all facts that would be material to an investor in the 2019 Bonds. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the bonds. If the City Council concludes that the Preliminary Official Statement includes all facts that would be material to an investor in the 2019 Bonds, it must adopt a resolution that authorizes staff to execute a certificate to the effect that the Preliminary Official Statement has been "deemed final."

The Securities and Exchange Commission (the "SEC"), the agency with regulatory authority over the City's compliance with the federal securities laws, has issued guidance as to the duties of the City Council with respect to its approval of the Preliminary Official Statement. In its "Report of Investigation in the Matter of County of Orange, California as it Relates to the Conduct of the Members of the Board of Supervisors" (Release No. 36761 / January 24, 1996) (the "Release"), the SEC stated that, if a member of the City Council has knowledge of any facts or circumstances that an investor would want to know about prior to investing in the 2019 Bonds, whether relating to their repayment, tax-exempt status, undisclosed conflicts of interest with interested parties, or otherwise, he or she should endeavor to discover whether such facts are adequately disclosed in the Preliminary Official Statement. In the Release, the SEC stated that the steps that a member of the City Council could take include becoming familiar with the Preliminary Official Statement and questioning staff and consultants about the disclosure of such facts.

The key sections of the Preliminary Official Statement are summarized below:

- “THE 2019 BONDS”: This section summarizes the key terms of the 2019 Bonds, including payment dates and redemption provisions.
 - “SECURITY FOR THE 2019 BONDS”: This section summarizes key security terms, including the City’s pledge of special tax revenues, its covenant to levy special taxes according to the Improvement Area No. 1 Rate and Method, as amended, and its covenant to foreclose on parcels that are delinquent in the payment of special taxes. As described above, the 2019 Bonds are a limited obligation of the City, payable only from special taxes levied in Improvement Area No. 1 and moneys in the funds and accounts established under the Fiscal Agent Agreement.
 - “THE DISTRICT AND IMPROVEMENT AREA NO. 1”: This section summarizes certain features of Improvement Area No. 1, including the appraised value of taxable property, overlapping taxes, assessments and debt and anticipated debt service coverage provided by maximum special taxes that may be levied under the RMA.
 - “PROPERTY OWNERSHIP AND DEVELOPMENT STATUS”: This section includes information provided by the property owners in Improvement Area No. 1, and describes the proposed development in Improvement Area No. 1 and its current status.
 - “BOND OWNERS’ RISK”: This section highlights the primary risks associated with the 2019 Bonds, including failure to complete the proposed development, natural disasters and failure of property owners to pay their special taxes.
 - “LEGAL MATTERS - Tax Exemption”: This section describes the tax-exempt nature of interest on the 2019 Bonds.
2. Continuing Disclosure Certificate. Under SEC Rule 15c2-12, the underwriter of the 2019 Bonds may only purchase the 2019 Bonds if it has determined that the City is obligated to provide continuing disclosure, including annual updates of the financial and operating data included in the Official Statement and notices of certain specified events. On or more developers in Improvement Area No. 1 will also provide continuing disclosure on a semi-annual basis until certain development thresholds have been met.
3. First Supplement to Fiscal Agent Agreement. The 2018 Bonds were issued under a Fiscal Agent Agreement between the City and the Fiscal Agent. The First Supplement to Fiscal Agent Agreement provides for the use of the proceeds of the 2019 Bonds and the terms of the 2019 Bonds. The Fiscal Agent Agreement, as supplemented, governs the use of special taxes from Improvement Area No. 1 to pay debt service on the 2019 Bonds. The special taxes will be levied on the regular County tax roll and collected by the County from each taxable parcel in Improvement Area No. 1. The County will remit these special taxes to the City. The City will remit them to the Fiscal Agent as provided for in the Fiscal Agent Agreement. The Fiscal Agent will use the revenues to (1) pay administrative costs of the CFD and (2) pay principal and interest to the owners of the 2018 Bonds, the 2019 Bonds and any future bonds issued under the Fiscal Agent Agreement.

4. Bond Purchase Agreement. At the time the 2019 Bonds are sold, the City will enter into a Bond Purchase Agreement with the Underwriter, who will agree to underwrite the 2019 Bonds subject to satisfaction of the conditions described in the Bond Purchase Agreement. The resolution provides the Underwriter's discount on the purchase of the 2019 Bonds may not exceed 1.50% of the par amount of the 2019 Bonds. The Underwriter was selected as underwriter prior to the issuance of the 2018 Bonds through an RFP process, and was chosen based upon the combination of its qualifications and proposed fees.

STRATEGIC PLAN

Governance - Goal 2: Ensure continued Fiscal Sustainability through Financial and Budgetary Stewardship.

FISCAL IMPACT

The fees and expenses of the financing team, including Bond Counsel, Disclosure Counsel, Underwriter, Municipal Advisor, Special Tax Consultant and Appraiser are paid from proceeds of the 2019 Bonds or paid through an existing Cost Recovery Agreement with the developer.

RECOMMENDATION

That City Council, by resolution, adopt the 2019 Bond Resolution.

Prepared by: Karin Schnaider, Finance Director
Christopher Lynch, Jones Hall
Scott Smith, CSG Advisors Incorporated

Reviewed by: Midori Lichtwardt, Assistant City Manager

Approved by: Jenny Haruyama, City Manager

ATTACHMENTS

- A: Preliminary Official Statement (including Continuing Disclosure Certificates)
- B: First Supplement to Fiscal Agent Agreement
- C: Bond Purchase Agreement

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2019**NEW ISSUE – BOOK-ENTRY ONLY****NOT RATED**

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 2019 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. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."

\$16,000,000*
IMPROVEMENT AREA NO. 1
OF THE CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (TRACY HILLS)
SPECIAL TAX BONDS, SERIES 2019

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

Authority for Issuance. The bonds captioned above (the "2019 Bonds") are being issued by the City of Tracy (the "City") for and on behalf of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) (the "District") with respect to its Improvement Area No. 1 ("Improvement Area No. 1") under the Mello-Roos Community Facilities Act of 1982, as amended (the "Act"), the Resolution of Issuance (as defined herein), and a Fiscal Agent Agreement dated as of August 1, 2018, as supplemented by a First Supplement to Fiscal Agent Agreement dated as of _____, 2019 (as supplemented, the "Fiscal Agent Agreement"), by and between the City and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"). See "THE 2019 BONDS – Authority for Issuance."

Security and Sources of Payment. The 2019 Bonds are payable from proceeds of Special Taxes (as defined herein) levied on property within Improvement Area No. 1 according to the amended and restated rate and method of apportionment of special tax approved by the City Council of the City (the "City Council"), acting as legislative body of the District, and the eligible landowner voters in Improvement Area No. 1. The 2019 Bonds are secured by a first pledge of the revenues derived from the levy of Special Taxes and the moneys on deposit in certain funds held by the Fiscal Agent under the Fiscal Agent Agreement, on a parity with bonds that may be issued in the future, subject to the conditions set forth in the Fiscal Agent Agreement. See "SECURITY FOR THE BONDS."

Outstanding Parity Bonds. The 2019 Bonds represent the second series of special tax bonds issued with respect to Improvement Area No. 1. In August 2018 the City issued the first series of special tax bonds captioned "\$32,625,000 Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2018" (the "2018 Bonds"). The 2018 Bonds, the 2019 Bonds and any future Parity Bonds (as defined herein) are referred to herein as the "Bonds."

Use of Proceeds. The 2019 Bonds are being issued to (i) finance the acquisition and construction of certain capital improvements necessary for the development of the property in the District, (ii) fund a debt service reserve fund for the 2019 Bonds, (iii) pay capitalized interest on the 2019 Bonds through September 1, 2019, and (iv) pay the costs of issuing the 2019 Bonds. See "FINANCING PLAN."

Bond Terms. Interest on the 2019 Bonds is payable on each March 1 and September 1, commencing September 1, 2019. The 2019 Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. The 2019 Bonds, when delivered, will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository for the 2019 Bonds. See "THE 2019 BONDS – General Bond Terms" and "APPENDIX I – DTC and the Book-Entry Only System."

Redemption. The 2019 Bonds are subject to optional redemption, mandatory sinking fund redemption and special redemption from prepaid Special Taxes. See "THE 2019 BONDS - Redemption."

The 2019 Bonds are not general obligations of the City, but are limited obligations, payable solely from the Special Tax Revenues and the funds pledged therefor under the Fiscal Agent Agreement. Neither the faith and credit nor the taxing power of the City (except to the limited extent set forth in the Fiscal Agent Agreement) or of the State of California (the "State") or any political subdivision thereof is pledged to the payment of the 2019 Bonds.

MATURITY SCHEDULE

(see inside cover)

This cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Investment in the 2019 Bonds involves risks which may not be appropriate for some investors. See "BOND OWNERS' RISKS" for a discussion of special risk factors that should be considered in evaluating the investment quality of the 2019 Bonds.

The 2019 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, and subject to certain other conditions. Jones Hall, A Professional Law Corporation, has served as disclosure counsel to the City. Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach, California, is serving as counsel to the Underwriter, and Holland & Knight LLP, San Francisco, California, is serving as counsel to Tracy Phase I, LLC. It is anticipated that the 2019 Bonds, in book-entry form, will be available for delivery through the facilities of DTC on or about _____, 2019.

[Piper Jaffray Logo]

The date of this Official Statement is: _____, 2019.

* Preliminary; subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

MATURITY SCHEDULE

\$ _____ Serial Bonds
(Base CUSIP†: _____)

Maturity (September 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP†
---------------------------	---------------------	------------------	-------	-------	--------

\$ ____ % Term Bond due September 1, 20____, Yield: __%, Price: __%
CUSIP† No. ____

\$ ____ % Term Bond due September 1, 20____, Yield: __%, Price: __%
CUSIP† No. ____

* Preliminary; subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. Copyright(c) 2019 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. Neither the City nor the Underwriter or their agents or counsel assume responsibility for the accuracy of such numbers.

CITY OF TRACY

CITY COUNCIL

Robert Rickman, *Mayor*
Nancy Young, *Mayor Pro Tem*
Dan Arriola, *Council Member*
Rhodesia Ransom, *Council Member*
Veronica Vargas, *Council Member*

CITY STAFF

Jenny Haruyama, *City Manager*
Karin Schnaider, *Finance Director*
Adrienne Richardson, *City Clerk*
Leticia Ramirez, *Interim Attorney*

PROFESSIONAL SERVICES

BOND COUNSEL and DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

MUNICIPAL ADVISOR

CSG Advisors Incorporated
San Francisco, California

SPECIAL TAX CONSULTANT

Goodwin Consulting Group, Inc.
Sacramento, California

APPRAISER

Integra Realty Resources, Inc.
Rocklin, California

MARKET ABSORPTION CONSULTANT

Empire Economics, Inc.
San Juan Capistrano, California

FISCAL AGENT

U.S. Bank National Association
San Francisco, California

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[INSERT REGIONAL MAP]

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 2019 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 2019 Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the City, the District, any other parties described in this Official Statement, or in the condition of property within Improvement Area No. 1 of the District since the date of this Official Statement.

Use of this Official Statement. This Official Statement is submitted in connection with the sale of the 2019 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract with the purchasers of the 2019 Bonds.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness.

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 responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Document References and Summaries. All references to and summaries of the Fiscal Agent 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.

Stabilization of and Changes to Offering Prices. The Underwriter may over allot or take other steps that stabilize or maintain the market prices of the 2019 Bonds at levels above those that might otherwise prevail in the open market. If commenced, the Underwriter may discontinue such market stabilization at any time. The Underwriter may offer and sell the 2019 Bonds to certain securities dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriter.

Bonds are Exempt from Securities Laws Registration. The issuance and sale of the 2019 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.

Estimates and Projections. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors 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 District does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

The City maintains an Internet website, but the information on the website is not incorporated in this Official Statement.

OFFICIAL STATEMENT

\$16,000,000*
IMPROVEMENT AREA NO. 1
OF THE CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (Tracy Hills)
SPECIAL TAX BONDS, SERIES 2019

INTRODUCTION

This Official Statement, including the cover page, inside cover and attached appendices, is provided to furnish information regarding the bonds captioned above (the “**2019 Bonds**”) to be issued by the City of Tracy (the “**City**”) on behalf of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) (the “**District**”) with respect to its Improvement Area No. 1 (“**Improvement Area No. 1**”).

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page, the inside cover and attached appendices, and the documents summarized or described in this Official Statement. A full review should be made of the entire Official Statement. The offering of the 2019 Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used but not defined in this Official Statement have the definitions given in the Fiscal Agent Agreement (as defined below).

The District and Improvement Area No. 1. The District (and Improvement Area No. 1) is located west of Corral Hollow Road, south of W. Valpico Road and north of Interstate 580, in the City. The property in Improvement Area No. 1 is part of the larger master-planned community known as “Tracy Hills” (the “**Tracy Hills Project**” or the “**THPO Property**”) being developed by The Tracy Hills Project Owner, LLC, a Delaware limited liability company (“**THPO**”). THPO is developing the property through six affiliated owners (the “**THPO Affiliates**”). THPO and the THPO Affiliates were formed as special-purpose entities managed by the principals of Integral Communities.

The District and Improvement Area No. 1 were formed and established by the City Council of the City (the “**City Council**”), as legislative body of the District, under the Mello-Roos Community Facilities Act of 1982, as amended (the “**Act**”), pursuant to a resolution adopted by the City Council following a public hearing, and a special landowner election at which the qualified electors of Improvement Area No. 1 authorized the City to incur bonded indebtedness with respect to Improvement Area No. 1, and approved the levy of special taxes within Improvement Area No. 1. See “THE DISTRICT AND IMPROVEMENT AREA NO. 1 – Formation and Background.”

The City Council, as legislative body of the District, and the landowner elector, has authorized the incurrence of bonded indebtedness for Improvement Area No. 1 in an aggregate principal amount not to exceed \$70,000,000, which was increased to \$80,000,000 following the completion of the Change Proceedings (as defined below) in August 2018. See “THE DISTRICT AND IMPROVEMENT AREA NO. 1 – Formation and Background – Change Proceedings.”

* Preliminary; subject to change.

At the time of establishment of the District and Improvement Area No. 1, a future annexation area was also established for the District (the "**Future Annexation Area**"), and parcels may annex into the District and Improvement Area No. 1 in the future; however, there is currently no intention for any additional territory to annex into Improvement Area No. 1. Parcels that annex into an improvement area within the District other than Improvement Area No. 1 do not serve as security for the 2019 Bonds.

Authority for Issuance of the 2019 Bonds. The 2019 Bonds are issued under the Act and the following:

- a resolution adopted by the City Council on July 19, 2016 (the "**Original Resolution**"), as supplemented and amended by a resolution adopted by the City Council on July 17, 2018 (the "**First Supplemental Resolution**"), as further supplemented and amended by a resolution adopted by the City Council on _____, 2019 (the "Second Supplemental Resolution" and, together with the First Supplemental Resolution and the Original Resolution, the "**Resolution of Issuance**"), and

- a Fiscal Agent Agreement dated as of August 1, 2018 (the "**Original Fiscal Agent Agreement**"), as supplemented by a First Supplement to Fiscal Agent Agreement dated as of _____ 1, 2019 (the "**First Supplemental Fiscal Agent Agreement**" and, together with the Original Fiscal Agent Agreement, the "**Fiscal Agent Agreement**"), by and between the City and U.S. Bank National Association, as fiscal agent (the "**Fiscal Agent**").

See "THE 2019 BONDS – Authority for Issuance."

Outstanding Parity Bonds. The 2019 Bonds represent the second series of special tax bonds issued under this authorization. In August 2018 the City issued the first series of special tax bonds under this authorization captioned "\$32,625,000 Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2018" (the "**2018 Bonds**"), which are currently outstanding in their original principal amount of \$32,625,000. The 2019 Bonds are payable on a parity with the 2018 Bonds and any future parity bonds ("**Parity Bonds**") issued under the Fiscal Agent Agreement. See "SECURITY FOR THE BONDS – Issuance of Future Parity Bonds."

Purpose of the 2019 Bonds. Proceeds of the 2019 Bonds will be used primarily to finance the acquisition and construction of certain capital improvements necessary for the development of the property in the District. Proceeds of the 2019 Bonds will also fund a debt service reserve fund for the 2019 Bonds, pay capitalized interest on the 2019 Bonds through September 1, 2019, and pay the costs of issuing the 2019 Bonds. See "FINANCING PLAN."

Redemption of Bonds before Maturity. The 2019 Bonds are subject to optional redemption, mandatory sinking fund redemption and special redemption from prepaid Special Taxes (as defined below). See "THE 2019 BONDS – Redemption."

Security and Sources of Payment for the 2019 Bonds. The City Council will annually levy special taxes on the property in Improvement Area No. 1 for the purposes of financing facilities (the "**Special Taxes**") in accordance with the Amended and Restated Rate and Method of Apportionment of Special Taxes for Improvement Area No. 1 (the "**Amended Rate and Method**"). The 2019 Bonds are secured by and payable from a first pledge of the proceeds of the Special Taxes received by the City (as more particularly defined in the Fiscal Agent Agreement, the "**Special Tax Revenues**"), on a parity with the 2018 Bonds and any bonds that may be issued in the future, subject to the conditions set forth in the Fiscal Agent Agreement. The 2019 Bonds will be additionally secured by certain funds and accounts established and held under the Fiscal Agent Agreement. See "SECURITY FOR THE BONDS."

Debt Service Reserve Fund. In order to further secure the payment of principal of and interest on the 2019 Bonds (and any series of Parity Bonds the principal of and interest on which is payable from amounts in the 2019 Reserve Fund), certain proceeds of the 2019 Bonds will be deposited into the 2019 Reserve Fund in an amount equal to the 2019 Reserve Requirement (as defined herein). The 2019 Reserve fund does *not* secure the payment of principal of and interest on the 2018 Bonds. The 2018 Reserve Fund (as defined herein) does *not* secure the payment of principal of and interest on the 2019 Bonds.

See “FINANCING PLAN – Estimated Sources and Uses of Funds” and “SECURITY FOR THE BONDS – 2019 Reserve Fund.”

Covenant to Foreclose. The City has covenanted in the Fiscal Agent Agreement to cause foreclosure proceedings to be commenced and prosecuted against certain parcels with delinquent installments of the Special Taxes. See “SECURITY FOR THE BONDS - Covenant to Foreclose.”

Property Ownership and Special Tax Status. The taxable property in Improvement Area No. 1, consisting of approximately 351 acres, being developed as 8 villages of single-family detached lots (each a “Village” and, collectively, the “Villages”). The property in Improvement Area No. 1 is owned by Lennar Homes of California, Inc. (“Lennar Homes”), Shea Homes, Inc. (“Shea”), Meritage Homes of California, Inc. (“Meritage”), and Tracy Phase I, LLC (which is a THPO Affiliate), all as further set forth below:

Property Owner (1)	Units of Developed Property (2)	Acres of Undeveloped Property (2)	Expected Residential Units	Projected FY 2019-20 Special Tax Levy (3)	% of Projected FY 2019-20 Special Tax Levy
Lennar Homes					
Village 1	99	7.9	160	\$354,628	14.0%
Village 3	92	2.0	103	\$299,332	11.8%
Village 4	91	7.9	149	\$345,928	13.6%
Village 5	34	26.7	196	\$435,476	17.2%
Village 8	12	22.1	139	\$302,477	11.9%
Subtotal	328	66.6	747	\$1,737,841	68.4%
Shea					
Village 2	20	8.8	74	\$161,598	6.4%
Meritage					
Village 7	24	17.7	182	\$262,884	10.4%
Tracy Phase I, LLC					
Village 6	0	32.5	136	\$376,726	14.8%
Total	372	125.6	1,139	\$2,539,050	100.0%

(1) Based on the Appraisal.

(2) Under the Amended Rate and Method, Developed Property generally means, in any Fiscal Year, all parcels of taxable property for which a building permit for vertical construction was issued prior to June 30 of the preceding Fiscal Year, and Undeveloped Property generally means all parcels of taxable property that are not classified as Developed Property. See “SECURITY FOR THE BONDS – Amended Rate and Method.”

(3) Based on the building permits for vertical construction issued by the City as of May 31, 2019, and assumes no further development. The projected special tax levy for Fiscal Year 2019-20 includes the estimated debt service due on the 2018 Bonds and 2019 bonds, plus an estimated \$40,000 in administrative expenses.

Source: *Integra Realty Resources; Goodwin Consulting Group, Inc.*

Improvement Area No. 1 is projected to be developed as 1,139 residential units. Improvement Area No. 1 will also house a fire station and open space and HOA property (including an HOA welcome center). For a description of the current status of development within Improvement Area No. 1, see “PROPERTY OWNERSHIP AND THE DEVELOPMENT – The Merchant Builders,” “–Lennar Homes,” “–Meritage” and “–Shea.”

Tracy Phase I, LLC does not intend to construct residential homes in Improvement Area No. 1, but instead has developed the property to a blue-top condition prior to the sale to Lennar Homes and Meritage, each of which is responsible for constructing or contracting with Tracy Phase I, LLC for the construction of in-tract improvements, as well as the construction and sale of homes to individual homeowners. Shea acquired its property from Tracy Phase I, LLC, in finished lot condition, and Shea is responsible for the construction and sale of homes to individual homeowners. Several model homes have been completed and construction of production homes is underway. See “PROPERTY OWNERSHIP AND THE DEVELOPMENT.”

Appraised Value of Property in Improvement Area No. 1. An appraisal of the property within Improvement Area No. 1, dated May 16, 2019 (the “**Appraisal**”), was prepared by Integra Realty Resources, Rocklin, California (the “**Appraiser**”) in connection with issuance of the 2019 Bonds. The purpose of the Appraisal was to estimate the market value of the fee simple estate, subject to the lien of the Special Taxes and overlapping liens, for all the taxable property within Improvement Area No. 1 as of a May 1, 2019 date of value. Subject to the assumptions contained in the Appraisal, the Appraiser estimated that the taxable property within Improvement Area No. 1, subject to the lien of the Special Taxes and overlapping liens, had an estimated value of \$193,910,000. See “THE DISTRICT AND IMPROVEMENT AREA NO. 1 – Appraised Values” for further information on the Appraisal. A complete copy of the Appraisal is attached as APPENDIX C.

Estimated Value-to-Lien Ratios in Improvement Area No. 1. Based on the appraised value of the taxable property within Improvement Area No. 1 of \$193,910,000, the outstanding par amount of the 2018 Bonds of \$32,625,000, and an estimated par amount of 2019 Bonds of \$16,000,000*, the overall value-to-lien ratio of the taxable property within Improvement Area No. 1 is approximately 3.99 to 1.* This is an overall estimate, however, and the value-to-lien ratios of individual parcels may vary widely from this ratio. See “THE DISTRICT AND IMPROVEMENT AREA NO. 1 – Appraised Values.”

Market Absorption Study. In connection with the issuance of the 2019 Bonds, the City hired Empire Economics, Inc., San Juan Capistrano, California (the “**Market Absorption Consultant**”) to prepare a market absorption study for the homes planned for Improvement Area No. 1, dated May 13, 2019 (the “**Absorption Study**”). The City is not obligated to make, and has not undertaken to make, an independent verification of the information contained in the Absorption Study and assumes no responsibility for the accuracy or completeness of the Absorption Study. See “THE DISTRICT AND IMPROVEMENT AREA NO. 1 – Market Absorption Study,” and APPENDIX D.

Risk Factors Associated with Purchasing the 2019 Bonds. Investment in the 2019 Bonds involves risks that may not be appropriate for some investors. See “BOND OWNERS' RISKS” for a discussion of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in considering the investment quality of the 2019 Bonds.

* Preliminary; subject to change.

FINANCING PLAN

Authorized Facilities

The net proceeds of the 2019 Bonds will be used to construct and/or acquire various facilities authorized to be financed by the District (collectively, “**Authorized Facilities**”), including Improvement Area No. 1. For a complete list of the Authorized Facilities, see “THE DISTRICT AND IMPROVEMENT AREA NO. 1 – Authorized Facilities.”

Currently, the City intends to use a portion of the proceeds of the 2019 Bonds to pay a portion of the costs of acquiring and/or constructing roads, parks, sewer, water, reclaimed water, and storm drain improvements, among other Authorized Facilities.

Estimated Sources and Uses of Funds

The estimated proceeds from the sale of the 2019 Bonds will be used as follows:

<u>SOURCES</u>	
Principal Amount of 2019 Bonds	\$
Plus/Less: [Net] Original Issue Premium/Discount	
<i>Total Sources</i>	<hr/> \$
 <u>USES</u>	
Deposit into Improvement Fund	\$
Deposit into Capitalized Interest Account ⁽¹⁾	
Deposit into 2019 Reserve Fund ⁽²⁾	
Costs of Issuance ⁽³⁾	
<i>Total Uses</i>	<hr/> \$

- (1) To be used to pay interest on the 2019 Bonds through September 1, 2019.
(2) Equal to the 2019 Reserve Requirement with respect to the 2019 Bonds as of the Closing Date.
(3) Includes, among other things, the fees and expenses of Bond Counsel and Disclosure Counsel, the Fiscal Agent, the Municipal Advisor, and the Special Tax Consultant; printing the Preliminary and Final Official Statements; and Underwriter’s discount.

THE 2019 BONDS

This section generally describes the terms of the 2019 Bonds contained in the Fiscal Agent Agreement, which is summarized in more detail in APPENDIX E. Capitalized terms used but not defined in this section are defined in APPENDIX E.

Authority for Issuance

The 2019 Bonds are issued under the Act, the Resolution of Issuance and the Fiscal Agent Agreement. Under the Resolution of Issuance, the 2019 Bonds may be issued in a maximum principal amount of \$18,000,000.

Bonded Indebtedness Limit

As a result of the issuance of the 2018 Bonds, the remaining unissued amount of authorized bonded indebtedness of Improvement Area No. 1 has decreased from \$80,000,000 to \$47,375,000. As a result of the issuance of the 2019 Bonds, the remaining unissued amount of authorized bonded indebtedness of the CFD has further decreased to \$_____.^{*} The City may issue future Parity Bonds, up to this bonded indebtedness limit, upon compliance with the conditions set forth in the Fiscal Agent Agreement. See "SECURITY FOR THE BONDS – Issuance of Future Parity Bonds."

General Bond Terms

Dated Date, Maturity and Authorized Denominations. The 2019 Bonds will be dated their date of delivery (the "Closing Date") and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. The 2019 Bonds will be issued in fully registered form in denominations of \$5,000 each or any integral multiple of \$5,000.

Calculation of Interest. Interest will be calculated on the basis of a 360-day year composed of twelve 30-day months. The 2019 Bonds will bear interest at the annual rates set forth on the inside cover page of this Official Statement, payable semiannually on each March 1 and September 1, commencing September 1, 2019 (each, an "Interest Payment Date").

Each 2019 Bond will bear interest from the Interest Payment Date next preceding its date of authentication unless:

(i) it is authenticated on an Interest Payment Date, in which event it will bear interest from such date of authentication, or

(ii) it is authenticated prior to an Interest Payment Date and after the close of business on the Record Date (as defined below) preceding such Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or

(iii) it is authenticated prior to the Record Date preceding the first Interest Payment Date, in which event it will bear interest from the Closing Date;

provided, however, that if at the time of authentication of a 2019 Bond, interest is in default thereon, such 2019 Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

^{*} Preliminary; subject to change.

“**Record Date**” means the 15th day of the calendar month next preceding the applicable Interest Payment Date, whether or not such day is a Business Day.

DTC and Book-Entry Only System. DTC will act as securities depository for the 2019 Bonds. The 2019 Bonds will be issued as fully-registered securities registered initially in the name of Cede & Co. (DTC’s partnership nominee). See APPENDIX I – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Payments of Interest and Principal. For so long as DTC is used as depository for the 2019 Bonds, principal of, premium, if any, and interest payments on the 2019 Bonds will be made solely to DTC or its nominee, Cede & Co., as registered owner of the 2019 Bonds, for distribution to the beneficial owners of the 2019 Bonds in accordance with the procedures adopted by DTC.

Interest on the 2019 Bonds (including the final interest payment upon maturity or earlier redemption), is payable on the applicable Interest Payment Date by check of the Fiscal Agent mailed by first-class mail to the registered Owner thereof at such registered Owner’s address as it appears on the registration books maintained by the Fiscal Agent at the close of business on the Record Date preceding the Interest Payment Date, or by wire transfer made on such Interest Payment Date upon written instructions of any Owner of \$1,000,000 or more in aggregate principal amount of 2019 Bonds delivered to the Fiscal Agent prior to the applicable Record Date, which will continue in effect until revoked in writing, or until such 2019 Bonds are transferred to a new Owner.

The principal of the 2019 Bonds and any premium on the 2019 Bonds are payable in lawful money of the United States of America upon surrender of the 2019 Bonds at the Principal Office of the Fiscal Agent.

Redemption*

Optional Redemption. The 2019 Bonds maturing on or after September 1, 20__, are subject to optional redemption as directed by the City, from sources of funds other than prepayments of Special Taxes, prior to their stated maturity on any date on or after September 1, 20__, as a whole or in part, at the redemption prices (expressed as a percentage of the principal amount of the 2019 Bonds to be redeemed) set forth below, together with accrued interest thereon to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
September 1, ____ through August 31, ____	____%
September 1, ____ through August 31, ____	____
September 1, ____ through August 31, ____	____
September 1, ____ and any date thereafter	____

Mandatory Sinking Fund Redemption. The 2019 Bonds maturing on September 1, 20__ (the “**Term Bonds**”), will also be subject to mandatory redemption in part by lot, from Sinking Fund Payments made by the City from the Bond Fund, at a redemption price equal to the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts, as set forth in the table below; provided, however, if some but not all of the Term Bonds of a given maturity have been redeemed through optional redemption or mandatory prepayment redemption as described above, the total amount of all future Sinking Fund Payments relating to such maturity will be reduced by the aggregate principal amount of Term Bonds of such maturity so redeemed, to be allocated among such Sinking Fund Payments as directed by the City.

* Preliminary; subject to change.

**Sinking Fund
Redemption Date
(September 1)**

**Sinking Fund
Payments**
\$

(maturity)

Redemption from Special Tax Prepayments. Special Tax Prepayments and any corresponding transfers from the 2019 Reserve Fund will be used to redeem 2019 Bonds on the next Interest Payment Date for which notice of redemption can timely be given under the First Supplemental Fiscal Agent Agreement, among maturities so as to maintain substantially the same debt service profile for the 2019 Bonds as in effect prior to such redemption and by lot within a maturity, at a redemption price (expressed as a percentage of the principal amount of the 2019 Bonds to be redeemed), as set forth below, together with accrued interest to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
Any Interest Payment Date on or before March 1, ____	____%
September 1, ____ and March 1, ____	____%
September 1, ____ and March 1, ____	____%
September 1, ____ and any Interest Payment Date thereafter	____%

Purchase in Lieu of Redemption. In lieu of redemption, moneys in the Bond Fund may be used and withdrawn by the Fiscal Agent for purchase of Outstanding 2019 Bonds upon the filing with the Fiscal Agent of an Officer's Certificate requesting such purchase, at public or private sale as and when, and at such prices (including brokerage and other charges) as such Officer's Certificate may provide, but in no event may 2019 Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase and any premium which would otherwise be due if such 2019 Bonds were to be redeemed in accordance with the First Supplemental Fiscal Agent Agreement.

In lieu of and following distribution of a notice of an optional redemption under the First Supplemental Fiscal Agent Agreement, the City will have the right to purchase or to cause the purchase of all or a portion of the 2019 Bonds in lieu of the optional redemption and to leave such 2019 Bonds outstanding.

Notice of Redemption. The Fiscal Agent will cause notice of any redemption to be mailed by first-class mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption, to the Original Purchaser, to the Securities Depositories, and to the respective registered Owners of any 2019 Bonds designated for redemption, at their addresses appearing on the 2019 Bond registration books in the Principal Office of the Fiscal Agent; but such mailing will not be a condition precedent to such redemption and failure to mail or to receive any such notice, or any defect therein, will not affect the validity of the proceedings for the redemption of such 2019 Bonds. In addition, the Fiscal Agent will file each notice of redemption with the MSRB through its EMMA system.

However, while the 2019 Bonds are subject to DTC's book-entry system, the Fiscal Agent will be required to give notice of redemption only to DTC as provided in the letter of representations executed by the City and received and accepted by DTC. DTC and the Participants will have sole responsibility for providing any such notice of redemption to the Beneficial Owners of the 2019 Bonds to be redeemed. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any 2019 Bonds to be redeemed, of a notice of redemption or its content or effect will not affect the validity of the notice of redemption, or alter the effect of redemption set forth in the First Supplemental Fiscal Agent Agreement.

Conditional Redemption Notice; Rescission of Redemption. Any redemption notice may specify that redemption on the specified date will be subject to receipt by the City of moneys sufficient to cause such redemption (and will specify the proposed source of such moneys), and neither the City nor the Fiscal Agent will have any liability to the Owners or any other party as a result of its failure to redeem the 2019 Bonds as a result of insufficient moneys.

The City will have the right to rescind any redemption by written notice to the Fiscal Agent on or prior to the date fixed for redemption. Any notice of redemption will be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the 2019 Bonds then called for redemption, and such cancellation will not constitute a default under the Fiscal Agent Agreement. The Fiscal Agent will mail notice of rescission of redemption in the same manner that notice of redemption was originally provided.

Selection of 2019 Bonds for Redemption. Whenever provision is made in the First Supplemental Fiscal Agent Agreement for the redemption of less than all of the 2019 Bonds of any maturity or any given portion thereof, the Fiscal Agent will select the 2019 Bonds to be redeemed, from all 2019 Bonds or such given portion thereof not previously called for redemption, as directed by the City or, in the absence of direction by the City, on a pro rata basis among maturities, and, within a maturity, by lot in any manner which the Fiscal Agent in its sole discretion deems appropriate.

Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the principal of, and interest and any premium on, the 2019 Bonds so called for redemption have been deposited in the Bond Fund, such 2019 Bonds so called will cease to be entitled to any benefit under the Fiscal Agent Agreement other than the right to receive payment of the redemption price, and no interest will accrue thereon on or after the redemption date specified in the notice of redemption. All 2019 Bonds redeemed and purchased by the Fiscal Agent under the First Supplemental Fiscal Agent Agreement will be canceled by the Fiscal Agent.

Registration, Transfer and Exchange

The following provisions regarding the exchange and transfer of the 2019 Bonds apply only during any period in which the 2019 Bonds are not subject to DTC's book-entry system. While the 2019 Bonds are subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC. See "APPENDIX I – DTC and the Book-Entry Only System."

Registration. The Fiscal Agent will keep, or cause to be kept, at its Principal Office sufficient books for the registration and transfer of the 2019 Bonds, which will show the series number, date, amount, rate of interest and last known owner of each 2019 Bond and will at all times be open to inspection by the City during regular business hours upon reasonable notice; and, upon presentation for such purpose, the Fiscal Agent will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, the ownership of the 2019 Bonds as provided in the Fiscal Agent Agreement.

The City and the Fiscal Agent will treat the Owner of any 2019 Bond whose name appears on the Bond register as the absolute Owner of such 2019 Bond for any and all purposes, and the City and the Fiscal Agent will not be affected by any notice to the contrary. The City and the Fiscal Agent may rely on the address of the Bondowner as it appears in the Bond register for any and all purposes.

Registration of Exchange or Transfer. Any 2019 Bond may, in accordance with its terms, be transferred, upon the Bond register by the person in whose name it is registered, in person or by such person's duly authorized attorney, upon surrender of such 2019 Bond for cancellation, accompanied by delivery of a duly written instrument of transfer in a form acceptable to the Fiscal Agent.

The 2019 Bonds may be exchanged at the Principal Office of the Fiscal Agent solely for a like aggregate principal amount of 2019 Bonds of authorized denominations and of the same maturity.

The cost for any services rendered or any expenses incurred by the Fiscal Agent in connection with any such transfer or exchange will be paid by the City. The Fiscal Agent will collect from the Owner requesting such transfer or exchange any tax or other governmental charge required to be paid with respect to such transfer or exchange. Whenever any 2019 Bond or 2019 Bonds are surrendered for transfer or exchange, the City will execute and the Fiscal Agent will authenticate and deliver a new 2019 Bond or 2019 Bonds, for a like aggregate principal amount.

No transfers or exchanges of 2019 Bonds will be required to be made (i) 15 days prior to the date established by the Fiscal Agent for selection of 2019 Bonds for redemption or (ii) with respect to a 2019 Bond after such 2019 Bond has been selected for redemption; or (iii) between a Record Date and the succeeding Interest Payment Date.

DEBT SERVICE SCHEDULE

The following table presents the annual debt service (including mandatory sinking fund payments) on the 2018 Bonds and the 2019 Bonds, assuming there are no optional redemptions or special redemptions from Special Tax Prepayments.

Year Ending September 1	2018 Bonds	2019 Bonds Principal	2019 Bonds Interest	2019 Bonds Total	2018 Bonds and 2019 Bonds Grand Total
2019	\$1,628,044.72				
2020	1,719,050.00				
2021	1,755,050.00				
2022	1,789,450.00				
2023	1,822,250.00				
2024	1,858,450.00				
2025	1,897,850.00				
2026	1,935,250.00				
2027	1,977,000.00				
2028	2,015,750.00				
2029	2,056,500.00				
2030	2,094,000.00				
2031	2,138,250.00				
2032	2,178,750.00				
2033	2,225,500.00				
2034	2,268,000.00				
2035	2,311,250.00				
2036	2,360,000.00				
2037	2,408,750.00				
2038	2,457,250.00				
2039	2,505,250.00				
2040	2,552,500.00				
2041	2,603,750.00				
2042	2,658,500.00				
2043	2,711,250.00				
2044	2,766,750.00				
2045	2,819,500.00				
2046	2,874,250.00				
2047	2,935,500.00				
2048	2,992,500.00				
2049	--				
Total:	\$68,316,144.72				

Source: U.S. Bank National Association for 2018 Bonds; Piper Jaffray & Co. for 2019 Bonds.

SECURITY FOR THE BONDS

This section generally describes the security for the Bonds set forth in the Fiscal Agent Agreement, which is summarized in more detail in APPENDIX E. Capitalized terms used but not defined in the section are defined in APPENDIX E.

General

The 2018 Bonds, the 2019 Bonds and any Parity Bonds (collectively, the “**Bonds**”) are secured by a first pledge (which will be effected in the manner and to the extent provided in the Fiscal Agent Agreement) of all of the Special Tax Revenues and all moneys deposited in the Bond Fund (including the Capitalized Interest Account and the Special Tax Prepayments Account), and, until disbursed as provided therein, in the Special Tax Fund.

“**Special Tax Revenues**” are defined in the Fiscal Agent Agreement as the proceeds of the Special Taxes received by the City, including any scheduled payments thereof and any Special Tax Prepayments, interest thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and interest thereon. *However*, Special Tax Revenues do not include any interest in excess of the interest due on the Bonds, or any penalties collected in connection with any such foreclosure.

The Special Tax Revenues and all moneys deposited into such funds (except as otherwise provided in the Fiscal Agent Agreement) are dedicated to the payment of the principal of, and interest and any premium on, the Bonds as provided in the Fiscal Agent Agreement and in the Act until all of the Bonds have been paid and retired or until moneys or Federal Securities have been set aside irrevocably for that purpose under the Fiscal Agent Agreement.

The 2019 Bonds and all Parity Bonds, the principal of and interest on which is payable from amounts in the 2019 Reserve Fund (“**2019 Related Parity Bonds**”), will be secured by a first pledge (which will be effected in the manner and to the extent provided in the Fiscal Agent Agreement) of all moneys deposited in the 2019 Reserve Fund. See “– 2019 Reserve Fund” below.

The 2018 Bonds are not secured by the 2019 Reserve Fund, but rather are separately secured by a separate reserve fund (the “**2018 Reserve Fund**”). In addition, any further Parity Bonds, the principal of and interest on which is payable from amounts in the 2018 Reserve Fund (“**2018 Related Parity Bonds**”), will be secured by the 2018 Reserve Fund. The 2019 Bonds are not secured by the 2018 Reserve Fund.

Amounts in the Improvement Fund (and the accounts therein, including the Remainder Taxes Account), the Administrative Expense Fund and the Costs of Issuance Fund are not pledged to the repayment of the Bonds. The Project is not pledged to the repayment of the Bonds, nor are the proceeds of any condemnation or insurance award received by the City with respect to the Project.

Limited Obligation

The Bonds are not general obligations of the City, but are limited obligations, payable solely from the Special Tax Revenues and the funds pledged therefor under the Fiscal Agent Agreement. Neither the faith and credit nor the taxing power of the City (except to the limited extent set forth in the Fiscal Agent Agreement) or of the State or any political subdivision thereof is pledged to the payment of the Bonds.

Special Taxes

Covenant to Levy Special Taxes. The Finance Director will effect the levy of the Special Taxes each Fiscal Year in accordance with the Ordinance by each August 1 that the Bonds are outstanding, or otherwise such that the computation of the levy is complete before the final date on which Auditor will accept the transmission of the Special Tax amounts for the parcels within Improvement Area No. 1 for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the Finance Director shall prepare or cause to be prepared, and shall transmit to the Auditor, such data as the Auditor requires to include the levy of the Special Taxes on the next real property tax roll.

Computation. The Finance Director will fix and levy the amount of Special Taxes within Improvement Area No. 1 required to pay the following amounts, taking into account the balances in the applicable funds established under the Fiscal Agent Agreement:

(i) the principal of and interest on any outstanding Bonds becoming due and payable during the ensuing calendar year,

(ii) any necessary replenishment or expenditure of the 2019 Reserve Fund, the 2018 Reserve Fund and any other reserve account for Parity Bonds that are not 2018 Related Parity Bonds or 2019 Related Parity Bonds to the extent such replenishment has not been included in the computation of the Special Taxes in a previous Fiscal Year,

(iii) the Administrative Expenses, including amounts necessary to discharge any rebate obligation, during such year,

(iv) an amount to cure delinquencies in the payment of principal or interest on Bonds that occurred in the previous Fiscal Year, and

(v) any Project costs to be paid from Special Taxes to the extent that paying for such costs does not increase the Special Taxes levied on Undeveloped Property (as defined in the Amended Rate and Method).

During the Remainder Taxes Period, the Finance Director will fix and levy the Special Taxes at the Maximum Special Tax rate on Developed Property before considering any Capitalized Interest (as those terms are defined in the Amended Rate and Method).

“Remainder Taxes Period” means the period through and including the end of the 20th Fiscal Year during which Special Taxes for facilities have been levied on the property in Improvement Area No. 1. The first year of the Special Tax levy will be Fiscal Year 2019-20.

The Special Taxes so levied shall not exceed the authorized amounts as provided in the proceedings under the Resolution of Formation.

Manner of Collection. Except as set forth in the Ordinance, the Fiscal Agent Agreement provides that the Special Taxes will be payable and be collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the *ad valorem* taxes on real property.

Because the Special Tax levy is limited to the maximum Special Tax rates set forth in the Amended Rate and Method, no assurance can be given that, in the event of Special Tax delinquencies, the receipts of Special Taxes will, in fact, be collected in sufficient amounts in any given year to pay debt

service on the Bonds. Further, under no circumstances will the Special Tax levied against any parcel of residential property for which an occupancy permit for private residential use has been issued be increased by more than 10% as a consequence of delinquency or default by the owner of any other parcel within Improvement Area No. 1. In addition, in no event shall Special Taxes for facilities be levied for more than 80 Fiscal Years. See “BOND OWNERS’ RISKS – Property Tax Delinquencies.”

Amended Rate and Method

General. The Special Taxes will be levied and collected according to the Amended Rate and Method, which provides the means by which the City Council may annually levy the Special Taxes within Improvement Area No. 1, up to the maximum Special Tax rates, and to determine the amount of the Special Taxes that will need to be collected each fiscal year from the “**Taxable Property**” within Improvement Area No. 1. *As used in this Official Statement, Special Tax refers only to the Facilities Special Tax levied under the Amended Rate and Method; although a Services Special Tax is also authorized to be levied under the Amended Rate and Method, the Services Special Tax is not pledged to repay the 2019 Bonds.*

The following is a summary of the provisions of the Amended Rate and Method, which should be read in conjunction with the complete text of the Amended Rate and Method, including its attachments, which is attached as APPENDIX B. Capitalized terms used but not defined in this section have the meanings as set forth in APPENDIX B. *This section provides only a summary of the Amended Rate and Method, and is qualified by more complete and detailed information contained in the entire Amended Rate and Method attached as APPENDIX B.*

Facilities Special Tax Requirement. Annually, at the time of levying the Special Tax, the person or firm designated by the City to administer the Special Taxes (the “**Administrator**”) will determine the minimum amount of money to be levied on Taxable Property related to the facilities component of the Amended Rate and Method (the “**Facilities Special Tax Requirement**”), which will be the amount required in any Fiscal Year for the following purposes:

- (i) to pay principal and interest on Bonds when due in the calendar year which begins in such Fiscal Year,
- (ii) to create or replenish reserve funds to the extent such replenishment has not been included in the computation of the Facilities Special Tax Requirement in a previous Fiscal Year,
- (iii) to cure any delinquencies in the payment of principal or interest on Bonds which have occurred in the prior Fiscal Year,
- (iv) to pay Administrative Expenses, and
- (v) to pay the costs of Authorized Facilities, to the extent that paying directly for such costs does not increase the Facilities Special Taxes levied on Undeveloped Property.

Annual Determination of Property Categories for Administration of Special Tax. Each Fiscal Year, the Administrator will (i) categorize each Parcel of Taxable Property as Developed Property, Undeveloped Business Park Property, Undeveloped Property, Taxable Public Property, or Taxable HOA Property, (ii) for Single Family Residential Property, determine within which Village each Parcel of Developed Property is located and the number of Residential Units on the Parcel, and (iii) determine the Facilities Special Tax Requirement for the Fiscal Year. In addition, the Administrator shall, on an ongoing basis, monitor Final Maps and condominium plans to determine if there are any proposed changes to the Expected Land Uses that would reduce the Expected Maximum Facilities Special Tax Revenues for a Village. If the Expected Maximum Special Tax Revenues will be revised pursuant to a proposed Land

Use Change, the Administrator shall apply the steps set forth in the Amended Rate and Method, as described further below.

In any Fiscal Year, if it is determined that:

(i) a parcel map for a portion of property in Improvement Area No. 1 was recorded after January 1 of the prior Fiscal Year (or any other date after which the Assessor will not incorporate the newly-created Parcels into the then-current tax roll),

(ii) because of the date the parcel map was recorded, the Assessor does not yet recognize the new Parcels created by the parcel map, and

(iii) one or more of the newly-created Parcels is in a different Development Class than other parcels created by the subdivision,

the Administrator will calculate the Special Tax for the property affected by recordation of the parcel map by determining the Special Tax that applies separately to the property within each Development Class, then applying the sum of the individual Special Taxes to the Parcel that was subdivided by recordation of the parcel map.

Maximum Facilities Special Tax. The table below identifies the Maximum Facilities Special Tax, before and after the Trigger Event, for Taxable Property in Improvement Area No. 1, subject to potential adjustments that may occur pursuant to the Amended Rate and Method.

Once a Special Tax has been levied and collected on a Parcel of Developed Property, the Maximum Special Tax applicable to that Parcel will not be reduced in future Fiscal Years regardless of changes in land use on the Parcel, except (i) in the event of a partial prepayment, and (ii) pursuant to Section D of the Amended Rate and Method, which is described below. Notwithstanding the foregoing: (i) if Bonds have yet to be issued for Improvement Area No. 1, the Parcels can be assigned to the appropriate Special Tax category based on the Land Use Change, and the Administrator shall recalculate the Expected Maximum Facilities Special Tax Revenues based on the corresponding change in revenues, and (ii) the actual Special Taxes levied on a Parcel of Developed Property in any Fiscal Year may be less than the Maximum Special Taxes if lower Special Taxes are calculated pursuant to the Amended Rate and Method.

The Expected Maximum Facilities Special Tax Revenues were calculated based on the Expected Land Uses at CFD Formation. The Administrator will review Final Maps, Tentative Map revisions, and other changes to land uses proposed within Improvement Area No. 1 and compare the revised land uses to the Expected Land Uses to evaluate the impact on the Expected Maximum Facilities Special Tax Revenues. See the Amended Rate and Method attached as APPENDIX B for additional details.

Trigger Event. The term “Trigger Event” means, in any Fiscal Year, that, on or before June 30 of the prior Fiscal Year, the Administrator made a finding that (i) all Bonds secured by the levy and collection of Facilities Special Taxes in the District have been fully repaid, (ii) all Administrative Expenses from prior Fiscal Years have been paid or reimbursed to the City, (iii) the Recycled Water Facilities Costs have been fully funded, and (iv) there are no other Authorized Facilities that the City intends to fund with Facilities Special Taxes. In the first Fiscal Year in which the Administrator determines that the Trigger Event occurred in the prior Fiscal Year, and in each Fiscal Year thereafter, the Facilities Special Tax will cease to be levied, and the Maximum Services Special Tax for each Parcel will be adjusted pursuant to the Amended Rate and Method.

City Services CFD. The Amended Rate and Method provides that, if a City Services CFD is formed and Bonds have not yet been sold for Improvement Area No. 1, the Maximum Facilities Special

Taxes set forth in the Amended Rate and Method for Single Family Property will be reduced by up to \$325 per Residential Unit (or such lower amount that is adopted as the maximum special tax or component thereof that will be used to mitigate fiscal impacts on the City by paying for fire protection, police protection, and/or public works maintenance services). The City Services CFD was formed, and as a result, the Maximum Facilities Special Taxes were reduced by \$58. The Maximum Facilities Special Tax rates set forth below and elsewhere in this Official Statement reflect this reduction.

Fiscal Year 2019-20 Maximum Facilities Special Tax Rates (1)

Land Use	Maximum Facilities Special Tax Prior to Trigger Event Fiscal Year 2019-20		Maximum Facilities Special Tax After Trigger Event Fiscal Year 2019-20	
Single Family Residential Property				
Village 1	\$2,658.46	per Residential Unit	\$0.00	per Residential Unit
Village 2	\$3,010.24	per Residential Unit	\$0.00	per Residential Unit
Village 3	\$3,008.08	per Residential Unit	\$0.00	per Residential Unit
Village 4	\$2,792.68	per Residential Unit	\$0.00	per Residential Unit
Village 5	\$3,711.66	per Residential Unit	\$0.00	per Residential Unit
Village 6	\$4,080.76	per Residential Unit	\$0.00	per Residential Unit
Village 7	\$2,394.34	per Residential Unit	\$0.00	per Residential Unit
Village 8	\$3,896.76	per Residential Unit	\$0.00	per Residential Unit
 Business Park Property/ Undeveloped Business Park Property	 \$2,706.08	 per Acre	 \$0.00	 per Acre
 Other Property	 \$32,472.96	 per Acre	 \$0.00	 per Acre
 Taxable Public Property and Taxable HOA Property	 \$32,472.96	 per Acre	 \$0.00	 per Acre
 Undeveloped Property	 \$32,472.96	 per Acre	 \$0.00	 per Acre

(1) Reflects the Maximum Facilities Special Tax rates as calculated per Section D.2 of the Amended Rate and Method. The Maximum Facilities Special Tax per Unit increases each year by 2% of the amount in effect in the prior fiscal year.
Source: Goodwin Consulting Group, Inc.

Expected Land Uses and Expected Maximum Facilities Special Tax Revenues at Buildout

Village	Expected Land Uses ⁽¹⁾		Estimated Facilities Special Tax per Unit		Expected Maximum Facilities Special Tax Revenues
			Fiscal Year 2019-20 ⁽²⁾		Fiscal Year 2019-20 ⁽³⁾
Village 1	160	Residential Units	\$2,658.46	per Residential Unit	\$425,354
Village 2	74	Residential Units	\$3,010.24	per Residential Unit	\$222,758
Village 3	103	Residential Units	\$3,008.08	per Residential Unit	\$309,832
Village 4	149	Residential Units	\$2,792.68	per Residential Unit	\$416,109
Village 5	196	Residential Units	\$3,711.66	per Residential Unit	\$727,485
Village 6	136	Residential Units	\$4,080.76	per Residential Unit	\$554,983
Village 7	182	Residential Units	\$2,394.34	per Residential Unit	\$435,770
Village 8	139	Residential Units	\$3,896.76	per Residential Unit	\$541,650
N/A	0.00	Acres of Business Park Property	\$2,706.08	per Acre	\$0
Total	1,139 Residential Units and 0 acres of Business Park Property		N/A		\$3,633,941

(1) Expected Land Uses as of the date of value of the appraisal report.

(2) Reflects the Maximum Special Tax rates as calculated per Section D.2 of the Amended Rate and Method at build-out. The Maximum Facilities Special Tax per Unit increases each year by 2% of the amount in effect in the prior fiscal year.

(3) The Maximum Special Tax at buildout is based on the expected completed homes on all parcels at buildout of all eight Villages. As development occurs, the maximum special tax levy per Village and the actual special tax per Village may vary from what is shown.

Source: Goodwin Consulting Group, Inc.

Transfer of Expected Maximum Facilities Special Tax. The Expected Maximum Facilities Special Tax Revenues were determined for each Village based on the Expected Land Uses within that Village. If the expected number of Residential Units is transferred from one Village to another, the City may, in its sole discretion, allow for a corresponding transfer of Expected Maximum Facilities Special Tax Revenues between the Villages. Such a transfer shall only be allowed if (i) all adjustments are agreed to in writing by the affected property owners and the City, and (ii) there is no reduction in the total Expected Maximum Facilities Special Tax Revenues as a result of the transfer. See APPENDIX B for additional details.

Method of Special Tax Levy. Under the Amended Rate and Method, the Administrator will determine the Facilities Special Tax Requirement and levy the Facilities Special Tax as follows:

Step 1: In the first 20 Fiscal Years in which a Facilities Special Tax is levied within Improvement Area No. 1, the Maximum Facilities Special Tax shall be levied on all Parcels of Developed Property. Any Facilities Special Tax proceeds collected that are determined by the Administrator to be Remainder Taxes shall be deposited into the Improvement Fund to pay any costs associated with the acquisition of Authorized Facilities that were not paid with Bond proceeds or Facilities Special Taxes levied in prior Fiscal Years.

Beginning in the 21st Fiscal Year in which a Facilities Special Tax is levied within Improvement Area No. 1 and continuing until the Trigger Event, the Facilities Special Tax shall be levied Proportionately on each Parcel of Developed Property up to 100% of the Maximum Facilities Special Tax for each Parcel of Developed Property until the amount levied is equal to the Facilities Special Tax Requirement, the calculation of which will include funding for Recycled Water Facilities Costs and/or other Authorized Facilities designated for funding, as determined in the sole discretion of the City.

After the Trigger Event, the Facilities Special Tax shall no longer be levied.

- Step 2:** If additional revenue is needed after Step 1 and after applying Capitalized Interest to the Special Tax Requirement, the Facilities Special Tax shall be levied Proportionately on (i) each Parcel of Undeveloped Property up to 100% of the Maximum Facilities Special Tax for each Parcel of Undeveloped Property, and (ii) each Parcel of Undeveloped Business Park Property up to 100% of the Maximum Facilities Special Tax for each Parcel of Undeveloped Business Park Property.
- Step 3:** If additional revenue is needed after Step 2, the Facilities Special Tax shall be levied Proportionately on each Parcel of Taxable HOA Property, up to 100% of the Maximum Facilities Special Tax for each Parcel of Taxable HOA Property.
- Step 4:** If additional revenue is needed after Step 3, the Facilities Special Tax shall be levied Proportionately on each Parcel of Taxable Public Property, up to 100% of the Maximum Facilities Special Tax for each Parcel of Taxable Public Property.

Exemptions. Any Parcel that becomes Public Property prior to the first series of Bonds being issued for Improvement Area No. 1 will be exempt from both the Services Special Tax and the Facilities Special Tax; the Administrator will reduce the Expected Maximum Facilities Special Tax Revenues to reflect any such exemption, and the first series of Bonds will be sized based on the reduced Expected Maximum Facilities Special Tax Revenues.

Any Parcel that becomes Public Property after the first series of Bonds are issued for Improvement Area No. 1 will be exempt from both the Services Special Tax and the Facilities Special Tax provided such Parcel is not Taxable Public Property.

In addition, no Special Taxes will be levied on:

(i) up to 61.45 Acres of HOA Property, with tax-exempt status assigned in chronological order based on the date on which Parcels were transferred to the Homeowners Association,

(ii) Parcels that are designated as permanent open space or common space on which no structure is permitted to be constructed,

(iii) Parcels owned by a public utility for an unmanned facility, and

(iv) Parcels subject to an easement that precludes any use on the Parcel other than that permitted by the easement.

Notwithstanding the foregoing, if a Facilities Special Tax has been levied on a Parcel in any Fiscal Year, and the entire Parcel subsequently meets the criteria in (ii), (iii) or (iv) above, the Parcel will remain subject to the Facilities Special Tax levy, unless the first series of Bonds have yet to be issued for Improvement Area No. 1, in which case such property will be categorized as Public Property, and the Administrator will recalculate the Expected Maximum Facilities Special Tax Revenues based on the corresponding loss in revenues.

Partial Prepayment of Special Tax. A property owner may prepay up to 80% of the Special Tax obligation applicable to a Parcel in Improvement Area No. 1, subject to certain conditions. The Prepayment Amount is calculated based on the Bond Redemption Amount plus Redemption Premium and other costs, all as specified in "APPENDIX B – Amended and Restated Rate and Method of Apportionment of Special Tax – Section H."

Covenant to Foreclose

Sale of Property for Nonpayment of Taxes. The Fiscal Agent Agreement provides that the Special Taxes are to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the special covenant for foreclosure described below and in the Act, is to be subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for *ad valorem* property taxes. Under these procedures, if taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

Foreclosure Under the Act. Under Section 53356.1 of the Act, if any delinquency occurs in the payment of the Special Tax, the City may order the institution of a Superior Court action to foreclose the lien therefor within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at judicial foreclosure sale.

While judicial foreclosure is not mandatory under the Act, the City has covenanted in the Fiscal Agent Agreement that on or about June 30 of each Fiscal Year, the Finance Director will compare the amount of Special Taxes previously levied in Improvement Area No. 1 of the District to the amount of Special Tax Revenues received by the City, and if delinquencies have occurred, proceed as follows:

Individual Delinquencies. If the Finance Director determines that any single parcel subject to the Special Tax in Improvement Area No. 1 is delinquent in the payment of Special Taxes in the aggregate amount of \$5,000 or more, then the Finance Director will send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings will be commenced by the City within 90 days of such determination.

Notwithstanding the foregoing, the Finance Director may defer any such actions with respect to a delinquent parcel if (1) Improvement Area No. 1 is then participating in the Alternative Method of Distribution of Tax Levies and Collections described in Revenue & Taxation Code Section 4701 et seq. (referred to herein as the "Teeter Plan"), or an equivalent procedure, (2) the amount in the 2019 Reserve Fund is at least equal to the 2019 Reserve Requirement and (3) the amount in the 2018 Reserve Fund is at least equal to the reserve requirement for the 2018 Bonds, and (4) the amount in the reserve account for any Parity Bonds that are not 2018 Related Parity Bonds or 2019 Related Parity Bonds is at least equal to the required amount.

Aggregate Delinquencies. If the Finance Director determines that (i) the total amount of delinquent Special Tax for the prior Fiscal Year for the entire Improvement Area No. 1 (including the total of delinquencies above), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year, determined by reference to the latest available secured property tax roll of the County, the Finance Director shall notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and shall commence foreclosure proceedings within 90 days of such determination against each parcel of land in Improvement Area No. 1 with a Special Tax delinquency.

Sufficiency of Foreclosure Sale Proceeds; Foreclosure Limitations and Delays. No assurances can be given that the real property subject to a judicial foreclosure sale will be sold or, if sold, that the proceeds of sale will be sufficient to pay any delinquent Special Tax installment. The Act does not require the City to purchase or otherwise acquire any lot or parcel of property foreclosed upon if there is no other purchaser at such sale.

Section 53356.6 of the Act requires that property sold pursuant to foreclosure under the Act be sold for not less than the amount of judgment in the foreclosure action, plus post-judgment interest and

authorized costs, unless the consent of the owners of 75% of the outstanding Bonds is obtained. However, under Section 53356.5 of the Act, the City, as judgment creditor, is entitled to purchase any property sold at foreclosure using a “credit bid,” where the City could submit a bid crediting all or part of the amount required to satisfy the judgment for the delinquent amount of the Special Taxes. If the City becomes the purchaser under a credit bid, the City must pay the amount of its credit bid into the redemption fund established for the Bonds, but this payment may be made up to 24 months after the date of the foreclosure sale.

Foreclosure by court action is subject to normal litigation delays, the nature and extent of which are largely dependent on the nature of the defense, if any, put forth by the debtor and the Superior Court calendar. In addition, the ability of the City to foreclose the lien of delinquent unpaid Special Taxes may be limited in certain instances and may require prior consent of the property owner if the property is owned by or in receivership of the Federal Deposit Insurance Corporation (the “**FDIC**”). See “**BOND OWNERS' RISKS – Bankruptcy Delays.**”

Special Tax Delinquencies; Teeter Plan. In 1949, the California Legislature enacted an alternative method for the distribution of property taxes to local agencies. This method, known as the “**Teeter Plan**,” is found in Sections 4701-4717 of the California Revenue and Taxation Code. Upon adoption and implementation of this method by a county board of supervisors, local agencies for which the county collects property taxes and certain other public agencies and taxing areas located in the county receive annually the full amount of their shares of property taxes and other levies collected on the secured roll, including delinquent property taxes which have yet to be collected. While the county bears the risk of loss on unpaid delinquent taxes, it retains the penalties associated with delinquent taxes when they are paid. In turn, the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk.

Once adopted, a county’s Teeter Plan will remain in effect in perpetuity unless the board of supervisors orders its discontinuance or unless, prior to the commencement of a fiscal year, a petition for discontinuance is received and joined in by resolutions of the governing bodies of not less than two-thirds of the participating districts in the county. An electing county may, however, decide to discontinue the Teeter Plan with respect to any levying agency in the county if the board of supervisors, by action taken not later than July 15 of a fiscal year, elects to discontinue the procedure with respect to such levying agency and the rate of secured tax delinquencies in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll by that agency.

The Board of Supervisors of San Joaquin County adopted the Teeter Plan in Fiscal Year 1994-95. The County has elected to apply its Teeter Plan to the collection of the Special Taxes in Improvement Area No. 1. To the extent that the County’s Teeter Plan continues in existence and is carried out as adopted, and to the extent the County does not discontinue the Teeter Plan with respect to the District, the County’s Teeter Plan may help protect owners of the 2019 Bonds from the risk of delinquencies in the payment of Special Tax.

There can be no assurance that the County will not modify or eliminate its Teeter Plan, or choose to remove the District from its Teeter Plan, while the 2019 Bonds are outstanding.

Special Tax Fund

Deposits. Under the Fiscal Agent Agreement, the Special Tax Fund is established as a separate fund to be held by the Fiscal Agent, to the credit of which the Fiscal Agent will deposit amounts received from or on behalf of the City consisting of Special Tax Revenues and amounts transferred from the Administrative Expense Fund and the Bond Fund. The City will promptly remit any Special Tax Revenues received by it to the Fiscal Agent for deposit by the Fiscal Agent to the Special Tax Fund.

Notwithstanding the foregoing,

(i) Special Tax Revenues in an amount not to exceed the amount included in the Special Tax levy for such Fiscal Year for Administrative Expenses will be separately identified by the Finance Director and shall be deposited by the Fiscal Agent in the Administrative Expense Fund;

(ii) any Special Tax Revenues constituting the collection of delinquencies in payment of Special Taxes shall be separately identified by the Finance Director and will be disposed of by the Fiscal Agent first, for transfer to the Bond Fund to pay any past due debt service on the Bonds; second, without preference or priority, for transfer to the 2019 Reserve Fund to the extent needed to increase the amount then on deposit in the 2019 Reserve Fund up to the then-2019 Reserve Requirement, for transfer to the 2018 Reserve Fund and any 2018 Related Parity Bonds to the extent needed to increase the amount then on deposit therein to the required level, and for transfer to the reserve account for any Parity Bonds that are not 2018 Related Parity Bonds or 2019 Related Parity Bonds to the extent needed to increase the amount then on deposit therein to the required level; and third, to be held in the Special Tax Fund for use as described in “–Disbursements” below; and

(iii) any proceeds of Special Tax Prepayments will be separately identified by the Finance Director and will be deposited by the Fiscal Agent as follows (as directed in writing by the Finance Director): (a) that portion of any Special Tax Prepayment constituting a prepayment of construction costs (which otherwise could have been included in the proceeds of Parity Bonds) will be deposited by the Fiscal Agent to the Bond Proceeds Account of the Improvement Fund and (b) the remaining Special Tax Prepayment will be deposited by the Fiscal Agent in the Special Tax Prepayments Account established pursuant to the Fiscal Agent Agreement.

Disbursements. At least 7 Business Days prior to each Interest Payment Date, the Fiscal Agent will withdraw from the Special Tax Fund and transfer the following amounts in the following order of priority:

(i) to the Bond Fund an amount, taking into account any amounts then on deposit in the Bond Fund and any expected transfers from the Improvement Fund, the 2019 Reserve Fund, the 2018 Reserve Fund and any reserve account for Parity Bonds that are not 2018 Related Parity Bonds or 2019 Related Parity Bonds, the Capitalized Interest Account and the Special Tax Prepayments Account to the Bond Fund such that the amount in the Bond Fund equals the principal (including any sinking payment), premium, if any, and interest due on the Bonds on such Interest Payment Date and any past due principal or interest on the Bonds not theretofore paid from a transfer described in the Fiscal Agent Agreement,

(ii) without preference or priority (a) to the 2019 Reserve Fund an amount, taking into account amounts then on deposit in the 2019 Reserve Fund, such that the amount in the 2019 Reserve Fund is equal to the 2019 Reserve Requirement, and (b) to the 2018 Reserve Account and the reserve account for any Parity Bonds that are not 2018 Related Parity Bonds or 2019 Related Parity Bonds, taking into account amounts then on deposit in such reserve account, such that the amount in such reserve account is equal to the amount required to be on deposit therein (and in the event that amounts in the Special Tax Fund are not sufficient for the purposes of this paragraph, such amounts will be applied to the 2019 Reserve Fund, the 2018 Reserve Fund and any other reserve accounts

ratably based on the then-Outstanding principal amount of each applicable series the Bonds), and

(iii) (A) on each October 1, beginning on October 1, 2019, and continuing through the Remainder Taxes Period, all of the moneys remaining in the Special Tax Fund will be transferred to the Remainder Taxes Account and (B) on each subsequent October 1 after the end of the Remainder Taxes Period, all or a portion of the moneys remaining in the Special Tax Fund will be transferred to the Remainder Taxes Account as directed by the Finance Director.

Within 15 days after the end of each Bond Year, and after the foregoing transfers have been made, the Fiscal Agent will transfer all amounts remaining on deposit in the Special Tax Fund to the Administrative Expense Fund, to be used as set forth in the Fiscal Agent Agreement.

Bond Fund

Deposits. The Fiscal Agent will hold the moneys in the Bond Fund for the benefit of the City and the Owners of the Bonds, and will disburse those funds for the payment of the principal of, and interest and any premium on, the Bonds as described below.

There is hereby established, within the Bond Fund maintained and administered by the Fiscal Agent in accordance with Section 4.04 of the Original Fiscal Agent Agreement, a separate account to be held by the Fiscal Agent to be designated the "Series 2019 Capitalized Interest Account" (the "2019 Capitalized Interest Account"), to the credit of which a deposit shall be made as required by Section 12.02(D). There is also created in the Bond Fund a separate account to be held by the Fiscal Agent (the "**2019 Capitalized Interest Account**") to the credit of which a deposit will be made from the proceeds of the 2019 Bonds as provided in the First Supplemental Fiscal Agent Agreement. See "FINANCING PLAN – Estimated Sources and Uses of Funds."

Moneys in the 2019 Capitalized Interest Account will be held in trust by the Fiscal Agent and will be used and withdrawn by the Fiscal Agent solely for the payment of interest on the 2019 Bonds. When the amount in the 2019 Capitalized Interest Account is fully expended for the payment of interest on the 2019 Bonds, the account will be closed.

There is also created in the Bond Fund a separate account to be held by the Fiscal Agent, designated the "**Special Tax Prepayments Account**," to the credit of which deposits will be made as provided in the Fiscal Agent Agreement.

Disbursements. At least 10 Business Days before each Interest Payment Date, the Fiscal Agent will notify the Finance Director in writing as to the principal and premium, if any, and interest due on the Bonds on the next Interest Payment Date (whether as a result of scheduled principal of and interest on the Bonds, optional redemption of the Bonds or a mandatory sinking fund redemption). On each Interest Payment Date, the Fiscal Agent will withdraw from the Bond Fund and pay to the Owners of the Bonds the principal of, and interest and any premium, due and payable on such Interest Payment Date on the Bonds.

At least 5 Business Days prior to each Interest Payment Date, the Fiscal Agent will determine if the amounts then on deposit in the Bond Fund are sufficient to pay the Debt Service due on the Bonds on the next Interest Payment Date. In the event that amounts in the Bond Fund are insufficient for such purpose, the Fiscal Agent promptly will notify the Finance Director by telephone (and confirm in writing) of the amount of the insufficiency.

If amounts in the Bond Fund are insufficient for the purpose set forth in the preceding paragraph with respect to any Interest Payment Date, the Fiscal Agent will do the following:

(i) Withdraw from the 2019 Reserve Fund, in accordance with the provisions of the Fiscal Agent Agreement, to the extent of any funds or Permitted Investments therein, amounts to cover the amount of such Bond Fund insufficiency related to the 2019 Bonds and any 2019 Related Parity Bonds. Amounts so withdrawn from the 2019 Reserve Fund will be deposited in the Bond Fund and used to pay debt service on the 2019 Bonds and any 2019 Related Parity Bonds.

(ii) Withdraw from the 2018 Reserve Fund, to the extent of any funds or Permitted Investments therein, amounts to cover the amount of such Bond Fund insufficiency related to the 2018 Bonds and any 2018 Related Parity Bonds. Amounts so withdrawn from the 2018 Reserve Fund will be deposited in the Bond Fund and used to pay debt service on the 2018 Bonds and any 2018 Related Parity Bonds.

(iii) Withdraw from the reserve funds, if any, established under a Supplemental Agreement related to Parity Bonds that are not 2018 Related Parity Bonds or 2019 Related Parity Bonds, to the extent of any funds or Permitted Investments therein, amounts to cover the amount of such Bond Fund insufficiency related to such Parity Bonds. Amounts so withdrawn from any such reserve fund will be deposited in the Bond Fund and used to pay debt service on the Parity Bonds that are not 2018 Related Parity Bonds or 2019 Related Parity Bonds.

If, after the foregoing transfers, there are insufficient funds in the Bond Fund to make the payments provided for in the second sentence of the first paragraph under “–Bond Fund – Disbursements” above, the Fiscal Agent will apply the available funds first to the payment of interest on the Bonds, then to the payment of principal due on the Bonds other than by reason of sinking payments, if any, and then to payment of principal due on the bonds by reason of sinking payments.

Disbursements from the Special Tax Prepayments Account. Moneys in the Special Tax Prepayments Account will be transferred by the Fiscal Agent to the Bond Fund on the next date for which notice of redemption of Bonds can timely be given under the Fiscal Agent Agreement, and notice to the Fiscal Agent can timely be given under the Fiscal Agent Agreement, and will be used (together with any amounts transferred pursuant to the Fiscal Agent Agreement) to redeem Bonds on the redemption date selected in accordance the Fiscal Agent Agreement.

2019 Reserve Fund

General. In order to further secure the payment of principal of and interest on the 2019 Bonds and any series of Parity Bonds the principal of and interest on which is payable from amounts in the 2019 Reserve Fund (“**2019 Related Parity Bonds**”), certain proceeds of the 2019 Bonds will be deposited into the 2019 Reserve Fund in an amount equal to the “**2019 Reserve Requirement**” for the 2019 Bonds (as defined below). See “FINANCING PLAN - Estimated Sources and Uses of Funds.”

Moneys in the 2019 Reserve Fund will be held by the Fiscal Agent for the benefit of the Owners of the 2019 Bonds and any 2019 Related Parity Bonds as a reserve for the payment of the principal of, and interest and any premium on, the 2019 Bonds and any 2019 Related Parity Bonds, and will be subject to a lien in favor of the Owners of the 2019 Bonds and any 2019 Related Parity Bonds.

Owners of the 2019 Bonds will have no interest in or claim to the 2018 Reserve Fund and the Owners of the Bonds covered by the 2018 Reserve Fund will have no interest in or claim to the 2019 Reserve Fund.

2019 Reserve Requirement. The “**2019 Reserve Requirement**” is defined in the First Supplemental Fiscal Agent Agreement to mean the amount as of any date of calculation equal to the least of (a) Maximum Annual Debt Service on the 2019 Bonds and 2019 Related Parity Bonds, if any, (b) 125% of average Annual Debt Service on the 2019 Bonds and 2019 Related Parity Bonds, if any and (c) 10% of the outstanding principal of the 2019 Bonds and 2019 Related Parity Bonds, if any; provided, however:

(A) that with respect to the calculation of clause (c), the issue price of the 2019 Bonds or any 2019 Related Parity Bonds excluding accrued interest will be used rather than the outstanding principal amount, if (i) the net original issue discount or premium of the 2019 Bonds or any 2019 Related Parity Bonds was less than 98% or more than 102% of the original principal amount of the 2019 Bonds or any 2019 Related Parity Bonds and (ii) using the issue price would produce a lower result than using the outstanding principal amount;

(B) that in no event will the amount calculated hereunder exceed the amount on deposit in the 2019 Reserve Fund on the date of issuance of the 2019 Bonds (if they are the only Bonds covered by the 2019 Reserve Fund) or the most recently issued series of 2019 Related Parity Bonds (if any 2019 Related Parity Bonds are covered by the 2019 Reserve Fund) except in connection with any increase associated with the issuance of 2019 Related Parity Bonds; and

(C) that in no event will the amount required to be deposited into the 2019 Reserve Fund in connection with the issuance of a series of 2019 Related Parity Bonds exceed the maximum amount under the Tax Code that can be financed with tax-exempt bonds and invested an unrestricted yield.

Disbursements. Except as otherwise provided in the First Supplemental Fiscal Agent Agreement, all amounts deposited in the 2019 Reserve Fund will be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Bond Fund in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal of, and interest and any premium on, the 2019 Bonds and any 2019 Related Parity Bonds or, in accordance with the First Supplemental Fiscal Agent Agreement, for the purpose of redeeming 2019 Bonds and any 2019 Related Parity Bonds from the Bond Fund. Whenever a transfer is made from the 2019 Reserve Fund to the Bond Fund due to a deficiency in the Bond Fund for payment of the principal of, and interest and any premium on, the 2019 Bonds and any 2019 Related Parity Bonds, the Fiscal Agent will provide written notice thereof to the Finance Director, specifying the amount withdrawn.

Transfer Upon Special Tax Prepayment. Whenever Special Taxes are prepaid and 2019 Bonds or any 2019 Related Parity Bonds are to be redeemed with the proceeds of such prepayment pursuant to the First Supplemental Fiscal Agent Agreement or a Supplemental Agreement related to any 2019 Related Parity Bonds, a proportionate amount in the 2019 Reserve Fund (determined on the basis of the principal of 2019 Bonds and 2019 Related Parity Bonds to be redeemed and the then-Outstanding principal of the 2019 Bonds and 2019 Related Parity Bonds, but in any event not in excess of the amount that will leave the balance in the 2019 Reserve Fund following the proposed redemption equal to the 2019 Reserve Requirement) will be transferred on the Business Day prior to the redemption date by the Fiscal Agent to the Bond Fund to be applied to the redemption of the 2019 Bonds pursuant to the First Supplemental Fiscal Agent Agreement or a Supplemental Agreement related to any 2019 Related Parity Bonds. The Finance Director will deliver to the Fiscal Agent an Officer’s Certificate specifying any amount to be so transferred, and the Fiscal Agent may rely on any such Officer’s Certificate.

Qualified Reserve Fund Credit Instruments. The City will have the right at any time to direct the Fiscal Agent to release funds from the 2019 Reserve Fund, in whole or in part, by tendering to the Fiscal Agent: (i) a Qualified Reserve Account Credit Instrument, and (ii) an opinion of Bond Counsel stating that neither the release of such funds nor the acceptance of such Qualified Reserve Account

Credit Instrument will cause interest on the 2019 Bonds or any 2019 Related Parity Bonds the interest on which is excluded from gross income of the owners thereof for federal income tax purposes to become includable in gross income for purposes of federal income taxation.

The First Supplement to Fiscal Agent Agreement defines “**Qualified Reserve Account Credit Instrument**” as an irrevocable standby or direct-pay letter of credit, insurance policy, or surety bond issued by a commercial bank or insurance company and deposited with the Fiscal Agent, provided that all of the following requirements are met at the time of acceptance thereof by the Fiscal Agent: (a) in the case of a commercial bank, the long-term credit rating of such bank at the time of delivery of the irrevocable standby or direct-pay letter of credit is at least "A" from S&P or "A" from Moody's and, in the case of an insurance company, the claims paying ability of such insurance company at the time of delivery of the insurance policy or surety bond is at least "A" from S&P, or "A" from Moody's or, if not rated by S&P or Moody's but is rated by A.M. Best & Company, is rated at the time of delivery in the highest rating category by A.M. Best & Company; (b) such letter of credit, insurance policy or surety bond has a term of at least 12 months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the 2019 Reserve Requirement with respect to which funds are proposed to be released; and (d) the Fiscal Agent is authorized pursuant to the terms of such letter of credit, insurance policy or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Bond Fund for the purpose of making payments with respect to the Series 2019 Bonds and any 2019 Related Parity Bonds.

Upon tender of such items to the Fiscal Agent, and upon delivery by the City to the Fiscal Agent of a written calculation of the amount permitted to be released from the 2019 Reserve Fund (upon which the Fiscal Agent may conclusively rely), the Fiscal Agent will transfer such funds from the 2019 Reserve Fund to the Improvement Fund to be used for the purposes thereof.

The Fiscal Agent will comply with all documentation relating to a Qualified Reserve Account Credit Instrument as will be required to maintain such Qualified Reserve Account Credit Instrument in full force and effect and as required to receive payments thereunder in the event and to the extent required to make any payment when and as required under this provision of the First Supplemental Fiscal Agent Agreement.

Upon the scheduled expiration of any Qualified Reserve Account Credit Instrument, the City will either (i) replace such Qualified Reserve Account Credit Instrument with a new Qualified Reserve Account Credit Instrument, or (ii) deposit or cause to be deposited with the Fiscal Agent an amount of funds equal to the 2019 Reserve Requirement, to be derived from the first available Special Tax Revenues.

If the 2019 Reserve Requirement is being maintained partially in cash and partially with a Qualified Reserve Account Credit Instrument, the cash will be first used to meet any deficiency which may exist from time to time in the Bond Fund with respect to the 2019 Bonds and any 2019 Related Parity Bonds. If the 2019 Reserve Requirement is being maintained with two or more Qualified Reserve Account Credit Instruments, any draw to meet a deficiency which may exist from time to time in the Bond Fund with respect to the 2019 Bonds and any 2019 Related Parity Bonds will be pro-rata with respect to each such instrument.

If a Qualified Reserve Account Credit Instrument is available to be drawn upon for only one or more particular series of Bonds, a separate subaccount in the 2019 Reserve Fund may be established for such series, and the calculation of the Reserve Requirement with respect to any 2019 Related Parity Bonds will exclude the debt service on such issue of 2019 Related Parity Bonds.

The City will have no obligation to replace a Qualified Reserve Account Credit Instrument or to fund the 2019 Reserve Fund with cash if, at any time that the 2019 Bonds are Outstanding, the Qualified

Reserve Account Credit Instrument (or its provider) is downgraded or the provider becomes insolvent, if there is an unscheduled termination of the Qualified Reserve Account Credit Instrument or if for any reason insufficient amounts are available to be drawn upon under the Qualified Reserve Account Credit Instrument; provided, however, that the City will reimburse the provider, in accordance with the terms of the Qualified Reserve Account Credit Instrument, for any draws made thereon.

Other Terms Relating to 2019 Reserve Fund. See APPENDIX E for a complete description of the timing, purpose and manner of disbursements from the 2019 Reserve Fund.

Investment of Moneys in Funds

Moneys in any fund or account created or established by the Fiscal Agent Agreement and held by the Fiscal Agent will be invested by the Fiscal Agent in Permitted Investments, which in any event by their terms mature prior to the date on which such moneys are required to be paid out under the Fiscal Agent Agreement. See APPENDIX E for a definition of “Permitted Investments.”

Issuance of Future Parity Bonds

Parity Bonds. In addition to the 2018 Bonds and the 2019 Bonds, the City may issue one or more additional series of Bonds as Parity Bonds, in such principal amount as may be determined by the City, under a Supplemental Agreement entered into by the City and the Fiscal Agent. Any such Parity Bonds will constitute Bonds under the Fiscal Agent Agreement and will be secured by a lien on the Special Tax Revenues and funds pledged for the payment of the Bonds under the Fiscal Agent Agreement on a parity with the 2018 Bonds, the 2019 Bonds and all other Bonds Outstanding thereunder.

The City may issue such Parity Bonds subject to the specific conditions precedent set forth in the Fiscal Agent Agreement, including without limitation the following:

Compliance. Following issuance of the Parity Bonds, the City shall be in compliance with all covenants set forth in the Fiscal Agent Agreement and all Supplemental Agreements, and issuance of the Parity Bonds shall not cause the City to exceed the bonded indebtedness limit of Improvement Area No. 1.

Same Payment Dates. The Supplemental Agreement providing for the issuance of such Parity Bonds shall provide that interest thereon shall be payable on the Interest Payment Dates, and principal thereof shall be payable on September 1 (provided that there shall be no requirement that any Parity Bonds pay interest on a current basis).

Debt Service Reserve Fund. The Supplemental Agreement providing for issuance of the Parity Bonds shall provide for (i) a deposit to the 2019 Reserve Fund in an amount necessary such that the amount deposited therein shall equal the 2019 Reserve Requirement following issuance of the Parity Bonds or (ii) a deposit to a reserve account for the Parity Bonds (and such other series of Parity Bonds identified by the City) so that the amount therein shall equal the Parity Reserve Requirement following the issuance of the Parity Bonds, as long as such Supplemental Agreement expressly declares that the Owners of such Parity Bonds will have no interest in or claim to the 2019 Reserve Fund and that the Owners of the 2019 Bonds covered by the 2019 Reserve Fund will have no interest in or claim to such other reserve account.

Value. For each Village, the Village Value must be at least three times the sum of: (i) the Attributable Principal Amount of the Bonds then Outstanding, plus (ii) the Attributable Principal Amount of the series of Parity Bonds proposed to be issued, plus (iii) the aggregate principal amount of any fixed assessment liens on the parcels in the Village subject to the levy of Special Taxes, plus (iv) the Attributable Principal Amount of any and all other community facilities district

bonds then outstanding that are payable at least in part from special taxes levied on parcels in the Village (the “**Other District Bonds**”). As used in this section, “**Village Value**” generally means the market value, as of the date of an appraisal and/or the date of the most recent County real property tax roll, of all parcels of real property in a Village that are subject to the levy of the Special Taxes and, with respect to Undeveloped Property (as defined in the Amended Rate and Method) only, not delinquent in the payment of any Special Taxes then due and owing; and “**Attributable Principal Amount**” generally means for the Bonds or any Other District Bonds, calculated separately, an amount equal to the aggregate outstanding principal amount of such Bonds or Other District Bonds multiplied by a fraction, the numerator of which is the amount of special taxes that will be levied for such Bonds or Other District Bonds on parcels of land within the Village, and the denominator of which is the total amount of special taxes that will be levied for the Bonds or Other District Bonds on all parcels of land against which the special taxes are levied to pay the Bonds or Other District Bonds. For the complete definitions, see APPENDIX E – Summary of Certain Provisions of the Fiscal Agent Agreement.

Coverage. For each Fiscal Year after issuance of the Parity Bonds, the maximum amount of the Special Taxes that may be levied for such Fiscal Year under the Ordinance, the Agreement and any Supplemental Agreement less estimated Administrative Expenses for each respective Fiscal Year, shall be at least 110% of the total Annual Debt Service of the then Outstanding Bonds and the proposed Parity Bonds for each Bond Year that commences in each such Fiscal Year, and the aggregate Special Tax Prepayments that could occur after the issuance of the Parity Bonds shall be not less than the principal amount of the Outstanding Bonds and the proposed Parity Bonds. For the purpose of calculating the Special Taxes that may be levied for each Fiscal Year after issuance of the Parity Bonds, the City shall not include for any Fiscal Year the Special Taxes that may be levied on any parcel of Undeveloped Property (as defined in the Amended Rate and Method) that is delinquent in the payment of Special Taxes on the date of the Officer’s Certificate required by the Fiscal Agent Agreement.

Notwithstanding the foregoing, the City may issue Refunding Bonds as Parity Bonds without the need to satisfy the requirements described under “Value” and “Coverage” above. “**Refunding Bonds**” are defined as bonds issued by the City for the District with respect to Improvement Area No. 1, the net proceeds of which are used to refund all or a portion of the then-Outstanding Bonds; provided that the principal and interest on the Refunding Bonds to their final maturity date is less than the principal and interest on the Bonds being refunded to their final maturity date, and the final maturity of the Refunding Bonds is not later than the final maturity of the Bonds being refunded.

In addition, the City may issue Parity Bonds that are not Refunding Bonds without satisfying the requirements of subsections “Debt Service Reserve Fund” and “Value” above, but only if:

(i) the City deposits a portion of the proceeds of such Parity Bonds into an escrow fund,

(ii) the City’s non-compliance with the requirements of subsections “Debt Service Reserve Fund” and “Value” above is attributable to the proceeds of such Parity Bonds deposited into the escrow fund,

(iii) at the time of issuance of the Parity Bonds, the City will deliver to the Fiscal Agent an Officer’s Certificate certifying that the conditions precedent to the issuance of such Parity Bonds set forth in the Fiscal Agent Agreement have been satisfied except to the extent permitted by this paragraph, and

(iv) the proceeds of such Parity Bonds in the escrow fund (A) will be released from the escrow fund and transferred to the Bond Fund to pay all of the interest on such Parity Bonds prior

to the release described in the Fiscal Agent Agreement and for a period not exceeding two years from the date of issuance of such Parity Bonds, and (B) except as described in the Fiscal Agent Agreement, may only be released by the Fiscal Agent from the escrow fund for deposit into (1) the Bond Proceeds Account of the Improvement Fund, (2) the 2019 Reserve Fund or the 2018 Reserve Fund or Parity Reserve Fund, as applicable, or (3) the Bond Fund for redemption of such Parity Bonds,

(v) except as described in clause (iv)(A) above and clause (vi) below, the proceeds may be released from the escrow fund in whole or in part by the Fiscal Agent only if the City delivers to the Trustee an Officer's Certificate certifying that, after release of the proceeds from the escrow fund, the City will satisfy the requirements of the Fiscal Agent Agreement with respect to all of such Parity Bonds (excluding (A) any Parity Bonds that are no longer Outstanding as a result of the transfer of proceeds from the escrow fund to the Bond Fund for redemption of such Parity Bonds and (B) any such Parity Bonds that would not comply with the requirements of the Fiscal Agent Agreement except as a result of the proceeds of such Parity Bonds remaining in the escrow fund), and

(vi) the provisions of the Supplemental Agreement related to the escrow fund will provide that any funds in the escrow fund will be transferred from the escrow fund to the Bond Fund (A) if the conditions for release in clause (v) above have not been satisfied, in order to cause a redemption of such Parity Bonds no later than the Interest Payment Date that immediately follows the second anniversary of the date of issuance of such Parity Bonds and (B) if applicable, to redeem such Parity Bonds to the extent necessary to ensure that the interest on the Parity Bonds will be excluded from gross income for federal tax law purposes.

Subordinate Bonds. Nothing in the Fiscal Agent Agreement prohibits the City from issuing any other bonds or otherwise incurring debt secured by a pledge of the Special Tax Revenues subordinate to the pledge thereof under the Fiscal Agent Agreement.

See APPENDIX E for additional details regarding the conditions for issuing Parity Bonds.

THE DISTRICT AND IMPROVEMENT AREA NO. 1

Formation and Background

Formation Proceedings. The District, Improvement Area No. 1 and the Future Annexation Area were established by the City Council under the Act on July 19, 2016, following a noticed public hearing. On the same date, an election was held in which the qualified electors within Improvement Area No. 1 approved a ballot proposition authorizing the City to incur bonded indebtedness for Improvement Area No. 1 of up to \$70,000,000 to finance the acquisition and construction of the Authorized Facilities, to levy the Special Taxes within Improvement Area No. 1, and to establish an appropriations limit for Improvement Area No. 1. The District (and Improvement Area No. 1) is authorized to finance the construction of Authorized Facilities. See "FINANCING PLAN – Authorized Facilities" above and "– Authorized Facilities" below.

Improvement Areas; Annexation Proceedings. All of the land currently in the District is located within Improvement Area No. 1. The property in the Future Annexation Area may be annexed into the District in the future as an additional portion of Improvement Area No. 1, in which case it will become subject to the levy of the Special Taxes, or as one or more additional improvement areas, in which case such future improvements area(s) will be separately authorized to issue special tax bonds secured only by special taxes levied within the applicable improvement area. The City does not currently have any plans to annex any parcels within the Future Annexation Area into Improvement Area No. 1.

The 2019 Bonds are secured only by the Special Taxes levied within Improvement Area No. 1. If and to the extent the Future Annexation Area is annexed as one or more additional improvement areas, there will be no cross-collateralization between or among improvement areas. For additional information on what is planned for development with respect to the land in the Future Annexation Area, see "PROPERTY OWNERSHIP AND THE DEVELOPMENT – The Tracy Hills Project."

Future Allocation of Bonded Indebtedness Limit. The bonded indebtedness limit for Improvement Area No. 1 was initially established as an amount not to exceed \$70,000,000. The bonded indebtedness limit for the portion of the District that is not included in Improvement Area No. 1 was initially established as an amount not to exceed \$215,000,000. If all or a portion of the Future Annexation Area is annexed as one or more future improvement areas of the District, the maximum indebtedness of each such future improvement area will be identified in the unanimous approval executed by property owners at the time of the annexation as set forth in the Resolution of Formation, and the amount of the maximum indebtedness for that future improvement area will be subtracted from the indebtedness limit for the remaining area within the Future Annexation Area.

Change Proceedings. San Joaquin County Assessor's Parcel Number 253-360-15 (the "Transferred Parcel"), which is expected to be developed as a business park and a school site, was originally included within the boundary of Improvement Area No. 1. However, at the request of the property owner, the City completed Change Proceedings on August 21, 2018, to remove the Transferred Parcel from Improvement Area No. 1 and incorporate the Transferred Parcel into the Future Annexation Area.

The Change Proceedings accomplished the following: (i) increased the bonded indebtedness limit for Improvement Area No. 1 to \$80,000,000, (ii) increased the bonded indebtedness limit for the Future Annexation Area to \$305,000,000, (iii) increased the appropriations limit for Improvement Area No. 1 to \$80,000,000, (iv) amended the boundaries of the CFD, Improvement Area No. 1 and Future Annexation Area by removing the Transferred Parcel from Improvement Area No. 1 and incorporating it into the Future Annexation Area, and (v) amended the Rate and Method of Apportionment of Special Tax to reflect the fact that none of the parcels in Improvement Area No. 1 are expected to be Business Park Property (as defined in the Amended Rate and Method).

Description and Location

General. Improvement Area No. 1 is located in the southern portion of the City, south of the California Aqueduct and north of Interstate 580, near the existing highway interchange at Corral Hollow Road.

See APPENDIX A for demographic and other information regarding the City and the County.

The Tracy Hills Project is part of the larger Tracy Hills Specific Plan, which encompasses approximately 2,732 gross acres, with 1,811 developable acres, and a various land uses, including residential estates, low density residential, medium density residential, high density residential, mixed-use business park, general highway commercial, light industrial and conservation corridors. See “PROPERTY OWNERSHIP AND DEVELOPMENT – The Tracy Hills Project” for further information regarding the Tracy Hill Specific Plan.

Boundary Map. The map showing the boundaries of Improvement Area No. 1, as amended to include the changes to the boundaries accomplished under the Change Proceedings (see “–Formation and Background –Change Proceedings” above), is set forth on the following page.

[Insert Amended CFD Boundary Map]

Authorized Facilities

General. Under the Resolution of Formation adopted by the City Council, as the legislative body of the District, on July 19, 2016, the District (and each Improvement Area therein including Improvement Area No. 1) is authorized to finance all or a portion of the costs of acquisition, construction and improvement of facilities permitted under the Act and that are required as conditions of development of property in the District, the Future Annexation Area and any other property annexed to the District. The Authorized Facilities include, among others, roadway improvements, wastewater treatment facilities, water facilities, reclaimed water facilities, drainage improvements, landscaping, open space improvements, parks and park equipment, public safety improvements, sound walls and improvements financed by various fees.

Any Facility authorized to be financed by the District and each Improvement Area may be financed through the construction and acquisition of the Facility or through the payment of fees for such facility. The Authorized Facilities may be located within or outside the District.

Status of Construction of Facilities. For the current status of the construction of Facilities in Improvement Area No. 1, see "PROPERTY OWNERSHIP AND THE DEVELOPMENT."

Debt Service Coverage

The Amended Rate and Method is structured to produce annual Special Tax revenues from the Maximum Special Tax which, when applied to the projected debt service on the 2018 Bonds, the 2019 Bonds and future Parity Bonds, is anticipated to result in a debt service coverage ratio of at least 110% for the life of the 2018 Bonds, the 2019 Bonds and future Parity Bonds, after taking into account estimated Administrative Expenses.

It should be noted that the City may in the future issue Parity Bonds on a parity with the 2018 Bonds and the 2019 Bonds upon the satisfaction of the conditions contained in the Fiscal Agent Agreement, up to a total combined bond authorization for Improvement Area No. 1 of \$80,000,000. However, any Parity Bonds issued must meet the conditions set forth in the Fiscal Agent Agreement. See "SECURITY FOR THE BONDS – Issuance of Future Parity Bonds" for the conditions under which the City may issue future Parity Bonds. See "THE 2019 BONDS – Bonded Indebtedness Limit" for a calculation of the remaining bonded indebtedness limit following the issuance of the 2019 Bonds.

City of Tracy Growth Management Ordinance (GMO)

On June 16, 1987, the City Council of the City adopted by ordinance a Residential Growth Management Plan, as subsequently amended (the "**Growth Management Ordinance**"). It provides for eligibility requirements and procedures for residential building permits for projects in the City. Under the Growth Management Ordinance, builders must obtain a residential growth allotment ("**RGA**") in order to secure a residential building permit.

Currently, the Growth Management Ordinance allows RGAs to be issued for 600 to 750 building permits per year. The number of RGAs allowed in each year is based on the average of units absorbed since the year 2000. THPO and the THPO Affiliates currently predict that the annual available building permits will be 750 per year through 2028. The allocation of the RGAs is governed by the Council-approved Growth Management Ordinance guidelines (the "**GMO Guidelines**"), which were last modified in 2014.

THPO and the THPO Affiliates believe the Growth Management Ordinance will not impact the development of homes within Improvement Area No. 1 given vested rights for the Tracy Hills Project and the projected market absorption of homes in Improvement Area No. 1. The Tracy Hills Project is vested

into the 2012 GMO Guidelines which provide that, in years where 750 RGAs may be allocated, The Tracy Hills Project is eligible to receive 406 RGAs, and in years where 600 RGAs may be allocated, The Tracy Hills Project is eligible to receive 325 RGAs. If owners within the Tracy Hills Project apply for less than the number of RGAs described above, the difference between the numbers of RGAs allocated and the numbers of RGAs described above will be reserved for that calendar year. The owners of the Tracy Hills Project may apply for these RGAs no later than the March 31st deadline set forth in the GMO Guidelines; if application is not made by that date, the RGAs will be made available for other projects. There is no sunset date for the allocation of RGAs in this manner.

The Tracy Hills Project received an allocation of 406 RGAs for 2018, of which 379 were perfected in 2018, and the Tracy Hills Project received an allocation of 406 RGAs for 2019, all of which are anticipated to be perfected in 2019.

Market Absorption Study

In connection with the issuance of the 2019 Bonds, the City hired the Market Absorption Consultant, Empire Economics, Inc., to prepare the Absorption Study for the homes planned for Improvement Area No. 1. The Absorption Study sets forth various factors that may impact the development and sale of homes within Improvement Area No. 1. The Absorption Study also sets forth the probable forecast of absorption, which is set forth in the table below.

Estimated Absorption Schedule

Year	2019	2020	2021	2022	2023	2024	2025
Estimated Escrow Closings	110	240	229	211	184	133	32
Cumulative	110	350	579	790	974	1,107	1,139

Source: Empire Economics, Inc.

Assumptions used in the Absorption Study include the following:

- Village #7 Vantage by Meritage is expected to have 182 homes on 4,000 square-foot lots that are priced at about \$558,000 for 2,404 square feet of living area, for a value ratio (price/living area) of \$232/square foot, on the average.
- Village #1 Amber by Lennar is expected to have 160 homes on 4,950 square-foot lots that are priced at about \$567,630 for 2,395 square feet of living area, for a value ratio of \$237/square foot, on the average.
- Village #4 Larimar by Lennar is expected to have 149 homes on 5,000 square-foot lots that are priced at about \$595,380 for 2,637 square feet of living area, for a value ratio of \$226/square foot, on the average.
- Village #2 Vente by Shea is expected to have 74 homes on 5,500 square-foot lots that are priced at about \$656,000 for 3,105 square feet of living area, for a value ratio of \$211/square foot, on the average.
- Village #3 Opal by Lennar is expected to have 103 homes on 5,500 square-foot lots that are priced at about \$644,380 for 3,099 square feet. of living area, for a value ratio of \$208/square foot, on the average.

- Village #5 Pearl by Lennar is expected to have 196 homes on 6,000 square-foot lots that are priced at about \$677,130 for 3,297 square feet of living area, for a value ratio of \$205/square foot, on the average.

- Village #8 Topaz by Lennar is expected to have 139 homes on 6,500 square-foot lots that are priced at about \$700,750 for 3,679 square feet of living area, for a value ratio of \$190/square foot, on the average.

- Village #6 Elan by a future builder (possibly Integral Communities) is expected to have 136 homes on 7,000 square-foot lots that are priced at about \$761,667 for 3,773 square feet of living area, for a value ratio of \$202/square foot, on the average.

The Absorption Study notes that, according to the Growth Management Ordinance and GMO Guidelines, the forthcoming residential projects in Improvement Area No. 1 are eligible to receive between 325 to 406 RGAs per year. The amount of annual allocations the Tracy Hills Project is eligible to receive a year exceeds the Market Absorption Consultant's estimated annual absorption rates.

The City is not obligated to make, and has not undertaken to make, an independent verification of the information contained in the Absorption Study and assumes no responsibility for the accuracy or completeness of the Absorption Study.

A copy of the Absorption Study is set forth in its entirety as APPENDIX D – Market Absorption Study.

Environmental Matters

Flood Hazard Map Information. According to the Federal Emergency Management Agency's flood insurance rate maps (Map Panel Number 06077C-0740F, dated October 16, 2009), the developable portions of the property in Improvement Area No. 1 are located within Flood Zone X, described as areas of minimal flooding (outside of the 100 and 500-year floodplains). Property in Improvement Area No. 1 is not subject to the Central Valley Flood Protection Plan.

Seismic Conditions. According to the Seismic Safety Commission, Improvement Area No. 1 is located within Zone 3, which is considered to be the lowest risk zone in California. There are only two zones in California: Zone 4, which is assigned to areas near major faults; and Zone 3, which is assigned to all other areas of more moderate seismic activity. In addition, Improvement Area No. 1 is not located within a Fault-Rupture Hazard Zone (formerly referred to as an Alquist-Priolo Special Study Zone), as defined by Special Publication 42 of the California Department of Conservation, Division of Mines and Geology.

Wetlands. No wetland mitigation was required for development within Improvement Area No. 1.

Petroleum Pipeline. A Phase I environmental site assessment report was prepared for the land in the District by Haley & Aldrich, dated September 2017. The report identifies two recognized environmental conditions on the property within Improvement Area No. 1 associated with the presence of an unpressurized ConocoPhillips 66 pipeline and an unpressurized Shell petroleum pipeline. Haley & Aldrich recommended abandoning the on-site groundwater wells (which are located within the District, but outside of improvement Area No. 1) according to local and state regulatory guidelines; one well has been abandoned, and the other remains in use for agricultural purposes. However, no additional assessment consisting of soil, groundwater and soil gas sampling is required for the development of the land in Improvement Area No. 1.

Explosives Testing. The Lawrence Livermore National Laboratory ("LLNL") Experimental Test Site ("**Site 300**") is a restricted-access facility operated for the U.S. Department of Energy National Nuclear Security Administration ("**DOE/NNSA**") by Lawrence Livermore National Security, LLC. Site 300 is located approximately 1.33 miles to the west/southwest of the Tracy Hills project. The Site 300 facility is used in the research, development, and testing of non-radioactive explosive materials to support DOE/NNSA stockpile stewardship, counterterrorism and counterproliferation programs. Site 300 has been in operation as an explosive testing and research facility since 1955.

Site 300 conducts explosive testing in both indoor and outdoor facilities. Explosive testing conducted at Site 300 is regulated by the San Joaquin Valley Air Pollution Control District ("**SJVAPCD**"). Currently, Site 300 operates under a SJVAPCD air permit that allows detonations of explosives up to 100 pounds per day and 1,000 pounds per year. To minimize noise impacts to surrounding land uses, adjacent neighbors and other sensitive receptors, Site 300 constructed the Contained Firing Facility in 2000. The concrete, 28,000 square foot facility allows Site 300 to conduct explosive tests indoors. Intermittent outdoor explosive tests (otherwise known as open detonations) are also conducted.

In the Fall of 2017, DOE/NNSA submitted a new SJVAPCD permit application and released a Draft Environmental Assessment proposing to increase the weight of explosives from the current limit of 100 lbs./day to 1,000 lbs./day, and from 1,000 lbs./year to 7,500 lbs./year. The proposed increase would allow larger single detonations and would result in more open detonations. Tracy Hills, the City and the County all submitted comment letters expressing concern and questions in regards to potential increase in noise impacts. To date, the SJVAPCD has not taken any action on the permit application.

Appraised Values

General. The Appraisal was prepared to estimate the market value of the taxable land within Improvement Area No. 1 as of a May 1, 2019 date of value.

The properties appraised encompass all of the taxable land in Improvement Area No. 1, which are planned for development as 1,139 single-family detached homes in eight Villages, with minimum pad sizes ranging from 4,000 square feet to 7,000 square feet.

Value Estimate. The Appraisal provides a market value of the appraised properties by Village, as well as a cumulative value, as of the date of value of \$193,910,000. The aggregate value is not the market value of the appraised properties in bulk.

Appraisal Methodology. The appraised property was valued by employing the sales comparison approach to value and land residual analysis. In the sales comparison approach to value, the Appraiser analyzed comparable bulk lot sales from the region and adjusted the datum for attributes that varied from the appraised property's various lot size categories. Then, to support the reasonableness of the sales comparison approach conclusions, the Appraiser utilized a land residual analysis. The lot values indicated by each approach were then reconciled into an opinion of market value, subject to the hypothetical condition impact fees and infrastructure improvements to be financed by the 2019 Bonds are in place. The market value as of the May 1, 2019, date of value was estimated by deducting the approximate remaining costs (both in-tract and infrastructure) as well as infrastructure fees to complete the lots to a finished condition.

The appraised property comprises various sized standard residential lots between 4,000 and 7,000 square feet. Of these typical lot sizes, the Appraiser notes that the average size is about 5,556 square feet. Therefore the Appraiser concluded that a parcel with approximately 5,500 square feet is an appropriate benchmark parcel for use in the sale comparison approach. For purposes of analysis the Appraiser considered that the appraised property's eight villages have lot counts that range from 74 to 196 lots, with an average of 142 lots. Therefore, for purposes of analysis, the Appraiser utilized Village 3 as the benchmark. Village 3 contains 103 lots with a typical lot size of 5,500 square feet.

As part of the sales comparison approach, the Appraiser stated that the market data set consists of various sales that are considered reasonable indicators of market value for the fee simple interest in the single family residential lot category of the subject property. The Appraiser concluded that the finished lot value for the benchmark village is \$210,000.

In addition, the Appraiser undertook a land residual analysis. The Appraisal indicates the land residual analysis is employed as an additional indicator of market value for the subject's lots, by phase. This valuation method is used in estimating land value when subdivision and development are the highest and best use of the land being appraised. All direct and indirect costs are deducted from an estimate of the anticipated gross sales price of the improved product; the resultant net sales proceeds are then discounted to present value at an anticipated rate over the development and absorption period to indicate the value of the land. The land residual analysis is conducted on a quarterly basis. As a discounted cash flow analysis, the land residual analysis consists of four primary components: revenue, absorption analysis, expenses and discount rate. Based on the land residual analysis the Appraiser concluded that the finished lot value for benchmark village was \$199,611.

The Appraiser notes that, at \$199,611 per lot, the estimate of residual value represents a difference of approximately 5% of the sales comparison approach estimate (\$210,000). The land residual analysis is considered generally supportive of the sales comparison approach, which was relied upon in the Appraisal's final conclusion of value. After accounting for remaining site development costs, permits and fee and special taxes, the appraiser concludes values for each village and then by ownership.

Hypothetical Condition. A hypothetical condition is a condition contrary to known facts on the effective date of the appraisal, but is supposed for the purposes of analysis. The estimate of market value in the Appraisal is subject to the hypothetical condition that proceeds from the 2019 Bonds have been used to fund the completion of site development associated with Phase 1 of Tracy Hills.

Assumptions and Limiting Conditions. In addition to the hypothetical condition described above, the market value of the appraised parcels is subject to a number of other assumptions and conditions which affect the estimates as to value, which are set forth in APPENDIX C.

Accordingly, because the Appraiser arrived at an estimate of current market value based upon certain assumptions which may or may not be fulfilled, no assurance can be given that should the parcels become delinquent due to unpaid Special Taxes, and be foreclosed upon and offered for sale for the amount of the delinquency, that any bid would be received for such property or, if a bid is received, that such bid would be sufficient to pay such delinquent Special Taxes.

Limitations of Appraisal Valuation. Property values may not be evenly distributed throughout Improvement Area No. 1; thus, certain parcels may have a greater value than others. This disparity is significant because in the event of nonpayment of the Special Tax, the only remedy is to foreclose against the delinquent parcel. No assurance can be given that the foregoing valuation can or will be maintained during the period of time that the 2019 Bonds are outstanding in that the City has no control over the market value of the property within Improvement Area No. 1 or the amount of additional indebtedness that may be issued in the future by other public agencies, the payment of which, through the levy of a tax or an assessment, may be on a parity with the Special Taxes.

For a description of certain risks that might affect the assumptions made in the Appraisal, see "BOND OWNERS' RISKS" herein.

The description herein of the Appraisal is intended for limited purposes only; the Appraisal should be read in its entirety. The conclusions reached in the Appraisal are subject to certain assumptions, conditions and qualifications which are set forth in the Appraisal. See APPENDIX C for the Appraisal Report.

Neither the City nor the Underwriter makes any representation as to the accuracy or completeness of the Appraisal.

Value-to-Lien Ratios and Share of Special Taxes

General. Based on the appraised values set forth in the Appraisal, the outstanding principal amount of the 2018 Bonds and the proposed principal amount of the 2019 Bonds, the overall value-to-lien ratio of the land within Improvement Area No. 1 is approximately 3.99:1.* No other community facilities districts or assessment districts currently have overlapping bonded debt affecting the property in Improvement Area No. 1. The estimated value-to-lien ratio of the land within Improvement Area No. 1 including general obligation bond debt would be 3.97:1.*

Value-to-Lien Analysis and Share of Special Taxes by Merchant Builder Ownership. The following table shows the approximate value-to-lien ratios allocated to the merchant builders, based on

* Preliminary; subject to change.

the appraised values set forth in the Appraisal, the outstanding principal amount of the 2018 Bonds and the proposed principal amount of the 2019 Bonds.

No assurance can be given that the amounts shown in these tables will conform to those ultimately realized in the event of a foreclosure action following delinquency in the payment of the Special Taxes.

**Table 1
Appraised Values and Value-to-Lien Ratios
By Property Owner and Share of 2019-20 Special Tax Levy**

Property Owner (1)	Units of Developed Property (2)	Acres of Undeveloped Property (2)	Expected Residential Units	Projected FY 2019-20 Special Tax Levy (3)	% of Projected FY 2019-20 Special Tax Levy	Appraised Value (4)	Allocated 2018 and 2019 Bond Debt (5)(6)*	Average Value-to-Lien*
Lennar Homes of California, Inc.								
Village 1	99	7.9	160	\$354,628	14.0%	\$28,240,418	\$6,791,428	4.16
Village 3	92	2.0	103	\$299,332	11.8%	\$20,045,400	\$5,732,470	3.50
Village 4	91	7.9	149	\$345,928	13.6%	\$26,500,474	\$6,624,825	4.00
Village 5	34	26.7	196	\$435,476	17.2%	\$32,617,484	\$8,339,732	3.91
Village 8	12	22.1	139	\$302,477	11.9%	\$23,045,312	\$5,792,701	3.98
Subtotal	328	66.6	747	\$1,737,841	68.4%	\$130,449,088	\$33,281,156	3.92
Shea Homes, Inc.								
Village 2	20	8.8	74	\$161,598	6.4%	\$13,246,343	\$3,094,749	4.28
Meritage Homes of California, Inc.								
Village 7	24	17.7	182	\$262,884	10.4%	\$28,059,698	\$5,034,459	5.57
Tracy Phase I, LLC								
Village 6	0	32.5	136	\$376,726	14.8%	\$22,140,000	\$7,214,635	3.07
Total	372	125.6	1,139	\$2,539,050	100.0%	\$193,895,129	\$48,625,000	3.99

*Preliminary, subject to change.

(1) Based on the Appraisal.

(2) Under the Amended Rate and Method, Developed Property generally means, in any Fiscal Year, all parcels of taxable property for which a building permit for vertical construction was issued prior to June 30 of the preceding Fiscal Year, and Undeveloped Property generally means all parcels of taxable property that are not classified as Developed Property. See "SECURITY FOR THE BONDS – Amended Rate and Method."

(3) Based on the building permits for vertical construction issued by the City as of May 31, 2019, and assumes no further development. This allocation may change to the extent that development and final mapping changes before June 30, 2019, and may further change in future Fiscal Years. The projected special tax levy for Fiscal Year 2019-20 includes the estimated debt service due on the 2018 Bonds and 2019 bonds, plus an estimated \$40,000 in administrative expenses.

(4) Represents an allocation of the market values reported in the Appraisal. The allocated values may not be indicative of the market values of the groupings or the individual lots. Does not include rounding shown in the Appraisal.

(5) Allocated based on the projected Fiscal Year 2019-20 special tax levy. Includes the \$32,625,000 outstanding principal amount of the 2018 Bonds plus the estimated \$16,000,000 principal amount of the 2019 Bonds, but excludes original issue premium.

(6) No other community facilities districts or assessment districts currently have overlapping bonded debt affecting the property in Improvement Area No. 1. Does not take into account overlapping general obligation bond debt.

Source: *Integra Realty Resources; Goodwin Consulting Group, Inc.*

Value-to-Lien Analysis by Village. The following table shows the approximate value-to-lien ratios for each of the Villages in Improvement Area No. 1, based on the appraised values set forth in the Appraisal, the outstanding principal amount of the 2018 Bonds and the proposed principal amount of the 2019 Bonds.

No assurance can be given that the amounts shown in these tables will conform to those ultimately realized in the event of a foreclosure action following delinquency in the payment of the Special Taxes.

**Table 2
Appraised Values and Value-to-Lien Analysis by Village**

Village	Expected Residential Units	Projected FY 2019-20 Special Tax Levy ^{(1)*}	Percentage of Projected FY 2019-20 Special Tax Levy *	Appraised Value ⁽²⁾	Allocated 2018 and 2019 Bond Debt* ⁽³⁾⁽⁴⁾	Average Value-to-Lien*
Village 1	160	\$354,628	14.0%	\$28,240,418	\$6,791,428	4.16
Village 2	74	\$161,598	6.4%	\$13,246,343	\$3,094,749	4.28
Village 3	103	\$299,332	11.8%	\$20,045,400	\$5,732,470	3.50
Village 4	149	\$345,928	13.6%	\$26,500,474	\$6,624,825	4.00
Village 5	196	\$435,476	17.2%	\$32,617,484	\$8,339,732	3.91
Village 6	136	\$376,726	14.8%	\$22,140,000	\$7,214,635	3.07
Village 7	182	\$262,884	10.4%	\$28,059,698	\$5,034,459	5.57
Village 8	139	\$302,477	11.9%	\$23,045,312	\$5,792,701	3.98
Total	1,139	\$2,539,050	100.0%	\$193,895,129	\$48,625,000	3.99

**Preliminary, subject to change.*

(1) Based on the building permits for vertical construction issued by the City as of May 31, 2019, and assumes no further development. This allocation may change to the extent that development and final mapping changes before June 30, 2019, and may further change in future Fiscal Years. The projected special tax levy for Fiscal Year 2019-20 includes the estimated debt service due on the 2018 Bonds and 2019 bonds, plus an estimated \$40,000 in administrative expenses.

(2) Represents an allocation of the market values reported in the Appraisal. The allocated values may not be indicative of the market values of the groupings or the individual lots. Does not include rounding shown in the Appraisal.

(3) Allocated based on the projected Fiscal Year 2019-20 special tax levy. Includes the \$32,625,000 outstanding principal amount of the 2018 Bonds plus the estimated \$16,000,000 principal amount of the 2019 Bonds, but excludes original issue premium.

(4) No other community facilities districts or assessment districts currently have overlapping bonded debt affecting the property in Improvement Area No. 1. Does not take into account overlapping general obligation bond debt.

Source: *Integra Realty Resources; Piper Jaffray & Co.; Goodwin Consulting Group, Inc.*

Value-to-Lien Analysis by Value-to-Lien Category. The following table shows the approximate value-to-lien ratios in Improvement Area No. 1 allocated by value-to-lien category, based on the appraised values set forth in the Appraisal, the outstanding principal amount of the 2018 Bonds and the proposed principal amount of the 2019 Bonds.

The table below breaks down the units with value-to-lien ratios below 3 to 1 by Village. The appraised value for undeveloped property represents the average value for undeveloped property in each respective Village, and does not take into account variations in size or location among parcels. The Special Tax levied on Undeveloped Property is based on acreage, so larger parcels in Village 6B that have not been subdivided may carry a higher proportionate Special Tax than when those parcels are subdivided and become Developed Property.

No assurance can be given that the amounts shown in these tables will conform to those ultimately realized in the event of a foreclosure action following delinquency in the payment of the Special Taxes.

**Table 3
Summary of Value-to-Lien Ratios By Value-to-Lien Category***

Value-to-Lien Category	Expected Residential Units	Projected FY 2019-20 Special Tax Levy (1)	Percent of Projected FY 2019-20 Special Tax Levy	Appraised Value (2)	Allocated 2018 and 2019 Bond Debt (3)(4)	Average Value-to-Lien Ratios
5:1 to 10:1	349	\$492,548	19.4%	\$56,489,888	\$9,432,713	5.99
4:1 to 5:1	256	\$482,389	19.0%	\$41,943,117	\$9,238,159	4.54
3:1 to 4:1	400	\$1,092,472	43.0%	\$72,789,853	\$20,921,780	3.48
2:1 to 3:1						
Village 2	3	\$9,872	0.4%	\$528,649	\$189,062	2.80
Village 3	1	\$4,073	0.2%	\$179,029	\$77,996	2.30
Village 4	1	\$3,036	0.1%	\$167,987	\$58,142	2.89
Village 5	41	\$148,991	5.9%	\$7,216,464	\$2,853,297	2.53
Village 6	67	\$230,038	9.1%	\$10,907,206	\$4,405,421	2.48
Village 8	21	\$75,633	3.0%	\$3,672,938	\$1,448,429	2.54
Subtotal	134	\$471,642	18.6%	\$22,672,272	\$9,032,348	2.51
Total	1,139	\$2,539,050	100.0%	\$193,895,129	\$48,625,000	3.99

*Preliminary, subject to change.

(1) Based on the building permits issued by the City as of May 31, 2019, and assumes no further development. This allocation may change to the extent that development and final mapping changes before June 30, 2019, and may further change in future Fiscal Years. The projected special tax levy for Fiscal Year 2019-20 includes the estimated debt service due on the 2018 Bonds and 2019 bonds, plus an estimated \$40,000 in administrative expenses.

(2) Represents an allocation of the market values reported in the Appraisal. The allocated values may not be indicative of the market values of the groupings or the individual lots. Does not include rounding shown in the Appraisal.

(3) Allocated based on the projected Fiscal Year 2019-20 Special Tax levy. Includes the \$32,625,000 outstanding principal amount of the 2018 Bonds plus the estimated \$16,000,000 principal amount of the 2019 Bonds, but excludes original issue premium. Certain parcels of Undeveloped Property may have a higher lien amount because the Special Tax levy on Undeveloped Property is based on acreage.

(4) No other community facilities districts or assessment districts currently have overlapping bonded debt affecting the property in Improvement Area No. 1. Does not take into account overlapping general obligation bond debt.

Source: Integra Realty Resources; Piper Jaffray & Co.; Goodwin Consulting Group, Inc.

Illustrative Tax Bill. The following table shows an illustrative tax bill for a sample home in each Village in Improvement Area No. 1.

**Table 4
Fiscal Year 2018-19 Illustrative Tax Bill**

<u>Assumptions</u>	<u>Village 1</u>	<u>Village 2</u>	<u>Village 3</u>	<u>Village 4</u>	<u>Village 5</u>	<u>Village 6</u>	<u>Village 7</u>	<u>Village 8</u>	
Estimated Sales Price (1)	\$568,000	\$656,000	\$644,000	\$595,000	\$677,000	\$762,000	\$558,000	\$701,000	
Homeowner's Exemption	(\$7,000)	(\$7,000)	(\$7,000)	(\$7,000)	(\$7,000)	(\$7,000)	(\$7,000)	(\$7,000)	
Net Expected Assessed Value	\$561,000	\$649,000	\$637,000	\$588,000	\$670,000	\$755,000	\$551,000	\$694,000	
<u>Ad Valorem Tax Rate</u>		<u>Rate</u>							
County General	1.00000%	\$5,610	\$6,490	\$6,370	\$5,880	\$6,700	\$7,550	\$5,510	\$6,940
Jefferson Elem Bond 2011A	0.01530%	\$86	\$99	\$97	\$90	\$103	\$116	\$84	\$106
Jefferson Elem Bond 2013B	0.00790%	\$44	\$51	\$50	\$46	\$53	\$60	\$44	\$55
Jefferson Elem Bond 2014C	0.00410%	\$23	\$27	\$26	\$24	\$27	\$31	\$23	\$28
SJ Delta College Bond 2014C	0.00170%	\$10	\$11	\$11	\$10	\$11	\$13	\$9	\$12
SJ Delta College Bond 2015R	0.01620%	\$91	\$105	\$103	\$95	\$109	\$122	\$89	\$112
SJ Delta College Bond 2018D	0.00460%	\$26	\$30	\$29	\$27	\$31	\$35	\$25	\$32
Tracy-Lammersville SD Bond 2014R	0.00920%	\$52	\$60	\$59	\$54	\$62	\$69	\$51	\$64
Tracy-Lammersville SD Bond 2015R	0.00700%	\$39	\$45	\$45	\$41	\$47	\$53	\$39	\$49
Total Ad Valorem Taxes	1.06600%	\$5,980	\$6,918	\$6,790	\$6,268	\$7,142	\$8,048	\$5,874	\$7,398
<u>Direct Charges</u>									
Tracy Rural Fire		\$72	\$93	\$93	\$79	\$99	\$113	\$72	\$110
SJC Mosq & VCTR Contr-Benefit Assessment		\$9	\$9	\$9	\$9	\$9	\$9	\$9	\$9
Water Investigation		\$2	\$2	\$2	\$2	\$2	\$2	\$2	\$2
SJC Mosquito Abatement		\$17	\$17	\$17	\$17	\$17	\$17	\$17	\$17
CFD No. 2016-1 (Tracy Hills)		\$2,658	\$3,010	\$3,008	\$2,793	\$3,712	\$4,081	\$2,394	\$3,897
CFD No. 2018-1 (Maintenance and Public Services)		\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225
Total Direct Charges		\$2,983	\$3,357	\$3,354	\$3,125	\$4,064	\$4,447	\$2,720	\$4,260
Total Taxes and Direct Charges		\$8,964	\$10,275	\$10,145	\$9,393	\$11,206	\$12,495	\$8,593	\$11,658
Percentage of Estimated Sales Price		1.58%	1.57%	1.58%	1.58%	1.66%	1.64%	1.54%	1.66%

(1) Reflects the average estimated sales price per the Market Absorption Study.
Source: Empire Economics; San Joaquin County Tax Collector's Office, Goodwin Consulting Group, Inc.

Direct and Overlapping Governmental Obligations

Overlapping Debt Statement. Contained within the boundaries of Improvement Area No. 1 are certain overlapping local agencies providing public services. Many of these local agencies have outstanding debt. The direct and overlapping debt affecting Improvement Area No. 1 as of May 1, 2019 is shown in the table below, a direct and overlapping debt report (the "**Debt Report**") prepared by California Municipal Statistics, Inc. The Debt Report is included for general information purposes only. Neither the City nor the Underwriter has reviewed the Debt Report for completeness or accuracy and neither makes any representation in connection therewith.

The Debt Report generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of Improvement Area No. 1 in whole or in part. These long-term obligations are not payable from revenues of Improvement Area No. 1 (except as indicated) nor are they necessarily obligations secured by land within Improvement Area No. 1. In many cases long term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies that have outstanding debt as of the date of the Debt Report and whose territory overlaps Improvement Area No. 1; (2) the second column shows the percentage of the assessed valuation of the overlapping public agency identified in column 1 which is represented by property located within Improvement Area No. 1; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in Improvement Area No. 1, as determined by multiplying the total outstanding debt of each agency by the percentage of the public agency's assessed valuation represented in column 2.

Table 5
Direct and Overlapping Governmental Obligations
As of May 1, 2019

2018-19 Assessed Valuation: \$10,690,251 (Land & Improvements)

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 5/1/19</u>
San Joaquin Delta Community College District General Obligation Bonds	0.013%	\$ 26,150
Tracy Unified School District General Obligation Bonds	0.060	21,863
Jefferson School District General Obligation Bonds	0.474	153,859
City of Tracy Community Facilities District No. 2016-1, I.A. No. 1	100.000	<u>32,625,000</u> (1)
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$32,826,872

Ratios to 2018-19 Assessed Valuation:

Direct Debt (\$32,625,000)	313.90%
Total Direct and Overlapping Tax and Assessment Debt	315.84%

(1) Excludes the 2019 Bonds.

Source: California Municipal Statistics, Inc.

Potential Consequences of Special Tax Delinquencies

General. Delinquencies in the payment of property taxes (including the Special Taxes) with respect to property in Improvement Area No. 1 could result in draws on the 2019 Reserve Fund established for the 2019 Bonds, and perhaps, ultimately, a default in the payment on the 2019 Bonds. See “BOND OWNERS’ RISKS.”

The Board of Supervisors of San Joaquin County adopted the Teeter Plan in Fiscal Year 1994-95. The County has elected to apply its Teeter Plan to the collection of the Special Taxes in Improvement Area No. 1. To the extent that the County’s Teeter Plan continues in existence and is carried out as adopted, and to the extent the County does not discontinue the Teeter Plan with respect to the District, the County’s Teeter Plan may help protect owners of the 2019 Bonds from the risk of delinquencies in the payment of Special Tax. *There can be no assurance that the County will not modify or eliminate its Teeter Plan, or choose to remove the District from its Teeter Plan, while the 2019 Bonds are outstanding.* See “SECURITY FOR THE BONDS – Covenant to Foreclose – Special Tax Delinquencies; Teeter Plan” for additional information.

Special Tax Enforcement and Collection Procedures. The City could receive additional funds for the payment of debt service through foreclosures sales of delinquent property, but no assurance can be given as to the amount of foreclosure sale proceeds or when foreclosure sale proceeds would be received. The City has covenanted in the Fiscal Agent Agreement to take certain enforcement actions and commence and pursue foreclosure proceedings against delinquent parcels under the terms and conditions described herein. See “SECURITY FOR THE BONDS — Covenant to Foreclose” and “BOND OWNERS’ RISKS.”

Foreclosure actions would include, among other steps, formal City Council action to authorize commencement of foreclosure proceedings, mailing multiple demand letters to the record owners of the delinquent parcels advising them of the consequences of failing to pay the applicable Special Taxes and contacting secured lenders to obtain payment. If these efforts were unsuccessful, they would be followed (as needed) by the filing of an action to foreclose in superior court against each parcel that remained delinquent.

Limitations on Increases in Special Tax Levy. If owners are delinquent in the payment of Special Taxes, the City may not increase Special Tax levies to make up for delinquencies for prior Fiscal Years above the Maximum Special Tax rates specified for each category of property within Improvement Area No. 1. See “SECURITY FOR THE BONDS – Amended Rate and Method.” In addition, Section 53321(d) of the Act provides that the special tax levied against any parcel for which an occupancy permit for private residential use has been issued may not be increased as a consequence of delinquency or default by the owner of any other parcel within a community facilities district by more than 10% above the amount that would have been levied in such Fiscal Year had there never been any such delinquencies or defaults. In cases of significant delinquency, these factors may result in defaults in the payment of principal of and interest on the 2019 Bonds. See “BOND OWNERS’ RISKS.”

PROPERTY OWNERSHIP AND THE DEVELOPMENT

The information provided in this section has been included because it may be considered relevant to an informed evaluation and analysis of the 2019 Bonds and the District. No assurance can be given, however, that the proposed development of the property within the Tracy Hills Project and Improvement Area No. 1 will occur in a timely manner or in the configuration or to the density described herein, or that Tracy Phase I, LLC, the THPO Affiliates (as defined below), the merchant builders, any owners or affiliates thereof, or any other property owner described herein will or will not retain ownership of its respective property within the Tracy Hills Project or Improvement Area No. 1. Neither the 2019 Bonds nor any of the Special Taxes are personal obligations of any property owner within Improvement Area No. 1. The 2019 Bonds are secured solely by the Special Taxes levied on property within Improvement Area No. 1 and amounts on deposit in certain of the funds and accounts maintained by the Fiscal Agent under the Fiscal Agent Agreement.

The Master Developer and Subsidiaries

The Tracy Hills Project Owner. The property in Improvement Area No. 1 is part of the larger master-planned community known as “Tracy Hills” (the “**Tracy Hills Project**” or the “**THPO Property**”) being developed by The Tracy Hills Project Owner, LLC, a Delaware limited liability company (“**THPO**”). THPO is developing the property through six affiliated owners (the “**THPO Affiliates**”), as follows:

Phase	THPO Affiliate
Phase 1A	Tracy Phase I, LLC
Phase 1B	Tracy Phase IB, LLC
Phase 2	Tracy Phase 2, LLC
Phase 3	Tracy Phase 3, LLC
Phase 4	Tracy Phase 4, LLC
Business Park/School Site (Part of Phase 1A and 1B)	Tracy BPS, LLC

Each of the THPO Affiliates is a Delaware limited liability company, whose sole member is Tracy Hills Holding Company, LLC (“**Tracy Hills Holding Company**”). Tracy Hills Holding Company is a Delaware limited liability company whose sole member is THHC Manager, LLC (“**THHC Manager**”). THHC Manager is a Delaware limited liability company whose sole member is THPO.

Integral Communities. THPO, the THPO Affiliates, Tracy Hills Holding Company and THHC Manager are entities managed by the principals of Integral Communities. The principals of Integral Communities have over 150 years of combined experience in the real estate development business. Many of the principals spent more than a decade growing Western Pacific Housing into a successful western states home building and development company. Recognized as the 12th-largest homebuilder in the country at one time, Western Pacific was later sold to D.R. Horton for in excess of \$1 billion in market capitalization. Following the sale to D.R. Horton, the five principals formed Integral Communities.

Integral Communities creates new opportunities from underutilized or undeveloped parcels of land through value-added land planning, with projects that include for-sale, apartment, mixed-use and residential multi-family opportunities. Previous projects of Integral Communities include, among others, the following:

- Gateway Station - Newark, CA (580 residential units; sold to Lennar Homes).
- Dublin Ranch Sub Area 3 - Dublin, CA (437 residential units; sold to Lennar Homes).
- Dublin Ranch Lot 3 - Dublin, CA (123 residential units; sold to Lennar Homes).
- Centre Pointe - Milpitas, CA (241 residential units; sold to D.R. Horton).
- Houret - Milpitas, CA (114 residential units; sold to The New Home Company).

- Riverdale – Long Beach, CA (131 residential units; as a joint venture with Brandywine Homes).
- Torian – Newark, CA (547 residential units; sold to William Lyon Homes).
- Palmilla - Brentwood, CA (400 residential units; sold to Pulte and William Lyon Homes).
- Montecito Vista - San Jose, CA (284 residential units; sold to Taylor Morrison and Lennar Homes).
- The Fields - Milpitas, CA (1,185 for-sale and for-rent multifamily residential units; as a joint venture with Lyon Living).

Further information regarding Integral Communities is available from its website at integralcommunities.com. *This internet address is included for reference only, and the information on the internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement.*

The Tracy Hills Project

The Tracy Hills Project is part of the larger Tracy Hills Specific Plan (“**TH Specific Plan**”). The TH Specific Plan, which encompasses approximately 2,732 gross acres, with 1,811 developable acres, approved the development of various land uses, including residential estates, low density residential, medium density residential, high density residential, mixed-use business park, general highway commercial, light industrial and conservation corridors.

The TH Specific Plan land assemblage began in the mid 1980’s by a local land broker. As the project was processed through the City of Tracy, additional properties were added to create the current boundaries of the TH Specific Plan.

The TH Specific Plan was added to the City of Tracy’s General Plan in 1993. The original TH Specific Plan and EIR were approved and annexed into the City of Tracy in 1998. The Growth Management Ordinance effectively placed a moratorium on residential development in the TH Specific Plan until 2012. See “THE DISTRICT AND IMPROVEMENT AREA NO. 1 – City of Tracy Growth Management Ordinance (GMO).”

THPO purchased the THPO Property – a portion of the TH Specific Plan - in late 2012. Due to the passage of time, the TH Specific Plan needed to be updated and modernized, and a Subsequent Environmental Impact Report was prepared. This culminated with City of Tracy approval of a new Tracy Hills Specific Plan (the “**Revised TH Specific Plan**”), a Subsequent Environmental Impact Report, a Development Agreement covering the THPO Property, and a large lot and small lot tentative subdivision map on the Tracy Hills Phase I property in April of 2016.

The THPO Property (including the land in Improvement Area No. 1) is composed of approximately 1,853 gross acres of the Revised TH Specific Plan.

THPO has conveyed all of the THPO Property to the THPO Affiliates. THPO and the THPO Affiliates intend to develop the Tracy Hills Project in five phases, as described below:

Phase 1A: Phase 1A is to be developed as 1,139 single family detached units, 50 acres of Mixed Use Business Park, 12 acres of public parks, a 14-acre K-8 school site, and open space. See “– Development Plan for Improvement Area No. 1” below for more information.

Phase 1B: Phase 1B is expected to be developed as 411 single family detached units, 5 acres of public parks, 135.6 acres of Mixed Use Business Park, 9.2 acres of high density residential (125 units), 29 acres of general highway commercial, and open space. Lots and housing commencement are subject to the housing market, but the applicable THPO Affiliate expects to

deliver blue top lots in 2020. The applicable THPO Affiliate is considering a Specific Plan Amendment that would rezone the Mixed Use Business Park to single family detached residential.

Phase 2: Phase 2 is expected to be developed as 1,526 units of single family detached units, 6.8 acres of general highway commercial, 30 acres of public park, and open space. Lots and housing commencement are subject to the housing market, but the applicable THPO Affiliate expects to deliver blue top lots in 2022.

Phase 3: Phase 3 is expected to be developed as 1,178 units of single family detached units, 42 acres of public park, and open space. Lots and housing commencement are subject to the housing market, but the applicable THPO Affiliate expects to deliver blue top lots in 2025.

Phase 4: Phase 4 is expected to be developed as 321 units of single family detached units, 4 acres of public park, 29 acres of mixed use business park, and open space. Lots and housing commencement are subject to the housing market, but the applicable THPO Affiliate expects to deliver blue top lots in 2028.

The residential lands in Phase 1A comprise Improvement Area No. 1 of the District. The Mixed-Use Business Park portion of Phase 1A and Phases 1B, 2, 3, and 4 are part of the Future Annexation Area of the District that may, in the future, be annexed to District as separate improvements areas, *and these phases are not, and will not be, subject to the Special Tax securing the 2019 Bonds.*

Only the property in Improvement Area No. 1 (i.e., the residential portion of Phase 1A) is subject to the Special Tax that secures payment on the 2019 Bonds and the 2018 Bonds. The property that is anticipated to be developed as the Mixed-Use Business Park portion of Phase 1A and Phases 1B-4, inclusive, are not subject to the lien of Special Tax and will not be subject to a Special Tax securing the 2019 Bonds, the 2018 Bonds or any Parity Bonds in the future (unless annexed to Improvement Area No. 1, which is not currently contemplated by THPO).

Public Improvements Required for the Tracy Hills Project

General. The public infrastructure and development impact fees for the entirety of the Tracy Hills Project is estimated to cost approximately \$637 million. All costs will be paid by THPO or its THPO Affiliates. The estimated costs set forth below do not include the costs of in-tract improvements. Cost estimates are as of May 1, 2019.

Construction on Phase 1A (Improvement Area No. 1) began in November of 2017. The following table shows the costs incurred, fees paid, and percentage completion as of May 1, 2019.

Table 6
Phase 1A Infrastructure Costs
(as of May 1, 2019)

Construction Costs	Estimated Cost (06/01/2018)	Revised Actual/Estimated Cost (as of 5/01/2019)	% of Work Complete (as of 5/01/2019)	Costs of Work to be Completed (as of 5/01/2019)
Grading	\$7,718,612	\$7,669,285	100%	\$0
Retaining Walls	5,560,403	5,560,403	86%	778,456
Erosion Control/SWPP	750,000	750,000	84%	120,000
Spine Road	12,121,029	12,728,122	98%	254,562
Offsite Joint Trench/PG&E	2,712,857	2,784,688	100%	0
Traffic Triggers	5,935,210	5,169,624	51%	2,533,116
Parks	5,472,143	5,472,143	68%	1,751,086
Off-Site Sewer	7,333,243	7,836,118	100%	0
Off-Site Water	3,420,031	3,639,137	100%	0
On-Site Sewer	3,654,589	3,637,883	100%	0
Force Main	475,280	505,942	100%	0
On-Site Water	1,627,558	1,695,858	100%	0
Water Tank and Pump Station	10,554,068	10,340,214	44%	5,790,520
On-Site Storm Drain	1,103,565	1,103,565	100%	0
Reclaimed Water	527,868	539,948	100%	0
Landscape	6,651,581	6,651,581	67%	2,195,022
Walls and Fencing	3,418,763	3,418,763	80%	683,753
Soft Costs and Field Overhead	1,705,350	1,705,350	94%	102,321
SUBTOTAL CONSTRUCTION COSTS	\$80,742,150	\$81,208,624	83%	\$14,208,836
Payments and Fees				
Infrastructure Lump Sum Payments/Fire Station	9,950,000	10,113,100	43%	5,614,492
School Payments (1)	26,831,795	26,831,795	4%	25,694,586
Fees	9,158,532	9,070,486	58%	3,892,176
SUBTOTAL PAYMENTS AND FEES	\$45,940,327	\$46,015,381	23%	\$35,201,254
TOTAL ESTIMATED COSTS	\$126,682,477	\$127,224,005	61%	\$49,410,090

(1) The payment of this amount has been accounted for in the financing arrangement between Tracy Phase I, LLC and Lennar Homes. See “– Development Plan for Improvement Area No. 1 – Conditions of Approval” and “– Lennar Homes – Purchase of Villages.”
Source: THPO.

Regional Transportation Impact Fee Ongoing Dispute. In connection with the City's entitling of the Tracy Hills Project in 1998, the Sierra Club, the County of Alameda and the City of Livermore sued to challenge the project. A settlement agreement was entered into that, among other items, established two transportation related fees payable by each residential dwelling unit within the Tracy Hills Project: a \$1,000 per unit fee to mitigate impacts within San Joaquin County (the "**Transportation Impact Fee**"), and a \$500 per unit fee (subject to escalation), payable to the City of Tracy/County of Alameda/City of Livermore Joint Powers Authority (the "**Transit JPA Fee**") to mitigate Tracy Hills transportation impacts within Alameda County. As stated in the settlement agreement, these fees are collected for various regional improvements within San Joaquin County and trip reduction projects in San Joaquin and Alameda counties. Further, the settlement agreement contains language stating that these fees shall be the only regional traffic impact fees charged against the Tracy Hills Project.

In 2005, the City adopted the San Joaquin Council of Governments (SJCOG) regional traffic impact fee (the "**SJCOG Fee**"). The settlement agreement provides that if the City adopts the SJCOG Fee at any time during the buildout of the project, the project shall receive a credit not to exceed \$500 per unit against the Transportation Impact Fee.

All three of the foregoing fees are due at the time of building permit issuance. There is a dispute between the City and the developers of the Tracy Hills Project as to the effect of the settlement agreement and specifically whether the SJCOG Fee is applicable to the project. The total amount of fees in dispute relative to the land in Improvement Area No. 1 is approximately \$2.9 million. The developers of the Tracy Hills Project are paying the SJCOG Fee under protest. The City and the developers of the Tracy Hills Project are negotiating a compromise of this issue that would, if approved, result in some savings of fees in Improvement Area No. 1, but the compromise is not yet final. Neither the developers of the Tracy Hills Project nor the City expects the fee dispute to adversely impact the development of the project.

City Impact Fees. The Tracy Hills Project is subject to several development impact fees imposed by the City for infrastructure costs, such as storm water, potable water, wastewater, and traffic fees, all of which are generally charged to new developers as new structures are developed. THPO has notified the City that it does not agree with the City's calculation of the fees for the development in Improvement Area No. 1. The amount disputed by THPO is approximately \$2,210,657. THPO has informed the City Attorney that any such fees that are due prior to a resolution of this dispute will be paid under protest. As a result, the existence of the dispute is not expected to interfere with development of the Tracy Hills Project.

Acquisition Agreement

In connection with the formation of the District, THPO entered into the Master Acquisition Agreement dated July 19, 2016, with the City (the "**Master Acquisition Agreement**"). On the same date, the City and Tracy Phase I, LLC entered into the Acquisition Agreement (the "**Phase 1A Acquisition Agreement**") and together with the Master Acquisition Agreement, the "**Acquisition Agreements**"). The Master Acquisition Agreement authorized the financing of various infrastructure improvements and capital improvement fees for the entirety of the District. The Phase 1A Acquisition Agreement detailed the anticipated costs to be financed by the 2018 Bonds and the 2019 Bonds for Improvement Area No. 1 for street improvements, signalization, storm drains, sewer and water improvements, reclaimed water improvements, various parks, and the land and improvements for a fire station in a total estimated cost of approximately \$60.8 million and the costs of capital impact fees in the approximate amount of \$17.06 million.

The net proceeds of the 2018 Bonds and the 2019 Bonds, certain investment earnings thereon and the proceeds of the Special Tax are expected to be sufficient to fund a portion, but not all, of the improvements and fees listed in the Phase 1A Acquisition Agreement.

Tracy Phase I, LLC anticipates that bond proceeds from the property in future phases of the Tracy Hills Project, revenues from land sales, and the proceeds of the Goldman Revolving Loan and the Second Loan (as such terms are defined herein) will be used to fund some or all of the remaining portion of the improvements and fees.

Under the Master Acquisition Agreement, THPO may assign the Master Acquisition Agreement in part to the applicable THPO Affiliate in connection with the development of the applicable phase, and that THPO Affiliate will undergo a similar process in connection with the funding of improvements and fees associated with the future phases of the Tracy Hills Project.

The Amended Rate and Method provides that the funding of improvement costs can also be made from collections of the Special Tax available as the “pay-as-you-go” component of Special Taxes, also described herein as the Remainder Taxes. The Remainder Taxes will provide for funding of the costs of the authorized improvements. Under the Acquisition Agreements, Remainder Taxes are limited to 20 years from each Improvement Area, and THPO and Tracy Phase I, LLC expect to utilize the Remainder Taxes for that time period.

Development Plan for Improvement Area No. 1

General. The taxable property in Improvement Area No. 1 is projected to be developed as 1,139 residential units. Improvement Area No. 1 will also house a fire station and open space and HOA property (including an HOA welcome center).

Improvement Area No. 1 is being developed in 8 villages of single-family detached lots (each a “**Village**” and, collectively, the “**Villages**”).

Tracy Phase I, LLC does not intend to construct residential homes in Improvement Area No. 1, but will instead develop the property to a blue top condition and then sell property within each Village to various merchant builders, as described below.

The property in Improvement Area No. 1 is currently being improved with horizontal infrastructure improvements. Tracy Phase I, LLC financed the on-site and off-site improvements to bring all 1,139 lots to a blue-top condition. Blue-top improvements include, but are not limited to, connection to City services, grading all the lots to within +/- 0.2” of finished grade, construction of the main road through the project (Tracy Hills Road (including all utilities and landscaping)), the construction of the three neighborhood parks, the construction of a Fire Station, and the construction of a 3.2 million gallon water storage tank and booster pump station. It also includes funding provided to the City for the construction of a water pump station to service the project at the John Jones Water Treatment Plant.

There are eight Villages of single family detached lots in Improvement Area No. 1. Seven of the eight Villages have been sold to merchant builders. Village 6 remains owned by Tracy Phase I, LLC. All merchant builders have commenced vertical construction. Tracy Phase I, LLC will either build all the in-tract improvements in a Village (funded by the merchant builder), build a portion of the in-tract improvements, or the in-tract improvements will be constructed entirely by the merchant builder.

Conditions of Approval. Descriptions of some of the facilities required as conditions of developing Phase 1A are further described below:

A. *Recycled Water Transmission Mains, Water Lines, and Crossing Improvements.* These facilities are required prior to the final inspection of the first residential building (excluding model homes). These facilities have been completed by Tracy Phase I, LLC, but have not yet been accepted by the City.

B. *Neighborhood Parks.* The conditions of development require the construction and acceptance by the City of three neighborhood parks according to the following schedule:

- The first park within 1 year following final inspection or the occupancy of the first production home (approximately July 2020).
- The second park before final inspection or the occupancy of the 750th dwelling unit.
- The third park before final inspection or the occupancy of the 1000th dwelling unit.

The first park is under construction, and Tracy Phase I, LLC anticipates completing construction on the first park in the summer of 2019. Each additional park will be constructed following the construction of the preceding park. The costs of all three parks are budgeted, and Tracy Phase I, LLC anticipates completing each park in advance of the time required.

C. *Trees in Conservation Easement and the Community Gateway Icon.* The planting of trees in the conservation easement and the installation of the Community Gateway icon are required before the issuance of a building permit for the structure containing the 500th dwelling unit. Both items are budgeted, and Tracy Phase I, LLC anticipates completing construction of these improvements in a timely manner.

D. *At-Grade Water Storage Tank.* This facility is required prior to the final building inspection of the 301st residential building. Tracy Phase I, LLC is constructing this storage tank. The water storage tank has been designed and approved by the City, construction is underway, and Tracy Phase I, LLC anticipates completing construction by March 2020.

E. *Booster Pump Station.* The booster pump station for the John Jones Water Treatment Plant is fully funded, has been constructed by the City, and is complete and operational.

F. *Fire Station.* The conditions of development require that the fire station and related improvements must be completed prior to the final inspection or certificate of occupancy for the 289th residential unit. However, the City and Tracy Phase I, LLC have agreed to revise the requirement to defer the time for constructing the fire station. At current build-out expectations, construction of the fire station will commence in 2021, with delivery in 2022. However, if the build-out is accelerated, construction may be required sooner. Approximately 1 acre of Parcel C of the Mixed-Use Business Park will be used as a Fire Station site for the South County Fire Authority. As per the Development Agreement, Tracy Phase I, LLC will sell the site to the Fire Authority, design the fire station, build the Fire Station, and then dedicate it. Tracy Phase I, LLC has a maximum contribution of \$5,500,000 to the Fire Station. The Fire Station has already been designed and the building plans are currently under review by the City.

G. *Traffic Improvements (including Signals).* Traffic improvements and traffic signals (described as Traffic Triggers in Table 6 above) are required at various times throughout the development of the project. The costs of these traffic improvements have been budgeted, and Tracy Phase I, LLC anticipates completing construction of these improvements in a timely manner.

H. *School Facilities.* Tracy Phase I, LLC will provide funding to the Jefferson School District as per the Amended Mitigation Agreement. Jefferson School District will build an 800 student K-8 elementary school in three phases. The first phase will be open when the school can achieve 50% occupancy (approximately 800th Unit Closing) and the second phase will be built within one year of funding. The third phase will be built with Phase 1B of the Project. If the funding has not been provided at the time that the note to Tracy Phase I, LLC from Lennar Homes becomes due (see “– Lennar Homes – Purchase of Villages”), then either the proceeds of the note will be used to pay such school funding or amounts sufficient to provide such school funding shall be set aside out of the note payoff for payment at a later date.

I. *Welcome Center.* Approximately 2.6 acres of Parcel B of the Mixed-Use Business Park will be used for the Welcome Center for Phases 1A and 1B. The Welcome Center will be built by Tracy Phase I, LLC and will include a general store, multi-purpose room, welcome center, restrooms, a swimming pool and extensive landscaping. Upon sell out of Phases 1A and 1B, the Welcome Center will be conveyed to the HOA to use as a community facility. The Welcome Center is under construction and will be complete in mid-summer 2019. The general store will be owned by Tracy BPS, LLC, and operated through a lease with a general store operator.

Financing Plan for Improvement Area No. 1

Tracy Phase I, LLC will use the proceeds of two borrowings on the THPO Property (discussed below), proceeds of lot sales available from the Collateral Accounts (as described and defined below), and the proceeds of the 2018 Bonds and the 2019 Bonds to finance the planned development for Improvement Area No. 1.

First Trust Deed. Tracy Hills Holding Company is the borrower under a revolving credit facility (the “**Goldman Revolving Loan**”) with Goldman Sachs Bank USA (“**Goldman**”). The Goldman Revolving Loan is secured by a first Deed of Trust on all of the THPO Property owned by THPO and the THPO Affiliates, and the available amount of the Goldman Revolving Loan is the lesser of \$40,000,000 or 25% of the as-is appraised value of such THPO Property. The Goldman Revolving Loan is also guaranteed by each of the THPO Affiliates and THHC Manager.

The Goldman Revolving Loan is a 2-year revolver and is set to mature on September 29, 2019, with a 2-year extension option that, if approved by Goldman in its sole discretion, will reset the loan maturity to September 29, 2021. If Goldman does not approve of the extension, then 50% of the outstanding balance will be due within six months after the original maturity date and the remaining balance due within 12 months after the original maturity date. Tracy Hills Holding Company intends to seek an extension before the current September 29, 2019 maturity date, and is required to maintain a minimum of \$20,000,000 funded at all times until repayment.

As of June 2, 2019, the Goldman Revolving Loan was in good standing and had a balance of \$20,000,000 with \$20,000,000 remaining.

Interest on the outstanding balance of the Goldman Revolving Loan is payable monthly, with principal due at maturity.

Under the Goldman Revolving Loan, Tracy Hills Holding Company may borrow up to \$150 million in subordinated debt secured by the THPO Property for purposes of funding development costs associated with the Tracy Hills Project.

Upon an arms-length sale of a portion of the THPO Property to a non-affiliate of Tracy Hills Holding Company, Goldman will release the property being sold from the lien of the first Deed of Trust securing the Goldman Revolving Loan provided that:

- 100% of the net proceeds of the sale are placed in one or more collateral accounts (the “**Collateral Accounts**”) in which Goldman has a security interest, and
- such amounts are first used to reduce the outstanding principal amount of the Goldman Revolving Loan to \$20,000,000.

Funds in the Collateral Accounts that are available after reducing the outstanding loan amount to \$20,000,000 may be used to (i) make scheduled amortization payments on any subordinated debt, (ii)

fund the development of the Tracy Hills Project, and (iii) make distributions to the borrower under certain circumstances.

Goldman has an intercreditor agreement with Second Lien Lenders (as defined below), Tracy Hills Holding Company, THHC Manager and the THPO Affiliates.

Second Trust Deed. Tracy Hills Holding Company is also the borrower under a \$120,000,000 loan facility (the “**Second Loan**”). Lenders of the Second Loan are Sequoia IDF Asset Holdings S.A., and N630AA LLC (dba Davidson Kempner of New York) (collectively, the “**Second Lien Lenders**”). The Second Loan is secured by a second lien Deed of Trust on the THPO Property owned by THPO and the THPO Affiliates, and is guaranteed by each of the THPO Affiliates and THHC Manager.

The Second Loan is set to mature on March 29, 2025, and requires (i) quarterly interest payments and (ii) quarterly principal amortization payments on the following schedule:

- on September 29, 2019 (month 24) with two quarterly payments of \$2,500,000 each;
- On March 29, 2020 (month 30) the quarterly payments will be \$3,928,571 until September 29, 2023; and
- On September 29, 2023 (month 72), the quarterly payments will be \$8,571,429 until the maturity.

As of June 2, 2019, the Second Loan was in good standing and had a balance of \$120,000,000.

Upon an arms-length sale of a portion of the THPO Property to a non-affiliate of Tracy Hills Holding Company, in connection with the release of such property from the first Deed of Trust held by Goldman, the Second Lien Lender will release the property being sold from the lien of the second Deed of Trust securing the Second Loan provided that all amortization payments on the Second Loan are in good standing and 100% of the net proceeds of the sale are placed in a collateral account (in which the Second Lien Lender has a subordinated security interest).

Funds in the Collateral Accounts may be used to (i) make scheduled amortization payments on the Second Loan, (ii) fund the development of the Tracy Hills Project, and (iii) make distributions to the borrower under certain circumstances. As of June 2, 2019, THPO had two Collateral Accounts and the combined balance in the Collateral Accounts was approximately \$28,752,418.

The Merchant Builders

The information provided in this section has been included because it may be considered relevant to an informed evaluation and analysis of the 2019 Bonds and the District. No assurance can be given, however, that the proposed development of the property within Improvement Area No. 1 will occur in a timely manner or in the configuration or to the density described herein, or that the merchant builders, any owners or affiliates thereof, or any other property owner described herein will retain ownership of its respective property within Improvement Area No. 1. Neither the 2019 Bonds nor any of the Special Taxes are personal obligations of any property owner within Improvement Area No. 1. The 2019 Bonds are secured solely by the Special Taxes levied on property within Improvement Area No. 1 and amounts on deposit in certain of the funds and accounts maintained by the Fiscal Agent under the Fiscal Agent Agreement.

Tracy Phase I, LLC has sold seven of the eight Villages to the following three homebuilders:

- Lennar Homes of California, Inc. (“**Lennar Homes**”) as to Villages 1, 3, 4, 5, and 8;

- Meritage Homes of California, Inc. (“**Meritage**”) as to Village 7; and
- Shea Homes, Inc. (“**Shea**”) as to Village 2.

Village 6 – consisting of Final Tract Map No. 3953 (Phase 6A comprising 70 lots) and Tentative Tract Map 3954 (Phase 6B comprising 66 lots) – will be marketed by Tracy Phase I, LLC after construction begins on the other Villages. Horizontal improvements are under construction in Village 6. No building permits for vertical construction have been requested. Marketing of Village 6 is ongoing.

A summary of the ownership of the Villages is shown below (as of June 2, 2019):

Village	Projected Number of Units	Owner
Village 1	160	Lennar Homes
Village 2	74	Shea
Village 3	103	Lennar Homes
Village 4	149	Lennar Homes
Village 5	196	Lennar Homes
Village 6	136	Tracy Phase I, LLC
Village 7	182	Meritage
Village 8	139	Lennar Homes
Totals	1,139	

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 Source: THPO.

A summary of the current status of development within each Village is shown below, as of June 2, 2019:

Property Owner	Completed Homes	Homes Under Construction	Final Map Blue-Top Finished Lots	Tentative Map Blue-Top Lots	Total Expected Residential Units
Lennar Homes					
Village 1	4	44	112	0	160
Village 3	0	41	62	0	103
Village 4	8	52	89	0	149
Village 5	0	34	162	0	196
Village 8	0	12	127	0	139
Subtotal	12	183	552	0	747
Shea					
Village 2	3 (models)	17 (excluding models)	54	N/A	74
Meritage					
Village 7	0	32	59	91	182
Tracy Phase I, LLC					
Village 6	0	0	70	66	136
Total	15	232	735	157	1,139

Source: THPO; Lennar Homes; Shea; and Meritage.

Lennar Homes

General. The Lennar Villages will be developed by Lennar Homes, which is based in Aliso Viejo, California, and has been in the business of developing residential real estate communities in California since 1995. Lennar Homes is wholly-owned by U.S. Home Corporation, a Delaware corporation (“**U.S. Home**”). U.S. Home is wholly-owned by Lennar Corporation. Lennar Corporation, founded in 1954 and publicly traded under the symbol “LEN” since 1971, is one of the nation’s largest home builders, operating under a number of brand names, including Lennar Homes and U.S. Home. Lennar Homes primarily develops residential communities both within the Lennar family of builders and through consolidated and unconsolidated partnerships in which Lennar Homes maintains an interest. Lennar Corporation is subject to the informational requirements of the Exchange Act and in accordance therewith files reports, proxy statements and other information with the SEC. Such filings, particularly the Annual Report on Form 10-K and its most recent Quarterly Report on Form 10-Q, may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. Such files can also be accessed over the internet at the SEC’s website at www.sec.gov.

Copies of Lennar Corporation’s Annual Report and related financial statements are available from Lennar Corporation’s website at www.lennar.com.

These internet addresses are included for reference only, and the information on these internet sites is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on these internet sites.

On October 30, 2017, Lennar Corporation announced that it would acquire CalAtlantic Group Inc. (“**CalAtlantic**”) for \$5.7 billion in a combination of cash and stock, creating the largest home builder in the United States by revenue. The transaction closed in February 2018. Both Lennar Corporation’s (stock symbol “LEN”) and CalAtlantic’s (stock symbol “CAA”) public filings with the Securities and Exchange Commission are accessible over the internet at the SEC’s website. The acquisition of CalAtlantic by Lennar Corporation will not affect Lennar Homes’ developments in Improvement Area No. 1 as described herein.

The internet addresses referenced in the three paragraphs above are included for reference purposes only and the information on these internet sites are not a part of this Official Statement and are not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on these internet sites.

Certain Legal Matters.

Recent Litigation Against Lennar Corporation. A lawsuit was filed in the state court of California against Lennar Corporation relating to Lennar Corporation and LandSource Communities Development, LLC, a Delaware limited liability company (“**LandSource**”), in which the California Public Employees’ Retirement System (“**CalPers**”) invested in 2007 (“**Complaint**”). LandSource filed for bankruptcy on June 8, 2008 (“**LandSource Bankruptcy Matter**”), and a plan for reorganization was approved by the bankruptcy court on July 20, 2009. (In re: LandSource Communities Development LLC, et al, Case No. 08-11111, United States Bankruptcy Court, District of Delaware.) The Complaint, which was filed as a qui tam action by a newly created limited liability company, makes a number of claims related to Lennar Corporation’s actions regarding LandSource and the related bankruptcy and seeks injunctive relief and damages (including statutory and treble) relating to CalPers’ alleged \$970 million loss. Lennar Corporation filed and was granted a petition to remove the Complaint to federal court (Citizens Against Corporate Crime (“**CACC**”) v. Lennar Corporation (9th Circuit, California Eastern District Court, Case No. 2:2018cv01269). Lennar Corporation also filed a Motion to Reopen the Chapter 11 Bankruptcy Cases for the Limited Purpose of Enforcing the Injunction and Release in the Debtors’ Joint Chapter 11 Plan and Confirmation Order. Lennar Corporation contended that in addition to the Complaint being barred by the release and injunction in the LandSource Bankruptcy Matter, the Complaint was meritless and barred by applicable statutes of limitation and other defenses. On July 17, 2018, the Bankruptcy Court granted that motion, allowing Lennar Corporation to proceed with filing its proposed enforcement motion. After a hearing on October 25, 2018, the Bankruptcy Court granted the enforcement motion and found that CACC and its member Nicolas Marsch III (“**Marsch**”) filed the Complaint in violation of the injunction and release in the Chapter 11 Plan and Confirmation Order and barred CACC, Marsch and their agents from prosecuting the Complaint. Further, the Bankruptcy Court enjoined CACC, Marsch and their agents from continuing to pursue released and enjoined claims and causes of action against Lennar in further violation of the Chapter 11 Plan and Confirmation Order. CACC filed a Notice of Appeal and Statement of Election; CACC also filed a Request for Consent to Dismiss the Complaint, and the federal district court dismissed the Complaint by minute order issued November 16, 2018. Lennar Homes was not a party to the Complaint. Lennar Homes believes that even if, in the unlikely event, the appeal and the underlying claims are successful against Lennar Corporation, Lennar Homes will be able to complete the development and sale of the Lennar Villages (as defined herein) within the District as described in this Official Statement and pay Special Taxes and ad valorem tax obligations on the Lennar Villages within the District prior to delinquency during Lennar Homes’ period of ownership.

County of Riverside Grand Jury Subpoena. On March 11, 2019, Lennar Homes received a subpoena duces tecum from the 2018-19 Riverside County Grand Jury in the Superior Court of California, County of Riverside (the “**Grand Jury**”), addressed to “Lennar Homes”, ordering the production of certain documents pertaining to community facilities districts in Riverside County in which Lennar Homes has participated, including acquisition agreements, development agreements, and homeowner disclosure, among other documents. Lennar Homes does not know the nature of the investigation that the Grand

Jury subpoena pertains to at this time other than that it is a civil (not criminal) investigation. Lennar Homes does not believe it is the target of the investigation and knows that other homebuilders have received a similar subpoena. Further, Lennar Homes does not believe that complying with such subpoena will adversely impact the development of the Lennar Villages in the District as described in this Official Statement.

Purchase of Villages. On March 7, 2018, Tracy Phase I, LLC and Lennar Homes of California, Inc., a California corporation (previously defined as “**Lennar Homes**”) entered into a Purchase and Sale Agreement and Joint Escrow Instructions (the “**Lennar PSA**”) for the purchase of Villages 1, 3, 4, and 5, and subsequently entered into an amendment to the Lennar PSA to acquire Village 8 in Improvement Area No. 1 (herein, Villages 1, 3, 4, 5, and 8 are referred to as the “**Lennar Villages**”).

On September 6, 2018, Lennar Homes closed on the purchase of the Lennar Villages.

Approximately 40% of the purchase price was paid by Lennar Homes at the close of escrow, with the balance payable by a note (a “**Note**”) and deed of trust held by Tracy Phase I, LLC. The Note has a principal amount of \$56,750,000, and is outstanding in the same amount as of June 2, 2019. The Note is payable at any time prior to its maturity without penalty. The entire principal balance of the Note is due and payable on September 7, 2020, but may be required to be paid in full earlier than such date if the Lennar Deed of Trust (as defined below) has been reconveyed for 365 units (see item 5 below), or in the event of default. The Note has been assigned by Tracy Phase I, LLC to Goldman.

The Note is secured by a Purchase Money Deed of Trust, Security Interest and Fixture Filing (the “**Lennar Deed of Trust**”). The Lennar Deed of Trust provides for the partial reconveyance of the Lennar Deed of Trust under the following circumstances:

1. Upon request of Lennar Homes, without the requirement for the payment of any consideration, as to any portion of the property which is or is about to be dedicated to or otherwise conveyed to or accepted by a public entity or utility company and which is conveyed or about to be conveyed to a homeowners association established for the benefit of the property.

2. After Lennar Homes provides notice that Lennar Homes anticipates receiving the first certificate of occupancy for a home within the property within the next 30 days, then the Lennar Deed of Trust shall be reconveyed without compensation for 100 lots identified by Lennar Homes (the “**First Release**”).

3. Every six months following the First Release, Lennar Homes may deliver a notice requesting the release (without consideration) for the lesser of (i) an additional 100 residential lots or (ii) the difference between the number of homes sold and conveyed by Lennar Homes to homeowners since the last release and 100.

4. At any time that Lennar Homes has twenty or less residences in its inventory, Lennar Homes may request the additional release of lots (without consideration) equal to the difference between the number of residences in its inventory and 100.

5. Notwithstanding the foregoing, concurrently with the reconveyance of the Lennar Deed of Trust for the 365th residential lot (on a cumulative basis), the entire unpaid balance of the Note shall be immediately due and payable in full.

As of June 2, 2019, the Note and Lennar Deed of Trust are in good standing.

Funding In-Tract Improvements. Under the terms of the Lennar PSA, Lennar Homes is required to fund into an escrow an amount necessary to fund 100% of the allocated in-tract improvement costs for

each phase upon receipt of notice from Tracy Phase I, LLC. Funds on deposit in the escrow account may be withdrawn by Tracy Phase I, LLC according to a predetermined schedule for each phase of the project. In general, for in-tract improvements made for a phase of a Village, Tracy Phase I, LLC may withdraw 35% of the funds upon commencing the trenching, an additional 20% at the end of 30 days, an additional 20% at the end of 60 days, an additional 15% at the end of 90 days, and the final 10% at substantial completion of the improvements. The release of funds for the construction of retaining walls and park improvements have different release schedules, but generally follow the trenching, 30-day, and substantial completion timeframes.

As of June 2, 2019, Lennar Homes has made the required payments to escrow (approximately \$20.2 million) for the in-tract, retaining wall, and first park improvements for Phases 1A, 1B, 3A, 3B, 4A, 4B, 5A, 5B, and 8A. As of June 2, 2019, Tracy Phase I, LLC has completed the work associated with Phases 1A, 3A, 3B, and 4A, and is under construction on the improvements for Phases 1B, 1C, 4B, 4C, 5A, 5B, 5C, and 8A. Lennar Homes anticipates that Tracy Phase I, LLC will provide notice with respect to the construction of the second park and the improvements in Phases 1C, 4C, and 5C in mid-June 2019, and in Phase 8B in July 2019, at which points Lennar Homes will be required to deposit additional amounts, up to approximately \$14 million, which may be collected in one or more installments. As of June 2, 2019, this has not yet occurred.

Buyer RGAs. In connection with the acquisition of the Lennar Villages, Lennar Homes received an allocation from Tracy Phase I, LLC of up to 266 Buyer RGAs for use in calendar year 2018, which Lennar Homes used to request and receive 266 building permits in 2018. For 2019, Tracy Phase I, LLC allocated an additional 266 Buyer RGAs to Lennar Homes. Lennar Homes anticipates requesting prior to permit expiration all 266 building permits from the City during 2019. Lennar Homes expects the allocation of 215 Buyer RGAs from Tracy Phase I, LLC for 2020.

Tract Map Status. The status of the tract maps for Villages 1, 3, 4, 5, and 8 are shown below:

Tract Map Status for the Lennar Villages in Improvement Area No. 1

Village	Tract Map	Projected Number of Units	Date of Recordation
Village 1			
	1A	63	April 11, 2018
	1B	52	June 28, 2018
	1C	45	December 28, 2018
Village 3			
	3A	41	April 11, 2018
	3B	62	June 28, 2018
Village 4			
	4A	56	April 11, 2018
	4B	48	June 28, 2018
	4C	45	December 28, 2018
Village 5			
	5A	44	April 11, 2018
	5B	31	June 28, 2018
	5C	121	May 1, 2019
Village 8			
	8A	71	December 28, 2018
	8B	68	May 17, 2019
Totals:		<u>747</u>	

Pursuant to the Lennar PSA, Tracy Phase I, LLC will use its commercially reasonable efforts to have the tract maps “ready to record” by certain dates.

- For those Phases that had final maps recorded prior to acquisition by Lennar Homes (Phases 1A, 1B, 3A, 3B, 4A, 4B, 5A, and 5B, herein the “**Pre-Acquisition Phases**”), except for certain landscaping improvements, Tracy Phase I, LLC posted the bonds and collateral with the City and executed any applicable subdivision improvement agreements for such Pre-Acquisition Phases. Pursuant to the Lennar PSA, Lennar Homes is required to replace the bonding and collateral and assume the subdivision improvement agreements for those Pre-Acquisition Phases. As of June 2, 2019, Lennar Homes has made such replacements.

- For those Phases that were mapped after the closing with Lennar Homes (Phases 1C, 4C, 5C, 8A, and 8B, herein the “**Post-Acquisition Phases**”), and for certain landscaping improvements in the Pre-Acquisition Phases, when a Post-Acquisition Phase was “ready to record” or the landscape improvements were ready to proceed, Lennar Homes posted bonds and collateral with the City and executed any applicable subdivision improvement agreements.

Lennar Villages Development Plan. Provided Lennar Homes gives the proper notice to proceed and makes the required deposits for in-tract improvements (as described in “– Funding In-Tract Improvements” above), Tracy Phase I, LLC is responsible for delivering final lots to Lennar Homes. As of June 2, 2019, Tracy Phase I, LLC has delivered final lots in Phase 1A of Village 1, Phases 3A and 3B of Village 3, Phase 4A of Village 4, and Phase 5A of Village 5. Lennar Homes anticipates delivery of final lots for the remaining Phases of the Lennar Villages over the course of several months, beginning in June 2019 and ending in November 2019.

Details of each Lennar Village are as follows. The projected sales prices shown in the tables below are as of June 2, 2019, and may differ from the projected sales prices shown in the Absorption Study, which was based on information provided in early May 2019. Lennar Homes has not yet updated the projected sales prices, but intends to as sales begin for each Village. Accordingly, sale prices are subject to change, are all inclusive, and exclude any incentives and selling concessions or price reductions which may be offered.

Village 1
(Tract Nos. 3788, 3954, and 3944)
(as of June 2, 2019)
55 x 90 Typical Lot Size

Floor Plan	Square Footage	Total Number of Planned Units⁽¹⁾	Projected Sales Price
Plan 1	2,173	41	\$545,000
Plan 2	2,228	41	\$545,000
Plan 3	2,476	39	\$550,000
Plan 4	2,654	39	\$560,000
Totals		160	

(1) Lennar Homes has completed construction on 4 Village 1 model homes located in this Village.

Village 3
(Tract Nos. 3889 and 3945)
(as of June 2, 2019)
55 x 100 Typical Lot Size

Floor Plan	Square Footage	Total Number of Planned Units⁽¹⁾	Projected Sales Price
Plan 1	2,502	27	\$600,000
Plan 2	3,122	26	\$605,000
Plan 3	3,266	25	\$620,000
Plan 4	3,503	25	\$635,000
Totals		103	

(1) Lennar Homes constructed a model home complex in Village 4 that features four Village 3 model homes. The four Village 3 model homes located in Village 4 are complete.

Village 4
(Tract Nos. 3890, 3946, 3947)
(as of June 2, 2019)
50 x 100 Typical Lot Size

Floor Plan	Square Footage	Total Number of Planned Units⁽¹⁾	Projected Sales Price
Plan 1	2,257	36	\$565,000
Plan 2	2,563	36	\$570,000

Plan 3	2,749	38	\$580,000
Plan 4	2,977	39	\$592,000
Totals		<u>149</u>	

(1) Lennar Homes constructed a model home complex in Village 4 that will, at build-out, feature four Village 3 model homes, four Village 4 model homes, and four Village 5 model homes. The four model homes for Village 3 and the four model homes for Village 4 are complete; the four model homes for Village 5 will be completed in mid-June 2019.

Village 5
(Tract Nos. 3891, 3948, 3949)
(as of June 2, 2019)
60 x 100 Typical Lot Size

Floor Plan	Square Footage	Total Number of Planned Units⁽¹⁾	Projected Sales Price
Plan 1	2,683	52	\$602,000
Plan 2	3,372	48	\$627,000
Plan 3	3,533	48	\$652,000
Plan 4	3,599	48	\$667,000
Totals		<u>196</u>	

(1) Lennar Homes constructed a model home complex in Village 4 that will, upon completion, feature four Village 5 model homes, which are anticipated to be completed in mid-June 2019.

Village 8
(Tract Nos. 3957 and 3958)
(as of June 2, 2019)
65 x 100 Typical Lot Size

Floor Plan	Square Footage	Total Number of Planned Units⁽¹⁾	Projected Sales Price
Plan 1	2,914	34	\$660,000
Plan 2	3,784	35	\$693,000
Plan 3	3,919	35	\$718,000
Plan 4	4,100	<u>35</u>	\$732,000
Totals		<u>139</u>	

(1) Lennar Homes currently anticipates the construction of four model homes in this Village. Construction has not yet begun, but Lennar Homes anticipates that the models will be complete in November 2019.

Status of Development. Set forth below is the status of construction of the units in each of the Villages owned by Lennar Homes, as of June 2, 2019:

**Lennar Villages
Status of Development**

	<u>Village 1</u>	<u>Village 3</u>	<u>Village 4</u>	<u>Village 5</u>	<u>Village 8</u>	<u>Total</u>
Closed to Homeowners	0	0	0	0	0	0
Completed Unclosed Homes (including models)	4	0	8	0	0	12
Units under Contract to be Sold	8	9	6	7	0	30
Under Construction ⁽¹⁾ (including Models)	44	41	52	34	12	183
Finished Blue Top Lots	112	62	89	162	127	552
Total Projected Units	160	103	149	196	139	747
Foundation-Only Building Permits Received ⁽²⁾	0	0	0	0	0	0
Full Building Permits Received ⁽³⁾	99	92	91	34	12	328

(1) Under construction means that a building permit has been issued and the trenching for the foundation has begun.

(2) Under the Growth Management Ordinance, a builder must have an RGA in order to apply for a building permit on or before September 30th of the year in which the builder was allocated the RGA. If such an application is not made in a timely manner, then the RGA would expire. The City considers the receipt of a foundation-only building permit as the timely receipt of a permit to prevent the expiration of an RGA.

(3) The receipt of a full building permit is also considered a timely receipt of a permit to prevent the expiration of an RGA.

Lennar Homes held a soft opening on March 16, 2019, and a grand opening on April 13, 2019. As of June 2, 2019, Lennar Homes had 175 production homes and 8 model homes with vertical construction underway, with 12 model homes complete and open, 4 model homes scheduled to open on June 15, 2019, and the remaining 4 model homes scheduled to open in November 2019. As of June 2, 2019, Lennar Homes had entered into contract for the sale of 30 homes, and planned to close the first 11 to 13 home sales by mid-June 2019.

Lennar Homes anticipates buildout of the Lennar Villages according to the following schedule:

- Village 1: November 2023
- Village 3: April 2022
- Village 4: July 2023
- Village 5: November 2024
- Village 8: April 2023

The anticipated buildout shown above is subject to change, and there can be no guarantee that the Lennar Villages will be developed according to that schedule.

Home Construction Financing Plan. Lennar intends to finance the development of the Lennar Villages using internal sources (equity and home sales proceeds). Through May 1, 2019, Lennar Homes has expended approximately \$103,106,905 on the development of the Lennar Villages, including land acquisition, site development, home building, marketing and sales. Lennar anticipates expending an additional \$260,214,090 to complete the development of the Lennar Villages. A summary of the costs incurred and anticipated are set forth in the table below:

	Total Budget	Costs Incurred Through May 1, 2019	May 2, 2019 through Buildout
Land ⁽¹⁾	\$128,492,000	\$71,742,000	56,750,000
Site Construction	\$9,323,778	\$6,659,842	\$2,663,936
Direct Construction	\$194,825,418	\$19,664,707	\$175,160,711
Sales and Marketing	<u>\$30,679,799</u>	<u>\$5,040,356</u>	<u>\$25,639,443</u>
Total Projected Costs	\$363,320,995	\$103,106,905	\$260,214,090

(1) Remaining costs is the principal balance of the Note with Tracy Phase I, LLC.

Although Lennar Homes expects to have sufficient funds available to complete its development in the District in accordance with the development schedule described in this Official Statement, there can be no assurance that amounts necessary to finance the remaining development costs will be available from Lennar Homes or any other source when needed. Neither Lennar Homes, nor any of its related entities are under any legal obligation of any kind to expend funds for the development of and construction of homes on its property in the District. Any contributions by Lennar Homes to fund the costs of such development are entirely voluntary.

If and to the extent that internal funding, including but not limited to home sales revenues, are inadequate to pay the costs to complete the planned development by Lennar Homes within the District and other financing by Lennar Homes is not put into place, there could be a shortfall in the funds required to complete the planned development by Lennar Homes in the District.

Meritage

General. Village 7 (herein, the “**Meritage Village**”) is being developed by Meritage Homes of California, Inc. (previously defined as “**Meritage**”). Meritage is a subsidiary of Meritage Homes Corporation (“**Meritage Homes**”). Meritage Homes was incorporated in 1988 as a real estate investment trust in the State of Maryland. Meritage Homes currently focuses exclusively on homebuilding and related activities and no longer operates as a real estate investment trust. The homebuilding and marketing activities are conducted under the Meritage Homes brand, except for Arizona and Texas where they also operate under the name Monterey Homes. Meritage Homes operates as a holding company and has no independent assets or operations. Meritage Homes is traded on the New York Stock Exchange under the ticker symbol MTH. The homebuilding, construction, development and sales activities are conducted through its subsidiaries. Meritage Homes is subject to the informational reporting requirements of the Securities Exchange and files reports, proxy statements and other information with the SEC. Such filings, particularly Meritage Homes Corporation’s Annual Report on Form 10-K for the Fiscal Year ended December 31, 2018, and its Quarterly Report on Form 10-Q for the three months ended September 30, 2018 set forth certain data relative to the consolidated results of operations and financial position of Meritage Homes and its subsidiaries as of such dates.

The Meritage’s Northern California Division has active projects in Pleasanton, Dublin, Antioch, San Juan Bautista, Hollister, Rocklin, San Leandro, Fairfield, Elk Grove, Mountain House, Roseville, Gilroy, Manteca, Hayward and Brentwood.

The shareholders of Meritage Homes do not guarantee and are not otherwise responsible for any liability of Meritage with respect to the land it is under contract to purchase, the improvements it will build and the special taxes it will be levied.

Purchase of Meritage Village. On August 30, 2018, Meritage closed escrow on the Meritage Village pursuant to a purchase and sale agreement with Tracy Phase I, LLC (the “**Meritage PSA**”).

Approximately 60% of the purchase price was paid by Meritage at the close of escrow, with the balance payable by a note (a “**Note**”) and deed of trust held by Tracy Phase I, LLC. The Note has a principal amount of \$8,665,150, and was outstanding in the same amount as of June 2, 2019. The Note is payable at any time prior to its maturity without penalty. The entire principal balance of the Note is due and payable on July 1, 2020, but may be required to be paid in full earlier if the Meritage Deed of Trust (as defined below) has been reconveyed for 70 units (see item 5 below), or in the event of default. The Note has been assigned by Tracy Phase I, LLC to Goldman.

The Note is secured by a Purchase Money Deed of Trust, Security Interest and Fixture Filing (the “**Meritage Deed of Trust**”), which provides for the partial reconveyance under the following circumstances:

1. Upon request of Meritage, without the requirement for the payment of any consideration, as to any portion of the property which is or is about to be dedicated to or otherwise conveyed to or accepted by a public entity or utility company and which is conveyed or about to be conveyed to a homeowners association established for the benefit of the property.
2. After Meritage provides notice that Meritage anticipates receiving the first certificate of occupancy for a home within the property within the next 30 days, then the Meritage Deed of Trust will be reconveyed without compensation for 25 lots identified by Meritage (the “**First Release**”). The First Release has already occurred.
3. Every six months following the First Release, Meritage may deliver a notice requesting the release (without consideration) for the lesser of (i) an additional 25 residential lots or (ii) the difference between the number of lots Meritage has not sold since the last release and 25, without the payment of any compensation.
4. At any time that Meritage has 5 or less residences in its inventory, Meritage may request the additional release of lots (without consideration) equal to the difference between the number of residences in its inventory and 25.
5. Notwithstanding the foregoing, concurrently with the reconveyance of the Meritage Deed of Trust for the 70th residential lot (on a cumulative basis), the entire unpaid balance of the Note will be immediately due and payable in full.

As of June 2, 2019, the Note and Meritage Deed of Trust are in good standing.

Buyer RGAs. In connection with the acquisition of the Meritage Village, Meritage received an allocation from Tracy Phase I, LLC of up to 68 Buyer RGAs for use in calendar year 2018, which Meritage used to request and receive 68 building permits in 2018. For 2019, Tracy Phase I, LLC allocated an additional 65 Buyer RGAs to Meritage. Meritage anticipates requesting prior to permit expiration all 65 building permits from the City during 2019. Meritage expects the allocation of 49 Buyer RGAs from Tracy Phase I, LLC for 2020.

Tract Map Status. The status of the tract maps for the Meritage Village is shown below:

Tract Map Status for the Meritage Village

Village	Tract Map	Projected Number of Units	Date of Recordation
Village 7			
7A	3955	91	September 6, 2018
7B	3956	<u>91</u>	May 15, 2019
		182	

Meritage Village Development Plan. Under the Meritage PSA, Meritage will be responsible for constructing all of the in-tract improvements for both Phases in the Meritage Village. Details of the Meritage Village are as follows.

The projected sales prices shown in the table below are subject to change and exclude any lot premiums, options, upgrades, incentives and selling concessions or price reductions that may be offered, and may differ from the projected sales prices shown in the Absorption Study, which was based on information provided in early May 2019.

**Village 7
(Tract Nos. 3955 and 3956)
(as of June 2, 2019)
50 x 80 Typical Lot Size**

Floor Plan	Square Footage	Total Number of Planned Units ⁽¹⁾	Projected Sales Price
Plan 1	2,102	38	\$532,000
Plan 2	2,340	40	\$552,000
Plan 3	2,547	51	\$572,000
Plan 4	2,626	<u>53</u>	\$582,000
Totals		182	

(1) Meritage has completed 3 model homes in this Village.

Status of Development. Set forth below is the status of construction of the units in the Meritage Village as of June 2, 2019:

**Village 7
Status of Development**

	<u>Village 7</u>
Closed to Homeowners	0
Completed Unclosed Homes	0
Under Construction ⁽¹⁾ (including Models)	32
Final Map Blue Top Finished Lots	59
Tentative Map Blue-Top Lots	<u>91</u>
Total Projected Units	182
Foundation-Only Building Permits Received (2)	36
Full Building Permits Received (3)	32

(1) Under construction means that a building permit has been issued and the trenching for the foundation has begun. The three model homes are complete and have received a temporary occupancy permit, but are still shows as under construction because development impact fees have not yet been paid.

(2) Under the Growth Management Ordinance, a builder must have an RGA in order to apply for a building permit on or before September 30th of the year in which the builder was allocated the RGA. In the event that such an application is not made in a timely manner, then the RGA would expire. The City considers the receipt of a foundation-only building permit as the timely receipt of a permit to prevent the expiration of an RGA.

(3) The receipt of a full building permit is also considered a timely receipt of a permit to prevent the expiration of an RGA.

Meritage held a soft opening on March 16, 2019, and a grand opening on April 13, 2019. As of June 2, 2019, Meritage had 29 homes under construction and three model homes complete and open. As of June 2, 2019, Meritage had entered into contracts for the sale of 8 homes, and planned to close the first 4 to 6 home sales by the end of June 2019.

Meritage Village Financing Plan. Except for the Note secured by the Deed of Trust, Meritage has financed the cost of land acquisition, site development and home construction with respect to the Meritage Village through home sales and internally generated funds. Meritage expects to continue to use home sales and internal funding to complete the site development activities and residential home construction within the Meritage Village, and to pay the debt evidenced by the Note when due. However, home sales revenues received from the Meritage Village will not be segregated and set aside for the payment of such costs. Homes sales revenue from its projects is accumulated and used to pay the cost of Meritage's operations, to pay debt service on outstanding debt, and for other corporate purposes, and may, at the discretion of Meritage's management, be diverted to pay costs other than the costs of completing the site development and home construction within the Meritage Village, or the Note. Notwithstanding the foregoing, Meritage believes that it will have sufficient funds available to complete the site development and home construction within the Meritage Village, and to pay the amounts due under the Note, when due.

Although Meritage expects to have sufficient funds available to complete site development and home construction within the Meritage Village, and to pay the Note when due, there can be no assurance that amounts necessary to finance such costs will be available from Meritage or any other source when needed. Neither Meritage, nor Meritage Homes, nor any of its related entities are under any legal obligation of any kind to expend funds for the completion of site development and home construction within the Meritage Village, or to pay the Note. Any contributions by Meritage Homes to fund such costs are entirely voluntary. If, and to the extent, that internal funding, including, but not limited to, home sales revenues, are inadequate to pay the costs to complete the site development and home construction, within the Meritage Village, and to pay the Note when due, and other financing by Meritage is not put into place, there could be a shortfall in the funds required to complete the site development and home construction by Meritage Homes within the Meritage Village, and to pay the Note when due.

Shea

The information provided in this section is provided as of the dates noted below and includes estimates and projections based on information available as of such dates. There are no assurances that Shea or any of its affiliated entities or shareholders will continue to own the Shea Village, pull permits or complete the development described below on the timelines described below or at all or that any costs to complete will not change substantially after the dates noted below. Sales prices, square footages and unit mix/count are subject to change at any time.

General. Village 2 (herein, the “**Shea Village**”) is being developed by Shea Homes, Inc., a Delaware corporation (previously defined as “**Shea**”), which is a wholly-owned subsidiary of Shea Homes Limited Partnership (“**Shea Homes**”). Shea is a separate legally entity formed on February 11, 1992, that, from time to time, is the entity used to acquire fee title to certain projects. Shea Homes, is headquartered in Walnut, California, near Los Angeles, and is a privately held company with multiple home building divisions. Shea Homes was formed pursuant to an agreement of partnership dated January 4, 1989. The partnership agreement was most recently amended March 23, 2016, by and between J.F. Shea, G.P., a Delaware general partnership, as general partner, and Shea’s limited partners, which are comprised of various entities and trusts, with ultimate beneficial ownership held by various members of the Shea family.

Today, Shea Homes operates in many states throughout the U.S., including California, Colorado, Nevada, Arizona, Washington, Virginia, North Carolina, Florida, and Texas.

The Shea Village (which is being marketed under the name “Vente at Tracy Hills”) is managed locally by Shea, and out of the Livermore, California, office of Shea Homes, Northern California Division. Currently Shea Homes Northern California and Shea collectively have approximately 15 active residential and/or master planned communities under development throughout northern California.

Copies of Shea Homes’s Annual Report and related consolidated financial statements, prepared in accordance with generally accepted accounting standards, are available from Shea Homes’s website at www.sheahomes.com. *This internet address is included for reference only, and the information on this internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on this internet site.*

Purchase of Village 2. On September 20, 2018, Shea purchased Village 2 pursuant to a purchase and sale agreement with Tracy Phase I, LLC (the “**Shea PSA**”). Shea paid the full purchase price for the Shea Village at closing.

Buyer RGAs. In connection with the acquisition of the Shea Village, Shea received an allocation from Tracy Phase I, LLC of 48 Buyer RGAs for 2018, which Shea vested by pulling 48 foundation-only building permits in 2018. For 2019, Tracy Phase I, LLC allocated 26 additional Buyer RGAs to Shea, representing the remaining Buyer RGAs necessary for the development of the Shea Village. Shea currently anticipates assigning the 3 model permits and requesting 23 additional foundation-only building permits from the City no later than September 30, 2019, which is the current expiration date of the 26 Buyer RGAs allocated to Shea for 2019.

Tract Map Status. The tract map for the Shea Village, Tract Map 3888, was recorded on August 23, 2018.

Shea Village Development Plan. Tracy Phase I, LLC completed the in-tract improvements in the Shea Village to a finished lot condition, and will complete parkway strip landscaping before the close of escrow on homes within the Shea Village. Shea currently anticipates constructing 74 units with varying

floor plans. Additional information related to currently anticipated square footage and projected sales prices for Shea Village is as follows.

The projected sales prices shown in the table below are as of June 2, 2019, and are subject to change at any time. Projected sales prices exclude any lot premiums, options, upgrades, incentives and selling concessions or price reductions that may be offered, and may differ from the projected sales prices shown in the Absorption Study, which was based on information provided in early May 2019.

**Village 2
(Tract No. 3888)
(as of June 2, 2019)
55 x 100 Typical Lot Size**

Floor Plan	Square Footage	Total Number of Planned Units ⁽¹⁾	Projected Sales Price
Plan 1	2,552	23	\$615,000
Plan 2	3,311	25	\$665,000
Plan 3	3,451	26	\$695,000
Totals		<u>74</u>	

(1) Shea has completed 3 model homes in the Shea Village.

Status of Development. Set forth below is the status of construction of the units in the Shea Village as of June 2, 2019:

**Village 2
Status of Development**

	<u>Village 2</u>
Closed to Homeowners	0
Completed Unclosed Homes (model homes)	3
Under Construction ⁽¹⁾	17
Finished Lots	<u>54</u>
Total Projected Units	74
Foundation-Only Building Permits Received (2)	31
Full Building Permits Received (3)	20

(1) Under construction means that a building permit has been issued and the trenching for the foundation has begun.

(2) Under the Growth Management Ordinance, a builder must have an RGA in order to apply for a building permit on or before September 30th of the year in which the builder was allocated the RGA. If such an application is not made in a timely manner, then the RGA would expire. The City considers the receipt of a foundation-only building permit as the timely receipt of a permit to prevent the expiration of an RGA. Represents the number of foundation-only building permits that have not yet been converted to full building permits.

(3) The receipt of a full building permit is also considered a timely receipt of a permit to prevent the expiration of an RGA.

Shea held a soft opening on March 16, 2019, and a grand opening on April 13, 2019. As of May 19, 2019, Shea had 10 homes with vertical construction and 3 model homes complete and open. Since May 19, 2019, Shea has pulled 7 additional full building permits and commenced vertical construction on an additional 7 homes. As of June 2, 2019, Shea had entered into contract for the sale of 7 homes, and currently anticipates closing on the first 2 home sales by the end of July 2019, with additional closings anticipated in August 2019.

Shea Village Financing Plan. Shea paid all cash for the Shea Village when it was acquired from Tracy Phase I LLC. To date, Shea has expended approximately \$18.1 million toward costs of land acquisition and construction, and currently estimates total remaining costs to complete the Shea Village to be approximately \$24.9 million. Shea currently anticipates funding such remaining costs with cash on hand or other available internal financing sources, including sales revenues generated from the Shea Village.

BOND OWNERS' RISKS

The purchase of the 2019 Bonds described in this Official Statement involves a degree of risk that may not be appropriate for some investors. The following includes a discussion of some of the risks which should be considered before making an investment decision. This discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the 2019 Bonds.

Limited Obligation of the City to Pay Debt Service

The City has no obligation to pay principal of and interest on the 2019 Bonds if Special Tax collections are delinquent or insufficient, other than from amounts, if any, on deposit in the 2019 Reserve Fund or funds derived from the tax sale or foreclosure and sale of parcels for Special Tax delinquencies. The City is not obligated to advance funds to pay debt service on the 2019 Bonds.

Concentration of Ownership

All of the taxable property within Improvement Area No. 1 is currently owned by the following developer entities: the master developer, Tracy Phase I, LLC (as to Village 6); and three merchant builders: Lennar Homes (as to Villages 1, 3, 4, 5, and 8), Shea (as to Village 2), and Meritage (as to Village 7). See "THE DISTRICT AND IMPROVEMENT AREA NO. 1 – Value-to-Lien Ratios and Share of Special Taxes" and "PROPERTY OWNERSHIP AND THE DEVELOPMENT – The Merchant Builders." As of the date of this Official Statement, the property owned by Lennar Homes is estimated to be responsible for approximately 69% of the projected Fiscal Year 2019-20 Special Tax levy.

The owners of property in Improvement Area No. 1 are not personally obligated to pay the Special Tax attributable to their property. Rather, the Special Tax is an obligation only against the parcel of property, secured by the amount which could be realized in a foreclosure proceeding against the property, and not by any promise of the owner to pay. If the value of the property is not sufficient, taking into account other obligations also constituting a lien against the property, the City, Fiscal Agent and owners of the 2019 Bonds have no recourse against the owner, such as filing a lawsuit to collect money.

Failure of Tracy Phase I, LLC, Lennar Homes, Shea, Meritage or any future merchant builder or future owner of significant property subject to the Special Taxes in Improvement Area No. 1 to pay installments of Special Taxes when due could cause the depletion of the 2019 Reserve Funds prior to reimbursement from the resale of foreclosed property or payment of the delinquent Special Tax and, consequently, result in the delinquency rate reaching a level that would cause an insufficiency in collection of the Special Tax for the City to pay debt service with respect to the 2019 Bonds.

Future Property Development

Continuing development of the parcels in Improvement Area No. 1 may be adversely affected by changes in general or local economic conditions, fluctuations in or a deterioration of the real estate market, increased construction costs, development, financing and marketing capabilities of the developer, water or electricity shortages, discovery on the undeveloped property of any plants or animals in their habitat that have been listed as endangered species, changes in laws, and other factors outside the control of the owners of land in Improvement Area No. 1. Development in Improvement Area No. 1 may also be affected by development in surrounding areas, which may compete with the property in Improvement Area No. 1.

For example, H.R. 1 of the 115th U.S. Congress, known as the “Tax Cuts and Jobs Act,” was enacted into law on December 22, 2017 (Pub. L. No. 115-97 (2017)) (the “**Tax Act**”). The Tax Act makes significant changes to many aspects of the Tax Code (defined herein). For example, the Tax Act reduces the amount of mortgage interest expense and state local income tax and property tax expense that individuals may deduct from their gross income for federal income tax purposes, which could increase the cost of home ownership within Improvement Area No. 1 and could adversely affect the sale of homes by the merchant buildings in Improvement Area No. 1. However, neither the City nor the District can predict the effect that the Tax Act may have on the cost of home ownership or the price of homes in Improvement Area No. 1, the rate at which homes in Improvement Area No. 1 are sold to end users by the merchant builders, or the ability or willingness of homeowners to pay Special Taxes or property taxes.

Levy and Collection of the Special Tax

General. The principal source of payment of principal of and interest on the 2019 Bonds is the proceeds of the annual levy and collection of the Special Tax against property within Improvement Area No. 1.

Limitation on Maximum Special Tax Rate. The annual levy of the Special Tax is subject to the maximum annual Special Tax rate authorized in the Amended Rate and Method. The levy cannot be made at a higher rate even if the failure to do so means that the estimated proceeds of the levy and collection of the Special Tax, together with other available funds, will not be sufficient to pay debt service on the 2019 Bonds.

No Relationship Between Property Value and Special Tax Levy. Because the Special Tax formula set forth in the Amended Rate and Method is not based on property value, the levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular parcels of Taxable Property and the amount of the levy of the Special Tax against those parcels. Thus, there will rarely, if ever, be a uniform relationship between the value of the parcels of Taxable Property and their proportionate share of debt service on the 2019 Bonds, and certainly not a direct relationship.

Factors that Could Lead to Special Tax Deficiencies. The following are some of the factors that might cause the levy of the Special Tax on any particular parcel of Taxable Property to vary from the Special Tax that might otherwise be expected:

Transfers to Governmental Entities. The number of parcels of Taxable Property could be reduced through the acquisition of Taxable Property by a governmental entity and failure of the government to pay the Special Tax based upon a claim of exemption or, in the case of the federal government or an agency thereof, immunity from taxation, thereby resulting in an increased tax burden on the remaining taxed parcels. See “–Exempt Properties” below.

Property Tax Delinquencies. Failure of the owners of Taxable Property to pay property taxes (and, consequently, the Special Tax), or delays in the collection of or inability to collect the Special Tax by tax sale or foreclosure and sale of the delinquent parcels, could result in a deficiency in the collection of Special Tax revenues. See “–Property Tax Delinquencies” below.

Delays Following Special Tax Delinquencies and Foreclosure Sales. The Fiscal Agent Agreement generally provides that the Special Tax is to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the special covenant for foreclosure described in “SECURITY FOR THE BONDS – Covenant to Foreclose” and in the Act, is subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for ordinary *ad valorem* property taxes. Under these procedures, if taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the County.

If sales or foreclosures of property are necessary, there could be a delay in payments to owners of the 2019 Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the City of the proceeds of sale if the 2019 Reserve Fund is depleted. See “SECURITY FOR THE BONDS – Covenant to Foreclose.”

The ability of the City to collect interest and penalties specified by State law and to foreclose against properties having delinquent Special Tax installments may be limited in certain respects with regard to properties in which a federal governmental agency has or obtains an interest. See “ – FDIC/Federal Government Interests in Properties” below.

Other laws generally affecting creditors’ rights or relating to judicial foreclosure may affect the ability to enforce payment of Special Taxes or the timing of enforcement of Special Taxes. For example, the Soldiers and Sailors Civil Relief Act of 1940 affords protections such as a stay in enforcement of the foreclosure covenant, a six-month period after termination of such military service to redeem property sold to enforce the collection of a tax or assessment, and a limitation on the interest rate on the delinquent tax or assessment to persons in military service if the court concludes the ability to pay such taxes or assessments is materially affected by reason of such service.

Property Tax Delinquencies

General. Delinquencies in the payment of property taxes and, consequently, the Special Taxes, can occur because the owners of delinquent parcels may not have received property tax bills from the County in a timely manner, including situations in which the County initially sent property tax bills to the property developer or merchant builder at a time when the parcels in question had already been sold to individual homeowners. Delinquencies can also reflect economic difficulties and duress by the property owner.

Numerous future delinquencies by the owners of Taxable Property in Improvement Area No. 1 in the payment of property taxes (and, consequently, the Special Taxes, which are collected on the ordinary property tax bills) when due could result in a deficiency in Special Tax revenues necessary to pay debt service on the 2019 Bonds, which could in turn result in the depletion of the 2019 Reserve Fund, prior to reimbursement from the resale of foreclosed property or payment of the delinquent Special Tax. In that event, there could be a delay or failure in payments of the principal of and interest on the 2019 Bonds. See “SECURITY FOR THE BONDS – 2019 Reserve Fund,” and “THE DISTRICT AND IMPROVEMENT AREA NO. 1 – Potential Consequences of Special Tax Delinquencies.”

Measures to Mitigate Consequences of Continuing Delinquencies. The City intends to take certain actions designed to mitigate the impact of future delinquencies, including: enforcing the lien of the Special Taxes through collection procedures that will include foreclosure actions under certain circumstances (see “SECURITY FOR THE 2019 BONDS – Covenant to Foreclose”); and increasing the levy of Special Taxes against non-delinquent property owners in Improvement Area No. 1 to the extent permitted under the Amended Rate and Method and the Act, and to the extent the Special Taxes are not already being levied at the maximum Special Tax rate. See “THE DISTRICT AND IMPROVEMENT AREA NO. 1 – Potential Consequences of Special Tax Delinquencies.”

Limitations on Increases in Special Tax Levy. If property owners are delinquent in the payment of the Special Tax, the City may not increase Special Tax levies to make up for delinquencies for prior fiscal years above the maximum annual Special Tax rates specified in the Amended Rate and Method.

In addition, the City’s ability to increase Special Tax levies on residential property to make up for delinquencies for prior Fiscal Years is limited by Section 53321(d) of the Act, which provides that the special tax levied against any parcel for which an occupancy permit for private residential use has been

issued may not be increased as a consequence of delinquency or default by the owner of any other parcel by more than 10% above the amount that would have been levied in such Fiscal Year had there never been any such delinquencies or defaults.

In cases of significant delinquency, these factors may result in defaults in the payment of principal of and interest on the 2019 Bonds.

Risks Related to High Loan to Value Ratios

Once homes have been constructed in Improvement Area No. 1, future decline in home values could result in property owner unwillingness or inability to pay mortgage payments, as well as *ad valorem* property taxes and Special Taxes, when due. Under such circumstances, bankruptcies are likely to increase. Bankruptcy by homeowners with delinquent Special Taxes would delay the commencement and completion of foreclosure proceedings to collect delinquent Special Taxes.

It is possible that laws could be enacted in the future to assist homeowners in default in the payment of mortgages and property taxes. It is further possible that federal laws could be enacted that would adversely impact the ability of the City to foreclose on parcels with delinquent Special Taxes. No assurance can be given that any such laws will be enacted, or if enacted will be effective in assisting affected homeowners.

Payment of Special Tax is not a Personal Obligation of the Property Owners

An owner of Taxable Property is not personally obligated to pay the Special Taxes. Rather, the Special Taxes are an obligation running only against the parcels of Taxable Property. If, after a default in the payment of the Special Tax and a foreclosure sale by the City, the resulting proceeds are insufficient, taking into account other obligations also constituting a lien against the affected parcels of Taxable Property, the City has no recourse against the owner.

Appraised Values

The Appraisal summarized in APPENDIX C estimates the market value of the property that is currently Taxable Property within Improvement Area No. 1. This market value is merely the opinion of the Appraiser as of the date of value set forth in the Appraisal, and is subject to the assumptions and limiting conditions stated in the Appraisal. The City has not sought an updated opinion of value by the Appraiser subsequent to the date of value of the Appraisal, or an opinion of the value of the Taxable Property by any other appraiser. A different opinion of value might be rendered by a different appraiser.

The opinion of value assumes a sale by a willing seller to a willing buyer, each having similar information and neither being forced by other circumstances to sell or to buy. Consequently, the opinion is of limited use in predicting the selling price at a foreclosure sale, because the sale is forced and the buyer may not have the benefit of full information.

In addition, the opinion of value is made as of the date of value set forth in the Appraisal, based upon facts and circumstances existing as of the date of value. Differing facts and circumstances may lead to differing opinions of value. The appraised value is not evidence of future value because future facts and circumstances may differ significantly from the facts and circumstances at the time the Appraisal was prepared.

No assurance can be given that any of the taxable property in Improvement Area No. 1 could be sold for the estimated market value contained in the Appraisal if that property should become delinquent in the payment of Special Taxes and be foreclosed upon.

Property Values

The value of taxable property within Improvement Area No. 1 is a critical factor in determining the investment quality of the 2019 Bonds. If a property owner defaults in the payment of the Special Tax, the City's only remedy is to foreclose on the delinquent property in an attempt to obtain funds with which to pay the delinquent Special Tax. Land values could be adversely affected by economic and other factors beyond the City's control, such as a general economic downturn, relocation of employers out of the area, shortages of water, electricity, natural gas or other utilities, destruction of property caused by earthquake, flood, landslides, wildfires, or other natural disasters, environmental pollution or contamination, or unfavorable economic conditions.

The following is a discussion of specific risk factors that could affect the value of property in Improvement Area No. 1.

Natural Disasters. The value of the taxable property in the future can be adversely affected by a variety of natural occurrences, particularly those that may affect infrastructure and other public improvements and private improvements on the taxable property and the continued habitability and enjoyment of such private improvements.

The areas in and surrounding Improvement Area No. 1, like those in much of California, may be subject to unpredictable seismic activity, including earthquakes and landslides. Other natural disasters could include, without limitation, floods, landslides, wildfires, droughts or tornadoes. One or more natural disasters could occur and could result in damage to improvements of varying seriousness. The damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost, or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances there could be significant delinquencies in the payment of Special Taxes, and the value of the Taxable Property may well depreciate or disappear. See "THE DISTRICT AND IMPROVEMENT AREA NO. 1 – Environmental Matters" for additional details on certain environmental matters.

With respect to droughts specifically, California has a history of suffering drought conditions periodically. In response to the most recent drought conditions, on January 17, 2014, the Governor declared a state of drought emergency, calling on Californians to conserve water, and subsequent conservation orders and regulations were imposed by the Governor and the California State Water Resources Control Board. As the result of storms in California in late 2016 and early 2017, the exceptional drought designation was removed. Notwithstanding the improved water conditions, the City cannot predict or make any representations regarding the effects that the recent drought and related conditions had or may have on the value of Taxable Property within Improvement Area No. 1, or to what extent the effects the recent drought or any future drought may have on the pace of development in Improvement Area No. 1.

Legal Requirements. Other events that may affect the value of taxable property include changes in the law or application of the law. Such changes may include, without limitation, local growth control initiatives, local utility connection moratoriums and local application of statewide tax and governmental spending limitation measures.

Hazardous Substances. One of the most serious risks in terms of the potential reduction in the value of Taxable Property is a claim with regard to a hazardous substance. In general, the owners and operators of Taxable Property may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner or

operator is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the Taxable Property be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

The property values set forth in this Official Statement do not take into account the possible reduction in marketability and value of any of the Taxable Property by reason of the possible liability of the owner or operator for the remedy of a hazardous substance condition of the parcel. Although the City is not aware that the owner or operator of any of the Taxable Property has such a current liability with respect to any of the Taxable Property, it is possible that such liabilities do currently exist and that the City is not aware of them.

Further, it is possible that liabilities may arise in the future with respect to any of the Taxable Property resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but that has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently on the parcel of a substance not presently classified as hazardous but that may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of Taxable Property that is realizable upon a delinquency.

For particular environmental matters that may impact the value of land within Improvement Area No. 1, including the presence of a petroleum pipeline, which is unpressurized, within Improvement Area No. 1 and the District's proximity to Site 300, see "THE DISTRICT AND IMPROVEMENT AREA NO. 1 – Environmental Matters."

Other Possible Claims Upon the Value of Taxable Property

While the Special Taxes are secured by the taxable property, the security only extends to the value of such Taxable Property that is not subject to priority and parity liens and similar claims.

The tables in the sections entitled "THE DISTRICT AND IMPROVEMENT AREA NO. 1 – Direct and Overlapping Governmental Obligations" and "– Illustrative Tax Bill," show the presently outstanding amount of governmental obligations, the tax or assessment for which is or may become an obligation of one or more of the parcels of Taxable Property. The tables do not specifically identify which of the governmental obligations are secured by liens on one or more of the parcels of Taxable Property.

In addition, other governmental obligations may be authorized and undertaken or issued in the future, the tax, assessment or charge for which may become an obligation of one or more of the parcels of Taxable Property and may be secured by a lien on a parity with the lien of the Special Tax securing the 2019 Bonds.

The principal of and interest on the 2019 Bonds are payable from the Special Tax authorized to be collected within Improvement Area No. 1, and payment of the Special Tax is secured by a lien on taxable real property within Improvement Area No. 1. Such lien is co-equal to and independent of the lien for general taxes and any other liens imposed under the Act, regardless of when they are imposed on the property in Improvement Area No. 1. The imposition of additional special taxes, assessments and general property taxes will increase the amount of independent and co-equal liens which must be satisfied in foreclosure if unpaid. The City, the County and certain other public agencies are authorized by the Act to form other community facilities districts and improvement areas and, under other provisions of State law, to form special assessment districts, either or both of which could include all or a portion of the land within Improvement Area No. 1. Finally, although the Special Taxes will generally have priority over non-governmental liens on a parcel of property in Improvement Area No. 1, regardless of whether

the non-governmental liens were in existence at the time of the levy of the Special Tax or not, this result may not apply in the case of bankruptcy. See “BOND OWNERS’ RISKS– Bankruptcy Delays” below.

Exempt Properties

Certain properties are exempt from the Special Tax in accordance with the Amended Rate and Method and the Act, which provides that properties or entities of the state, federal or local government are exempt from the Special Tax; provided, however, that property within Improvement Area No. 1 acquired by a public entity through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Special Tax, will continue to be subject to the Special Tax. See “SECURITY FOR THE BONDS – Amended Rate and Method.”

In addition, although the Act provides that if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment, the constitutionality and operation of these provisions of the Act have not been tested, meaning that such property could become exempt from the Special Tax. The Act further provides that no other properties or entities are exempt from the Special Tax unless the properties or entities are expressly exempted in a resolution of consideration to levy a new special tax or to alter the rate or method of apportionment of an existing special tax.

FDIC/Federal Government Interests in Properties

General. The ability of the City to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the FDIC, the Federal National Mortgage Association, the Drug Enforcement Agency, the Internal Revenue Service, or other federal agency has or obtains an interest.

Federal courts have held that, based on the supremacy clause of the United States Constitution, in the absence of Congressional intent to the contrary, a state or local agency cannot foreclose to collect delinquent taxes or assessments if foreclosure would impair the federal government interest.

The supremacy clause of the United States Constitution reads as follows: “This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the contrary notwithstanding.”

This means that, unless Congress has otherwise provided, if a federal governmental entity owns a parcel that is subject to Special Taxes but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the City wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government’s mortgage interest. In *Rust v. Johnson* (9th Circuit; 1979) 597 F.2d 174, the United States Court of Appeal, Ninth Circuit held that the Federal National Mortgage Association (“**FNMA**”) is a federal instrumentality for purposes of this doctrine, and not a private entity, and that, as a result, an exercise of state power over a mortgage interest held by FNMA constitutes an exercise of state power over property of the United States.

The City has not undertaken to determine whether any federal governmental entity currently has, or is likely to acquire, any interest (including a mortgage interest) in any of the parcels subject to the Special Taxes, and therefore expresses no view concerning the likelihood that the risks described above will materialize while the 2019 Bonds are outstanding.

FDIC. In the event that any financial institution making any loan which is secured by real property within Improvement Area No. 1 is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, resulting in ownership of the property by the FDIC, then the ability of the City to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited.

The FDIC's policy statement regarding the payment of state and local real property taxes (the "**Policy Statement**") provides that property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non-ad valorem taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity. The Ninth Circuit has issued a ruling on August 28, 2001 in which it determined that the FDIC, as a federal agency, is exempt from Mello-Roos special taxes.

The City is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within Improvement Area No. 1 in which the FDIC has or obtains an interest, although prohibiting the lien of the Special Taxes to be foreclosed out at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such an outcome could cause a draw on the 2019 Reserve Fund and perhaps, ultimately, if enough property were to become owned by the FDIC, a default in payment on the 2019 Bonds.

Depletion of 2019 Reserve Fund

The 2019 Reserve Fund is to be maintained at an amount equal to the Reserve Requirement for the 2019 Bonds. See "SECURITY FOR THE BONDS – 2019 Reserve Fund." The 2019 Reserve Fund will be used to pay principal of and interest on the 2019 Bonds (and any Related Parity Bonds) if insufficient funds are available from the proceeds of the levy and collection of the Special Tax against property within Improvement Area No. 1. If the 2019 Reserve Fund is depleted, it can be replenished from the proceeds of the levy and collection of the Special Taxes that exceed the amounts to be paid to the owners of the 2019 Bonds (and any Related Parity Bonds) under the Fiscal Agent Agreement.

However, because the Special Tax levy is limited to the maximum annual Special Tax rates, it is possible that no replenishment would be possible if the Special Tax proceeds, together with other available funds, remain insufficient to pay all such amounts. Thus, it is possible that the 2019 Reserve Fund will be depleted and not be replenished by the levy and collection of the Special Taxes.

Bankruptcy Delays

The payment of the Special Tax and the ability of the City to foreclose the lien of a delinquent unpaid Special Tax, as discussed in "SECURITY FOR THE BONDS," may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State of California relating to judicial foreclosure. The various legal opinions to be delivered concurrently with the delivery of the 2019 Bonds (including Bond Counsel's approving legal opinion) will be qualified as to the enforceability of the various legal instruments by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Although bankruptcy proceedings would not cause the Special Taxes to become extinguished, bankruptcy of a property owner or any other person claiming an interest in the property could result in a delay in superior court foreclosure proceedings and could result in the possibility of Special Tax installments not being paid in part or in full. Such a delay would increase the likelihood of a delay or default in payment of the principal of and interest on the 2019 Bonds.

In addition, the amount of any lien on property securing the payment of delinquent Special Taxes could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien, and the amount of the delinquent Special Taxes in excess of the reduced lien could then be treated as an unsecured claim by the court. Any such stay of the enforcement of the lien for the Special Tax, or any such delay or non-payment, would increase the likelihood of a delay or default in payment of the principal of and interest on the 2019 Bonds and the possibility of delinquent Special Taxes not being paid in full.

The chances are increased that the 2019 Reserve Fund established for the 2019 Bonds could be fully depleted during any such delay in obtaining payment of delinquent Special Taxes. As a result, sufficient moneys would not be available in the 2019 Reserve Fund to make up shortfalls resulting from delinquent payments of the Special Tax and thereby to pay principal of and interest on the 2019 Bonds on a timely basis.

Disclosure to Future Purchasers

The City has recorded a notice of the Special Tax lien in the Office of the County Recorder. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such special tax obligation in the purchase of a parcel of land or a home in Improvement Area No. 1 or the lending of money secured by property in Improvement Area No. 1. The Act requires the subdivider of a subdivision (or its agent or representative) to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with these requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

No Acceleration Provisions

The 2019 Bonds do not contain a provision allowing for their acceleration in the event of a payment default or other default under the terms of the 2019 Bonds or the Fiscal Agent Agreement. Under the Fiscal Agent Agreement, a Bondholder is given the right for the equal benefit and protection of all Bondowners similarly situated to pursue certain remedies. See “APPENDIX E – Summary of Certain Provisions of the Fiscal Agent Agreement.” So long as the 2019 Bonds are in book-entry form, DTC will be the sole bondholder and will be entitled to exercise all rights and remedies of bondholders.

Impact of Certain Events on Tax Exemption

As discussed under the caption “TAX MATTERS,” interest on the 2019 Bonds might become includable in gross income for purposes of federal income taxation retroactive to the date the 2019 Bonds were issued as a result of future acts or omissions of the City in violation of its covenants in the Fiscal Agent Agreement. The Fiscal Agent Agreement does not contain a special redemption feature triggered by the occurrence of an event of taxability. As a result, if interest on the 2019 Bonds were to become includable in gross income for purposes of federal income taxation, the 2019 Bonds would continue to remain outstanding until maturity unless earlier redeemed pursuant to optional or mandatory redemption or redemption upon prepayment of the Special Taxes. See “THE 2019 BONDS – Redemption.”

Future legislative proposals, if enacted into law, clarification of the Tax Code (defined herein) or court decisions may cause interest on the 2019 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Bondowners from realizing the full current benefit of the tax status of such interest.

IRS Audit of Tax-Exempt Bond Issues

The Internal Revenue Service (the “IRS”) has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2019 Bonds will be selected for audit by the IRS. It is also possible that the market value of such 2019 Bonds might be affected as a result of such an audit of such 2019 Bonds (or by an audit of similar bonds or securities).

Voter Initiatives

Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. Since 1978, the voters have exercised this power through the adoption of Proposition 13 and similar measures, including Proposition 218, which was approved in the general election held on November 5, 1996, and Proposition 26, which was approved on November 2, 2010.

Any such initiative may affect the collection of fees, taxes and other types of revenue by local agencies such as the City. Subject to overriding federal constitutional principles, such collection may be materially and adversely affected by voter-approved initiatives, possibly to the extent of creating cash-flow problems in the payment of outstanding obligations such as the 2019 Bonds.

Proposition 218—Voter Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment, added Articles XIIC and XIID to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges.

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

increasing taxes by defining the new or expanded taxes as “fees.” Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes require a majority vote and taxes for specific purposes (“special taxes”) require a two-thirds vote.

The Special Taxes and the 2019 Bonds were each authorized by not less than a two-thirds vote of the landowners within Improvement Area No. 1 who constituted the qualified electors at the time of such voted authorization. The City believes, therefore, that issuance of the 2019 Bonds does not require the conduct of further proceedings under the Act, Proposition 218 or Proposition 26.

Like their antecedents, Proposition 218 and Proposition 26 are likely to undergo both judicial and legislative scrutiny before the impact on the City and its obligations can be determined. Certain provisions of Proposition 218 and Proposition 26 may be examined by the courts for their constitutionality under both State and federal constitutional law, the outcome of which cannot be predicted.

For example, in August 2014, in *City of San Diego. v. Melvin Shapiro*, an Appellate Court invalidated an election held by the City of San Diego to authorize the levying of special taxes on hotels city-wide pursuant to a city charter ordinance creating a convention center facilities district which specifically defined the electorate to consist solely of (1) the owners of real property in the city on which a hotel is located, and (2) the lessees of real property owned by a governmental entity on which a hotel is located. The court held that such landowners and lessees are neither “qualified electors” of the city for purposes of Article XIII A, Section 4 of the California Constitution, nor a proper “electorate” under Article XIII C, Section 2(d) of the California Constitution. The court specifically noted that the decision did not require the Court to consider the distinct question of whether landowner voting to impose special taxes under Section 53326(b) of the Act (which was the nature of the voter approval through which the District and Improvement Area No. 1 were formed) violates the California Constitution in districts that lack sufficient registered voters to conduct an election among registered voters. Accordingly, this case should have no effect on the levy of the Special Taxes by the City.

The City cannot predict the ultimate outcome or effect of any such judicial scrutiny, legislative actions, or future initiatives. These initiatives, and any future initiatives, may affect the collection of fees, taxes and other types of revenue by local agencies such as the City. Subject to overriding federal constitutional principles, such collection may be materially and adversely affected by voter-approved initiatives, possibly to the extent of creating cash-flow problems in the payment of outstanding obligations such as the 2019 Bonds.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the 2019 Bonds or, if a secondary market exists, that any 2019 Bonds can be sold for any particular price. Prices of bond issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

No assurance can be given that the market price for the 2019 Bonds will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Internal Revenue Code), or changes in interpretation of the Internal Revenue Code, or any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the 2019 Bonds for audit examination, or the course or result of any Internal Revenue Service audit or examination of the 2019 Bonds or obligations that present similar tax issues as the 2019 Bonds.

LEGAL MATTERS

Legal Opinions

The legal opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, approving the validity of the 2019 Bonds will be made available to purchasers at the time of original delivery and is attached in substantially final form as APPENDIX F.

Jones Hall, A Professional Law Corporation, San Francisco, California, has served as Bond Counsel and Disclosure Counsel to the City. Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach, California, is serving as counsel to the Underwriter.

No Litigation

At the time of delivery of the 2019 Bonds, the City will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending with respect to which the City has been served with process or threatened, which:

- in any way questions the powers of the City Council, City or District (including Improvement Area No. 1 therein), or
- in any way questions the validity of any proceeding taken by the City Council in connection with the issuance of the 2019 Bonds, or
- wherein an unfavorable decision, ruling or finding could materially adversely affect the transactions contemplated by the purchase contract with respect to the 2019 Bonds, or
- which, in any way, could adversely affect the validity or enforceability of the resolutions of the City Council adopted in connection with the formation of the District and Improvement Area No.1 or the issuance of the 2019 Bonds, the Fiscal Agent Agreement, the Continuing Disclosure Certificate or the purchase contract with respect to the 2019 Bonds, or
- to the knowledge of the City, which in any way questions the exclusion from gross income of the recipients thereof of the interest on the 2019 Bonds for federal income tax purposes, or
- in any other way questions the status of the 2019 Bonds under State tax laws or regulations.

TAX MATTERS

Federal Tax Status. 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 2019 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.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "**Tax Code**") that must be satisfied subsequent to the issuance of the 2019 Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the 2019 Bonds.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public at which a 2019 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 at which a 2019 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium are disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2019 Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2019 Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2019 Bonds who purchase the 2019 Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2019 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2019 Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering to the public at the first price at which a substantial amount of such 2019 Bonds is sold to the public.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the 2019 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 2019 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a 2019 Bond is amortized each year over the term to maturity of the 2019 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 2019 Bond premium is not deductible for federal income tax purposes. Owners of premium 2019 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 2019 Bonds.

California Tax Status. In the further opinion of Bond Counsel, interest on the 2019 Bonds is exempt from California personal income taxes.

Other Tax Considerations. Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the 2019 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the 2019 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to bonds issued prior to enactment.

The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of such opinion, and Bond Counsel has expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest on the 2019 Bonds, or as to the consequences of owning or receiving interest on the 2019 Bonds, as of any future date. Prospective purchasers of the 2019 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Owners of the 2019 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2019 Bonds may have federal or state tax consequences other than as described above. Other than as expressly described above, Bond Counsel expresses no opinion regarding other federal or state tax consequences arising with respect to the 2019 Bonds, the ownership, sale or disposition of the 2019 Bonds, or the amount, accrual or receipt of interest on the 2019 Bonds.

CONTINUING DISCLOSURE

City Continuing Disclosure. The City will covenant for the benefit of owners of the 2019 Bonds to provide certain financial information and operating data relating to Improvement Area No. 1 and the 2019 Bonds by not later than nine months after the end of the City’s fiscal year (currently March 31 based on the City’s fiscal year end of June 30) (the “**Annual Report**”) and to provide notices of the occurrence of certain listed events.

These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the “**Rule**”). The specific nature of the information to be contained in the Annual Report or the notices of listed events is set forth in APPENDIX G.

The City, on its own behalf and on behalf of related entities, has entered into a number of prior continuing disclosure undertakings under the Rule in connection with the issuance of long-term obligations, and has provided annual financial information and event notices in accordance with those undertakings. During the past five years, the City or its related entities have failed to comply with prior undertakings as follows:

- The audited financial statements for Fiscal Years 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18 were filed up to approximately 9 months late; and
- Certain operating and financial data for Fiscal Years 2013-14, 2014-15 and 2016-17 were filed up to 633 days late.
- Certain information was omitted from the operating and financial data for filed Fiscal Years 2013-14, 2014-15, 2016-17 and 2017-18 because it was unavailable at the time the filing was due, but that information was subsequently filed when it became available.

Developer Continuing Disclosure. Lennar Homes will covenant in a continuing disclosure certificate, the form of which is set forth in APPENDIX H (the “**Property Owner Continuing Disclosure Certificate**”), for the benefit of holders and beneficial owners of the 2019 Bonds, to provide certain information relating to itself and the status of its property within Improvement Area No. 1 on a semi-annual basis, beginning on March 31, 2020, and to provide notices of the occurrence of certain enumerated events. Lennar Homes is not an obligated person as defined under the Rule.

The obligations of Lennar Homes under its Property Owner Continuing Disclosure Certificate will terminate when Lennar Homes owns less than 185 residential lots (or property that will be subdivided into less than 185 residential lots) in Improvement Area No. 1,

Other than set forth in the next two sentences, Lennar Homes represents that, to the actual knowledge of Lennar Homes, Lennar Homes has not failed in any material respect to comply with any previous undertaking by it to provide periodic continuing disclosure reports or notices of material events with respect to community facilities districts or assessment districts in California within the past five years. In connection with a continuing disclosure obligation entered into with respect to the \$12,850,000 County

of El Dorado District No. 2014-1 (Carson Creek) Special Tax Bonds Series 2016, Lennar Homes was late in filing the periodic reports due on April 1, 2017 and October 1, 2017. The oversight was discovered in late January, 2018, and Lennar Homes promptly filed a curative report on February 1, 2018.

NO RATING

The City has not obtained a credit rating on the 2019 Bonds. Nothing should be assumed from any credit rating that the City may obtain for other purposes. Prospective purchasers of the 2019 Bonds are required to make independent determinations as to the credit quality of the 2019 Bonds and their appropriateness as an investment.

UNDERWRITING

The 2019 Bonds are being purchased by Piper Jaffray & Co. (the “**Underwriter**”), at a purchase price of \$_____ (which represents the aggregate principal amount of the 2019 Bonds (\$_____), plus an original issue premium/less an original issue discount of \$_____, less an Underwriter’s discount of \$_____).

The purchase agreement relating to the 2019 Bonds provides that the Underwriter will purchase all of the 2019 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase agreement.

The Underwriter may offer and sell the 2019 Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

PROFESSIONAL FEES

In connection with the issuance of the 2019 Bonds, fees or compensation payable to certain professionals are contingent upon the issuance and delivery of the 2019 Bonds. Those professionals include:

- the Underwriter;
- Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel;
- Stradling Yocca Carlson & Rauth, A Professional Corporation, as Underwriter’s Counsel;
- A portion of the fees of CSG Advisors Incorporated, as municipal advisor;
- A portion of the fees of Goodwin Consulting Group, Inc., as special tax consultant; and
- U.S. Bank National Association, as Fiscal Agent.

EXECUTION

The execution and delivery of the Official Statement has been duly authorized by the City Council, acting as the legislative body of the District.

CITY OF TRACY

By: _____
Finance Director

APPENDIX A

**GENERAL INFORMATION ABOUT THE CITY OF TRACY
AND SAN JOAQUIN COUNTY**

The following information concerning the City of Tracy (the "City") and San Joaquin County (the "County") are included only for the purpose of supplying general information regarding the community. The 2019 Bonds are not a debt of the City, the County, the State of California (the "State") or any of its political subdivisions, and neither the City, the County, the State nor any of its political subdivisions is liable therefor.

Population

Population figures for the City, the County and the State for the last six years are shown in the following table.

**CITY OF TRACY, SAN JOAQUIN COUNTY AND THE STATE OF CALIFORNIA
Population Estimates
Calendar Years 2014 through 2019 as of January 1**

<u>Calendar Year</u>	<u>City of Tracy</u>	<u>San Joaquin County</u>	<u>State of California</u>
2014	86,495	712,134	38,568,628
2015	88,074	723,856	39,912,464
2016	89,591	735,319	39,179,627
2017	91,051	747,263	39,500,973
2018	90,832	757,279	39,740,508
2019	92,800	770,385	39,927,315

Source: State Department of Finance estimates.

Employment and Industry

The District is included in the Stockton Metropolitan Statistical Area (“**MSA**”), which includes all of San Joaquin County. The unemployment rate in the County was 6.0% in April 2019, down from a revised 7.2% in March 2019, and below the year-ago estimate of 6.1%. This compares with an unadjusted unemployment rate of 3.9% for the State and 3.3% for the nation during the same period.

Set forth below is data from calendar years 2014 to 2018 reflecting the County’s civilian labor force, employment and unemployment. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the District.

**STOCKTON-LODI MSA
(San Joaquin County)
Annual Average Labor Force and Employment by Industry
Calendar Years 2014 through 2018
(March 2018 Benchmark)**

	2014	2015	2016	2017	2018
Civilian Labor Force ⁽¹⁾	312,000	314,600	318,500	323,600	326,400
Employment	279,200	286,600	292,600	301,100	306,800
Unemployment	32,900	28,000	25,900	22,600	19,600
Unemployment Rate	10.5%	8.9%	8.1%	7.0%	6.0%
<u>Wage and Salary Employment: ⁽²⁾</u>					
Agriculture	15,700	16,700	16,600	16,300	16,100
Mining and Logging	100	100	100	100	100
Construction	8,900	10,100	11,100	11,700	12,700
Manufacturing	18,600	18,700	18,900	19,400	19,700
Wholesale Trade	11,000	11,300	11,600	12,000	12,600
Retail Trade	25,700	26,000	26,500	26,800	26,600
Transportation, Warehousing and Utilities	18,300	20,400	23,600	26,700	28,400
Information	2,100	1,900	2,000	1,800	1,800
Financial Activities	7,500	7,400	7,500	7,800	8,100
Professional and Business Services	18,300	19,400	19,600	19,200	19,600
Educational and Health Services	35,900	36,500	36,400	38,200	38,500
Leisure and Hospitality	19,100	19,700	20,500	21,500	22,000
Other Services	6,900	7,200	7,500	7,600	7,600
Federal Government	3,100	3,000	3,000	3,100	3,100
State Government	5,800	6,200	6,400	6,600	6,700
Local Government	29,600	30,400	31,400	32,800	33,700
Total All Industries ⁽³⁾	226,700	234,900	242,600	251,600	257,300

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

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

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

The following table lists the major employers within the County, listed in alphabetical order without regard to the number of employees, as of June 2019.

**SAN JOAQUIN COUNTY
Major Employers
As of June 2019**

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
A Sambado & Sons Inc	Linden	Nuts-Edible
Amazon Corpnet	Tracy	Internet & Catalog Shopping
Amazon Fulfillment Ctr	Stockton	Mail Order Fulfillment Service
Blue Shield of California	Lodi	Insurance
Dameron Hospital Assn	Stockton	Hospitals
Deuel Vocational Institution	Tracy	City Govt-Correctional Institutions
Foster Care Svc	Stockton	Government Offices-County
Leprino Foods Co	Tracy	Cheese Processors (mfrs)
Lodi Health Home Health Agency	Lodi	Home Health Service
Lodi Memorial Hospital	Lodi	Hospitals
Morada Produce	Stockton	Fruits & Vegetables-Growers & Shippers
NA Chaderjian Youth	Stockton	State Govt-Correctional Institutions
O-G Packing & Cold Storage Co	Stockton	Fruits & Vegetables-Growers & Shippers
Pacific Coast Producers	Lodi	Canning (mfrs)
Prima Frutta Packing Inc	Linden	Fruit & Produce Packers
Safeway Distribution Ctr	Tracy	Distribution Centers (whls)
San Joaquin County Human Svc	Stockton	Government Offices-County
San Joaquin County Sch	Stockton	Schools
San Joaquin General Hospital	French Camp	Hospitals
San Joaquin Sheriff's Office	French Camp	Government Offices-County
Sjgov	Stockton	Government Offices-County
St Joseph's Cancer Ctr	Stockton	Cancer Treatment Centers
Stockton Unified School Dist	Stockton	School Districts
University of the Pacific	Stockton	Schools-Universities & Colleges Academic
Walmart Supercenter	Stockton	Department Stores

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2019 2nd Edition.

The following table lists the twenty principal employers within the City, by number of employees, as of June 30, 2018.

**CITY OF TRACY
Principal Employers
As of June 30, 2018**

<u>Employer Name</u>	<u>Number of Employees</u>
Golden State FC LLC (Amazon)	4,589
Golden State FC LLC (Amazon)	997
Taylor Farms Pacific Inc.	996
Barbosa Cabinets Inc.	718
Medline Industries Inc.	505
Restoration Hardware	481
Fedex Ground Package System	374
The Home Depot #5641	350
Leprino Foods	303
Orchard Supply Hardware	264
Wal-Mart Stores Inc. #2025	250
Pacific Medical Inc.	240
Costco Wholesale	208
Best Buy	205
YRC	193
MC Lane Foodservice	191
International Paper	190
Best Buy Stores LP #391	186
GlassFab Tempering	186
Texas Roadhouse	182

Source: City of Tracy Comprehensive Financial Report for fiscal year ended June 30, 2018.

Commercial Activity

Summaries of historic taxable sales within the City and the County during the past five years in which data is available are shown in the following tables. Figures are yet not available for calendar year 2018.

Total taxable sales during the first quarter of calendar year 2018 in the City were \$520,182,175, a 12.49% increase over the total taxable sales of \$462,441,930 reported during the first quarter of calendar year 2017.

CITY OF TRACY
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2013	972	\$1,139,346	1,382	\$1,339,394
2014	1,010	1,188,945	1,441	1,387,154
2015 ⁽¹⁾	1,057	1,233,481	1,641	1,421,064
2016	1,088	1,280,961	1,715	1,536,172
2017	1,150	1,371,679	1,803	2,042,411

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

Source: State Board of Equalization. Taxable Sales in California (Sales & Use Tax) for years 2013-2016. State Department of Tax and Fee Administration for year 2017.

Total taxable sales during the first quarter of calendar year 2018 in the County were \$3,019,083,970, a 10.74% increase over the total taxable sales of \$2,726,400,144 reported during the first quarter of calendar year 2017.

SAN JOAQUIN COUNTY
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2013	8,754	\$6,519,537	12,752	\$9,466,015
2014	8,900	6,780,160	12,865	10,031,845
2015 ⁽¹⁾	4,958	6,986,878	14,255	10,467,214
2016	9,480	7,380,226	14,682	10,922,271
2017	9,506	7,994,473	14,758	12,153,268

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

Source: State Board of Equalization. Taxable Sales in California (Sales & Use Tax) for years 2013-2016. State Department of Tax and Fee Administration for year 2017.

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the median household effective buying income for the City, the County, the State and the United States for the period 2015 through 2019.

CITY OF TRACY AND SAN JOAQUIN COUNTY Median Household Effective Buying Income 2015 through 2019

	2015	2016	2017	2018	2019
City of Tracy	\$60,154	\$64,225	\$65,371	\$68,295	\$73,172
San Joaquin County	44,235	46,491	48,149	49,883	55,534
California	50,072	53,589	55,681	59,646	62,637
United States	45,448	46,738	48,043	50,735	52,841

Source: The Nielsen Company (US), Inc for years 2015 through 2018; Claritas, LLC for 2019.

Building Activity

The tables below summarize building activity in the City and the County for the past five available years.

CITY OF TRACY
Building Permit Activity
For Calendar Years 2013 through 2017
(Dollars in Thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>Permit Valuation</u>					
New Single-family	\$20,057.9	\$44,538.3	\$62,319.4	\$87,820.2	\$98,767.2
New Multi-family	0.0	0.0	0.0	34,038.7	9,686.4
Res. Alterations/Additions	<u>1,402.9</u>	<u>44,884.6</u>	<u>5,381.8</u>	<u>2,281.9</u>	<u>2,982.3</u>
Total Residential	<u>\$21,460.8</u>	<u>\$89,422.9</u>	<u>\$67,701.2</u>	<u>\$124,140.8</u>	<u>\$111,435.9</u>
New Commercial	\$2,378.8	\$1,481.9	\$113,546.0	\$92,124.7	\$184,438.3
New Industrial	0.0	809.6	49,162.0	57,441.7	38,978.1
New Other	4,395.6	2,426.4	12,340.6	11,375.8	4,769.2
Com. Alterations/Additions	<u>18,458.5</u>	<u>18,846.3</u>	<u>127,941.0</u>	<u>138,604.1</u>	<u>93,059.7</u>
Total Nonresidential	<u>\$25,232.9</u>	<u>\$23,564.2</u>	<u>\$302,989.6</u>	<u>\$299,546.3</u>	<u>\$321,245.3</u>
<u>New Dwelling Units</u>					
Single Family	67	135	183	216	236
Multiple Family	<u>0</u>	<u>0</u>	<u>0</u>	<u>432</u>	<u>65</u>
TOTAL	67	135	183	648	301

Source: Construction Industry Research Board, Building Permit Summary.

SAN JOAQUIN COUNTY
Building Permit Activity
For Calendar Years 2013 through 2017
(Dollars in Thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>Permit Valuation</u>					
New Single-family	\$264,761.1	\$318,760.2	\$455,877.1	\$467,494.7	\$652,308.1
New Multi-family	7,601.9	4,726.9	48,792.9	66,794.5	62,635.8
Res. Alterations/Additions	<u>28,764.8</u>	<u>78,511.0</u>	<u>42,764.8</u>	<u>99,049.9</u>	<u>86,516.1</u>
Total Residential	<u>\$301,127.8</u>	<u>\$401,998.1</u>	<u>\$547,434.8</u>	<u>\$633,339.1</u>	<u>\$801,460.0</u>
New Commercial	\$158,299.3	\$42,976.5	\$177,272.0	\$205,510.1	\$357,856.9
New Industrial	1,141.9	29,357.4	85,322.6	61,687.0	179,728.4
New Other	21,462.7	41,819.6	44,373.1	42,074.7	27,794.7
Com. Alterations/Additions	<u>79,145.2</u>	<u>89,630.8</u>	<u>193,659.3</u>	<u>298,721.9</u>	<u>269,172.8</u>
Total Nonresidential	<u>\$260,049.1</u>	<u>\$203,784.3</u>	<u>\$500,627.0</u>	<u>\$607,993.7</u>	<u>\$834,552.8</u>
<u>New Dwelling Units</u>					
Single Family	1,062	1,214	1,698	1,754	2,078
Multiple Family	<u>74</u>	<u>19</u>	<u>387</u>	<u>550</u>	<u>516</u>
TOTAL	1,136	1,233	2,085	2,304	2,594

Source: Construction Industry Research Board, Building Permit Summary.

APPENDIX B

**AMENDED AND RESTATED
RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES
FOR
IMPROVEMENT AREA NO. 1
OF THE CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2016-1
(TRACY HILLS)**

APPENDIX C
APPRAISAL REPORT

APPENDIX D
MARKET ABSORPTION STUDY

APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT

APPENDIX F
FORM OF OPINION OF BOND COUNSEL

APPENDIX G

FORM OF ISSUER CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

\$ _____
IMPROVEMENT AREA NO. 1
OF THE CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (TRACY HILLS)
SPECIAL TAX BONDS, SERIES 2019

This Continuing Disclosure Certificate (this “**Disclosure Certificate**”) is executed and delivered by the City of Tracy (the “**City**”) in connection with the issuance of the bonds captioned above (the “**2019 Bonds**”). The 2019 Bonds are being issued pursuant to a Fiscal Agent Agreement dated as of August 1, 2018, as supplemented by a First Supplement to Fiscal Agent Agreement dated as of _____ 1, 2019 (as supplemented, the “**Fiscal Agent Agreement**”), by and between the City and U.S. Bank National Association, as fiscal agent (the “**Fiscal Agent**”). The City hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the 2019 Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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

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

“*Annual Report Date*” means the date that is nine months after the end of the City's fiscal year (currently March 31 based on the City's fiscal year end of June 30).

“*Dissemination Agent*” means Goodwin Consulting Group, Inc., or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“*District*” means the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills).

“*Improvement Area No. 1*” means Improvement Area No. 1 of the District.

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

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

“*Official Statement*” means the final official statement dated _____, 2019, executed by the District in connection with the issuance of the 2019 Bonds.

“*Participating Underwriter*” means Piper Jaffray & Co., the original underwriter of the 2019 Bonds required to comply with the Rule in connection with offering of the 2019 Bonds.

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

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2020, with the report for the 2018-19 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

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

(c) The Dissemination Agent shall:

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

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

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

(a) The City's audited financial statements for the most recently completed fiscal year, prepared in accordance with Generally Accepted Accounting Principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board, together with the following statement:

THE CITY'S ANNUAL FINANCIAL STATEMENT IS PROVIDED SOLELY TO COMPLY WITH THE SECURITIES EXCHANGE COMMISSION STAFF'S INTERPRETATION OF RULE 15c2-12. NO FUNDS OR ASSETS OF THE CITY, OTHER THAN SPECIAL TAX REVENUES, ARE REQUIRED TO BE USED TO PAY DEBT SERVICE ON THE 2019 BONDS, AND THE CITY IS NOT OBLIGATED TO ADVANCE AVAILABLE FUNDS TO COVER ANY DELINQUENCIES. INVESTORS SHOULD NOT RELY ON THE FINANCIAL CONDITION OF THE CITY IN EVALUATING WHETHER TO BUY, HOLD OR SELL THE 2019 BONDS.

If the City's audited financial statements are not available by the time the Annual Report is required to be filed, the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited financial statements, the following information:

(i) Total assessed value (per the San Joaquin County Assessor's records) of all parcels currently subject to the Special Tax within Improvement Area No. 1, showing the total secured assessed valuation for all property subject to the Special Tax.

(ii) Tables showing (1) the top 10 Special Tax payers within Improvement Area No. 1 for the most recently completed Fiscal Year, including for each Special Tax payer the maximum annual Special Tax, actual Special Tax levy, assessed value and assessed value-to-lien ratio, and (2) assessed value-to-lien ratios for Developed Property owned by individual homeowners in the aggregate (based on assessed values (per the San Joaquin County Assessor's records)), Developed Property owned by developers/merchant builders, and Undeveloped Property (as those terms are defined in the rate and method of apportionment for the District).

(iii) The amount of prepayments of the Special Tax for the prior Fiscal Year.

(iv) A table showing a history of special tax collections and delinquencies within Improvement Area No. 1.

(v) Any change to the County's Teeter Plan affecting Improvement Area No. 1.

(vi) The principal amount of the 2019 Bonds outstanding and the balance in the 2019 Reserve Fund (along with a statement of the 2019 Reserve Requirement) as of the September 30 next preceding the Annual Report Date, including the issuance date and principal amount of any additional bonds or obligations issued under the Fiscal Agent Agreement on a parity with the 2019 Bonds.

(vii) Any changes to the Amended and Restated Rate and Method of Apportionment of Special Tax for Improvement Area No. 1.

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

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

Section 5. Reporting of Listed Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the 2019 Bonds:

(1) Principal and interest payment delinquencies.

- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the 2019 Bonds, or other material events affecting the tax status of the 2019 Bonds.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the City.
- (13) The consummation of a merger, consolidation, or acquisition involving the City, or the sale of all or substantially all of the assets of the City (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional Fiscal Agent or the change of name of the Fiscal Agent, if material.
- (15) Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material.
- (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties.

(b) Upon the occurrence of a Listed Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsection (a)(8) above need

not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected bonds under the Fiscal Agent Agreement.

(c) The City acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14), and (a)(15) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the 2019 Bonds. The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Upon occurrence of any of these Listed Events, the City will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the City will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

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

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

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2019 Bonds. If such termination occurs prior to the final maturity of the 2019 Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

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

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the 2019 Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the 2019 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the 2019 Bonds in the manner provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of holders, or (ii) does not, in the opinion of the Fiscal Agent or nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the 2019 Bonds.

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

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(c).

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

Section 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the 2019 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any

information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Property Owner, the Fiscal Agent, the 2019 Bond owners or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 2019 Bonds.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the 2019 Bonds, and shall create no rights in any other person or entity.

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

Date: _____, 2019

CITY OF TRACY

By: _____
Karin Schnaider,
Finance Director

AGREED AND ACCEPTED:
Goodwin Consulting Group, Inc.,
as Dissemination Agent

By: _____
Name: _____
Title: _____

APPENDIX H

FORMS OF PROPERTY OWNER DISCLOSURE CERTIFICATES

**CONTINUING DISCLOSURE CERTIFICATE
(Lennar Homes)**

**§ _____
IMPROVEMENT AREA NO. 1
OF THE CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (TRACY HILLS)
SPECIAL TAX BONDS, SERIES 2019**

Dated: _____, 2019

This Continuing Disclosure Certificate (Property Owner) (this "Disclosure Certificate") is executed and delivered by Lennar Homes of California, Inc., a California corporation (the "Property Owner"), in connection with the issuance by the City of Tracy (the "City") of the bonds captioned above (the "2019 Bonds"). The 2019 Bonds are being issued under a Fiscal Agent Agreement dated as of August 1, 2018, as supplemented by a First Supplement to Fiscal Agent Agreement dated as of _____ 1, 2019 (as supplemented, the "Fiscal Agent Agreement"), by and between the City and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"). The Property Owner covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Property Owner for the benefit of the holders and beneficial owners of the 2019 Bonds.

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

"*Affiliate*" means any person presently directly (or indirectly through one or more intermediaries) under managerial control of the Property Owner, and about whom information could be material to potential investors in their investment decision regarding the 2019 Bonds (including without limitation information relevant to the proposed development of the Property or to the Property Owner's ability to pay the Special Taxes levied on the Property prior to delinquency).

"*Assumption Agreement*" means an undertaking of a Major Owner, for the benefit of the holders and beneficial owners of the 2019 Bonds, containing terms substantially similar to this Disclosure Certificate (as modified for such Major Owner's development and financing plans with respect to the District), whereby such Major Owner agrees to provide semi-annual reports and notices of significant events, setting forth the information described in sections 4 and 5 hereof, respectively, with respect to the portion of the property in Improvement Area No. 1 owned by such Major Owner and agrees to indemnify the Dissemination Agent (if any) pursuant to a provision substantially in the form of Section 12 hereof.

"*Dissemination Agent*" means Goodwin Consulting Group, Inc., or any successor Dissemination Agent designated in writing by the Property Owner, with the written consent of the City, and which has filed with the Property Owner and the City a written acceptance of such designation, and which is

experienced in providing dissemination agent services such as those required under this Disclosure Certificate.

“*District*” means the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills).

“*Improvement Area No. 1*” means Improvement Area No. 1 of the District.

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

“*Major Owner*” means, as of any Report Date, a Person that, together with the Person’s Affiliates, owns 185 or more residential lots (or property intended to be subdivided into 185 or more residential lots) in Improvement Area No. 1.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information.

“*Official Statement*” means the final Official Statement dated _____, 2019, executed by the City in connection with the issuance of the 2019 Bonds.

“*Participating Underwriter*” means Piper Jaffray & Co., the original underwriter of the 2019 Bonds.

“*Person*” means an individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

“*Property*” means (i) the property owned by the Property Owner in Improvement Area No. 1 as of the Report Date, and (ii) the property in Improvement Area No. 1 that the Property Owner sold to a Major Owner who has not assumed the undertakings of this Disclosure Certificate under Section 7(b) that is owned by such Major Owner.

“*Report Date*” means (a) September 30 of each year, and (b) March 31 of each year.

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

“*Special Taxes*” means the special taxes for facilities levied by the City on the Property.

Section 3. Provision of Semi-Annual Reports.

(a) The Property Owner shall, or upon written direction of the Property Owner the Dissemination Agent shall, not later than the Report Date, commencing March 31, 2020, provide to the MSRB, in an electronic format as prescribed by the MSRB, a Semi-Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate with a copy to the Participating Underwriter and the City. Not later than 15 calendar days prior to the Report Date, the Property Owner shall provide the Semi-Annual Report to the Dissemination Agent (if different from the Property Owner). The Property Owner shall provide a written certification with (or included as a part of) each Semi-Annual Report furnished to the Dissemination Agent (if different from the Property Owner), Participating Underwriter and the City to the effect that such Semi-Annual Report constitutes the Semi-Annual Report required to be furnished by it under this Disclosure Certificate. The Dissemination Agent, the Participating Underwriter and the City may conclusively rely upon such certification of the Property Owner and shall have no duty or obligation to review the Semi-Annual Report. The Semi-Annual Report may be submitted

as a single document or as separate documents comprising a package, and may incorporate by reference other information as provided in Section 4 of this Disclosure Certificate.

(b) If the Dissemination Agent does not receive a Semi-Annual Report by 15 calendar days prior to the Report Date, the Dissemination Agent shall send a reminder notice to the Property Owner that the Semi-Annual Report has not been provided as required under Section 3(a) above. The reminder notice shall instruct the Property Owner to determine whether its obligations under this Disclosure Certificate have terminated (pursuant to Section 7 below) and, if so, to provide the Dissemination Agent with a notice of such termination in the same manner as for a Listed Event (pursuant to Section 5 below). If the Property Owner does not provide, or cause the Dissemination Agent to provide, a Semi-Annual Report to the MSRB by the Report Date as required in subsection (a) above, the Dissemination Agent shall provide a notice to the MSRB, in an electronic format as prescribed by the MSRB.

(c) The Dissemination Agent shall:

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

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

Section 4. Content of Semi-Annual Reports. The Property Owner's Semi-Annual Report shall contain or incorporate by reference the information set forth in Exhibit A, any or all of which may be included by specific reference to other documents, including official statements of debt issues of the Property Owner or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The Property Owner shall clearly identify each such other document so included by reference.

In addition to any of the information expressly required to be provided in Exhibit A, each Semi-Annual Report shall include such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Significant Events.

(a) So long as the Property Owner's obligations under this Disclosure Certificate have not been terminated pursuant to Section 7 herein, the Property Owner shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to itself or the Property, if material:

(i) bankruptcy or insolvency proceedings commenced by or against the Property Owner and, if known, any bankruptcy or insolvency proceedings commenced by or against any Affiliate of the Property Owner;

(ii) failure to pay any taxes, special taxes (including the Special Taxes) or assessments due with respect to the Property prior to the delinquency date, to the extent such failure is not promptly cured by the Property Owner upon discovery thereof;

(iii) filing of a lawsuit against the Property Owner or, if known, an Affiliate of the Property Owner, seeking damages which, if successful, could have a material and adverse impact

on the Property Owner's ability to pay Special Taxes prior to delinquency or to sell or develop the Property;

(iv) material damage to or destruction of any of the improvements on the Property; and

(v) any payment default or other material default by the Property Owner that continues to exist beyond any applicable notice and cure periods on any loan with respect to the construction of improvements on the Property.

(b) Whenever the Property Owner obtains knowledge of the occurrence of a Listed Event, the Property Owner shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the Property Owner determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Property Owner shall, or shall cause the Dissemination Agent to, promptly file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, with a copy to the City and the Participating Underwriter.

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

Section 7. Duration of Reporting Obligation.

(a) All of the Property Owner's obligations hereunder shall commence on the date hereof and shall terminate (except as provided in Section 12) on the earliest to occur of the following:

(i) upon the legal defeasance, prior redemption or payment in full of all the 2019 Bonds, or

(ii) when the Property owned by the Property Owner is fewer than 185 residential lots (or property that will be subdivided into fewer than 185 residential lots), or

(iii) the date on which the Property Owner prepays in full all of the Special Taxes attributable to the Property.

The Property Owner shall give notice of the termination of its obligations under this Disclosure Certificate in the same manner as for a Listed Event under Section 5.

(b) If a portion of the Property is conveyed to a person or entity that, upon such conveyance, will be a Major Owner, the obligations of the Property Owner hereunder with respect to the property conveyed to such Major Owner may be assumed by such Major Owner and the Property Owner's obligations hereunder with respect to the property conveyed will be terminated. In order to effect such assumption, such Major Owner shall enter into an Assumption Agreement in form and substance equivalent to this Disclosure Certificate or as otherwise satisfactory to the City and the Participating Underwriter. However, a Major Owner shall not be required to enter into an Assumption Agreement if such Major Owner is already a party to a continuing disclosure certificate in form and substance similar to this Disclosure Certificate with respect to the 2019 Bonds, and under which the property conveyed to such Major Owner will become subject to future Semi-Annual Reports.

Section 8. Dissemination Agent. The Property Owner may, from time to time, with the written consent of the City, appoint or engage a Dissemination Agent to assist the Property Owner in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with the written consent of the City, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing 30 days' written notice to the City and the Property Owner.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Property Owner may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied (provided, however, that the Dissemination Agent shall not be obligated under any such amendment that modifies or increases its duties or obligations hereunder without its written consent thereto):

(a) if the amendment or waiver relates to the provisions of sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, or change in law;

(b) the proposed amendment or waiver either (i) is approved by holders of the 2019 Bonds in the manner provided in the Fiscal Agent Agreement with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the 2019 Bonds.

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

Section 11. Default. In the event of a failure of the Property Owner to comply with any provision of this Disclosure Certificate, the Fiscal Agent shall (upon written direction and only to the extent indemnified to its satisfaction from any liability, cost or expense, including fees and expenses of its attorneys), and the Participating Underwriter and any holder or beneficial owner of the 2019 Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Property Owner to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the Property Owner to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Property Owner agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the reasonable costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding (i) losses, expenses and liabilities due to the Dissemination Agent's, and its officers, directors, employees, and agents' negligence or willful misconduct, or failure to perform its duties hereunder, and (ii) losses,

expenses and liabilities due to the failure of the City to pay the fees and expenses of the Dissemination Agent. The Dissemination Agent shall be paid compensation for its services provided hereunder from the Administrative Expense Fund established under the Fiscal Agent Agreement in accordance with the Dissemination Agent's schedule of fees as amended from time to time, which schedule, as amended, shall be reasonably acceptable, and all reasonable expenses, reasonable legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Property Owner, the Fiscal Agent, the 2019 Bond owners, or any other party. The obligations of the Property Owner under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 2019 Bonds, but shall be assumed by a Major Owner from and after the date of such assumption when property is sold to a Major Owner and such Major Owner enters into an assumption agreement.

Section 13. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given by electronic, overnight, or regular mail as follows:

- | | |
|-----------------------------------|--|
| To the Issuer: | City of Tracy
333 Civic Plaza
Tracy, CA 95376

Email: _____ |
| To the Dissemination Agent: | Goodwin Consulting Group, Inc.
333 University Avenue, Suite 160
Sacramento, California 95825
Email: _____ |
| To the Participating Underwriter: | Piper Jaffray & Co.
2321 Rosecrans Avenue
El Segundo, California 90245

Email: _____ |
| To the Property Owner: | Lennar Homes of California, Inc.
2603 Camino Ramon, Suite 525
San Ramon, California 94583
Attn: Chad Kiltz
Email: chad.kiltz@lennar.com
brent.reed@lennar.com |

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Property Owner (its successors and assigns), the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the 2019 Bonds, and shall create no rights in any other person or entity. All obligations of the Property Owner hereunder shall be assumed by any legal successor to the obligations of the Property Owner as a result of a sale, merger, consolidation or other reorganization.

Section 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

LENNAR HOMES OF CALIFORNIA, INC.,
A California corporation

By: _____

Name: _____

Title: _____

AGREED AND ACCEPTED:
Goodwin Consulting Group, Inc.,
as Dissemination Agent

By: _____

Name: _____

Title: _____

EXHIBIT A

SEMI-ANNUAL REPORT

[MARCH 31, ____ / SEPTEMBER 30, ____]

\$ _____

**IMPROVEMENT AREA NO. 1
OF THE CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (TRACY HILLS)
SPECIAL TAX BONDS, SERIES 2019**

This Semi-Annual Report is hereby submitted under Section 4 of the Continuing Disclosure Certificate (Property Owner) (the "Disclosure Certificate") dated as of [closing date]_____, 2019, executed by the undersigned (the "Property Owner") in connection with the issuance by the City of Tracy (the "City") of the bonds captioned above (the "2019 Bonds") for Improvement Area No. 1 ("Improvement Area No. 1") of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) (the "District").

Capitalized terms used in this Semi-Annual Report but not otherwise defined have the meanings given to them in the Disclosure Certificate.

I. Property Ownership and Development

The information in this section is provided as of _____ (this date must be not more than 60 days before the date of this Semi-Annual Report).

A. Description of the Property currently owned by the Property Owner in Improvement Area No. 1 of the District (the "Property"), in substance and form similar to such information in the Official Statement for the 2019 Bonds:

B. Updated information regarding land development and home construction activities with respect to the Property described in the Official Statement for the 2019 Bonds or the Semi-Annual Report last filed in accordance with the Disclosure Certificate:

C. Status of building permits and any material changes to the description of land use or development entitlements for the Property described in the Official Statement for the 2019 Bonds or the Semi-Annual Report last filed in accordance with the Disclosure Certificate:

D. Status of any land purchase contracts with regard to the Property, whether acquisition of land in Improvement Area No. 1 by the Property Owner or sales of land to other property owners (other than individual homeowners).

II. Legal and Financial Status of Property Owner

Unless such information has previously been included or incorporated by reference in a Semi-Annual Report, describe any material change in the legal structure of the Property Owner or the financial condition and financing plan of the Property Owner that would materially and adversely interfere with its ability to complete the development plan with respect to the Property described in the Official Statement. To the extent that the ownership of the Property Owner has changed, describe all material terms of the new ownership structure.

III. Change in Development or Financing Plans

Unless such information has previously been included or incorporated by reference in a Semi-Annual Report, describe any development plans or financing plans relating to the Property *that are materially different from* the proposed development and financing plan for the Property described in the Official Statement or in a previous Semi-Annual Report.

IV. Official Statement Updates

Unless such information has previously been included or incorporated by reference in a Semi-Annual Report, describe any other significant changes in the information relating to the Property Owner or the Property contained in the Official Statement under the heading “PROPERTY OWNERSHIP AND THE DEVELOPMENT – Lennar Homes” that would materially and adversely interfere with the Property Owner’s ability to develop and sell the Property as described in the Official Statement.

V. Status of Tax Payments

Describe status of payment of taxes, special taxes (including the Special Taxes) or assessments due with respect to the Property owned by the Property Owner and its Affiliates.

VI. Other Material Information

In addition to any of the information expressly required above, provide such further information, if any, with respect to the Property and the Property Owner as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Certification

On behalf of the Property Owner, the undersigned Authorized Representative, based on actual knowledge after reasonable inquiry of employees of Property Owner and its affiliates, hereby certifies that this Semi-Annual Report constitutes the Semi-Annual Report required to be furnished by the Property Owner under the Disclosure Certificate.

ANY OTHER STATEMENTS REGARDING THE PROPERTY OWNER, THE DEVELOPMENT OF THE PROPERTY, THE PROPERTY OWNER'S FINANCING PLAN OR FINANCIAL CONDITION, OR THE 2019 BONDS, OTHER THAN STATEMENTS MADE BY THE PROPERTY OWNER IN AN OFFICIAL RELEASE, OR FILED WITH THE MUNICIPAL SECURITIES RULEMAKING BOARD, ARE NOT AUTHORIZED BY THE PROPERTY OWNER. THE PROPERTY OWNER IS NOT RESPONSIBLE FOR THE ACCURACY, COMPLETENESS OR FAIRNESS OF ANY SUCH UNAUTHORIZED STATEMENTS.

THE PROPERTY OWNER HAS NO OBLIGATION TO UPDATE THIS SEMI-ANNUAL REPORT OTHER THAN AS EXPRESSLY PROVIDED IN THE DISCLOSURE CERTIFICATE.

Dated: _____

LENNAR HOMES OF CALIFORNIA, INC.,
A California corporation

By: _____

Name: _____

Title: _____

**CONTINUING DISCLOSURE CERTIFICATE
(Tracy Phase I, LLC)**

\$ _____
**IMPROVEMENT AREA NO. 1
OF THE CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (TRACY HILLS)
SPECIAL TAX BONDS, SERIES 2019**

Dated: _____, 2019

This Continuing Disclosure Certificate (Property Owner) (this "Disclosure Certificate") is executed and delivered by Tracy Phase I, LLC, a Delaware limited liability company (the "Property Owner"), in connection with the issuance by the City of Tracy (the "City") of the bonds captioned above (the "2019 Bonds"). The 2019 Bonds are being issued under a Fiscal Agent Agreement dated as of August 1, 2018, as supplemented by a First Supplement to Fiscal Agent Agreement dated as of _____ 1, 2019 (as supplemented, the "Fiscal Agent Agreement"), by and between the City and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"). The Property Owner covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Property Owner for the benefit of the holders and beneficial owners of the 2019 Bonds.

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

"Affiliate" means any person presently directly (or indirectly through one or more intermediaries) under managerial control of the Property Owner, and about whom information could be material to potential investors in their investment decision regarding the 2019 Bonds (including without limitation information relevant to the proposed development of the Property or to the Property Owner's ability to pay the Special Taxes levied on the Property prior to delinquency).

"Assumption Agreement" means an undertaking of a Major Owner, for the benefit of the holders and beneficial owners of the 2019 Bonds, containing terms substantially similar to this Disclosure Certificate (as modified for such Major Owner's development and financing plans with respect to the District), whereby such Major Owner agrees to provide semi-annual reports and notices of significant events, setting forth the information described in sections 4 and 5 hereof, respectively, with respect to the portion of the property in Improvement Area No. 1 owned by such Major Owner and agrees to indemnify the Dissemination Agent (if any) pursuant to a provision substantially in the form of Section 12 hereof.

"Dissemination Agent" means Goodwin Consulting Group, Inc., or any successor Dissemination Agent designated in writing by the Property Owner, with the written consent of the City, and which has filed with the Property Owner and the City a written acceptance of such designation, and which is experienced in providing dissemination agent services such as those required under this Disclosure Certificate.

"District" means the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills).

"Improvement Area No. 1" means Improvement Area No. 1 of the District.

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

“*Major Owner*” means, as of any Report Date, a Person that, together with the Person’s Affiliates, owns 185 or more residential lots (or property intended to be subdivided into 185 or more residential lots) in Improvement Area No. 1.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information.

“*Official Statement*” means the final Official Statement dated _____, 2019, executed by the City in connection with the issuance of the 2019 Bonds.

“*Participating Underwriter*” means Piper Jaffray & Co., the original underwriter of the 2019 Bonds.

“*Person*” means an individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

“*Property*” means (i) the property owned by the Property Owner in Improvement Area No. 1 as of the Report Date, and (ii) the property in Improvement Area No. 1 that the Property Owner sold to a Major Owner who has not assumed the undertakings of this Disclosure Certificate under Section 7(b) that is owned by such Major Owner.

“*Report Date*” means (a) September 30 of each year, and (b) March 31 of each year.

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

“*Special Taxes*” means the special taxes for facilities levied by the City on the Property.

Section 3. Provision of Semi-Annual Reports.

(a) The Property Owner shall, or upon written direction of the Property Owner the Dissemination Agent shall, not later than the Report Date, commencing March 31, 2020, provide to the MSRB, in an electronic format as prescribed by the MSRB, a Semi-Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate with a copy to the Participating Underwriter and the City. Not later than 15 calendar days prior to the Report Date, the Property Owner shall provide the Semi-Annual Report to the Dissemination Agent (if different from the Property Owner). The Property Owner shall provide a written certification with (or included as a part of) each Semi-Annual Report furnished to the Dissemination Agent (if different from the Property Owner), Participating Underwriter and the City to the effect that such Semi-Annual Report constitutes the Semi-Annual Report required to be furnished by it under this Disclosure Certificate. The Dissemination Agent, the Participating Underwriter and the City may conclusively rely upon such certification of the Property Owner and shall have no duty or obligation to review the Semi-Annual Report. The Semi-Annual Report may be submitted as a single document or as separate documents comprising a package, and may incorporate by reference other information as provided in Section 4 of this Disclosure Certificate.

(b) If the Dissemination Agent does not receive a Semi-Annual Report by 15 calendar days prior to the Report Date, the Dissemination Agent shall send a reminder notice to the Property Owner that the Semi-Annual Report has not been provided as required under Section 3(a) above. The reminder

notice shall instruct the Property Owner to determine whether its obligations under this Disclosure Certificate have terminated (pursuant to Section 7 below) and, if so, to provide the Dissemination Agent with a notice of such termination in the same manner as for a Listed Event (pursuant to Section 5 below). If the Property Owner does not provide, or cause the Dissemination Agent to provide, a Semi-Annual Report to the MSRB by the Report Date as required in subsection (a) above, the Dissemination Agent shall provide a notice to the MSRB, in an electronic format as prescribed by the MSRB.

(c) The Dissemination Agent shall:

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

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

Section 4. Content of Semi-Annual Reports. The Property Owner's Semi-Annual Report shall contain or incorporate by reference the information set forth in Exhibit A, any or all of which may be included by specific reference to other documents, including official statements of debt issues of the Property Owner or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The Property Owner shall clearly identify each such other document so included by reference.

In addition to any of the information expressly required to be provided in Exhibit A, each Semi-Annual Report shall include such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Significant Events.

(a) So long as the Property Owner's obligations under this Disclosure Certificate have not been terminated pursuant to Section 7 herein, the Property Owner shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to itself or the Property, if material:

(i) bankruptcy or insolvency proceedings commenced by or against the Property Owner and, if known, any bankruptcy or insolvency proceedings commenced by or against any Affiliate of the Property Owner;

(ii) failure to pay any taxes, special taxes (including the Special Taxes) or assessments due with respect to the Property prior to the delinquency date, to the extent such failure is not promptly cured by the Property Owner upon discovery thereof;

(iii) filing of a lawsuit against the Property Owner or, if known, an Affiliate of the Property Owner, seeking damages which, if successful, could have a material and adverse impact on the Property Owner's ability to pay Special Taxes prior to delinquency or to sell or develop the Property;

(iv) material damage to or destruction of any of the improvements on the Property; and

(v) any payment default or other material default by the Property Owner that continues to exist beyond any applicable notice and cure periods on any loan with respect to the construction of improvements on the Property.

(b) Whenever the Property Owner obtains knowledge of the occurrence of a Listed Event, the Property Owner shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the Property Owner determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Property Owner shall, or shall cause the Dissemination Agent to, promptly file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, with a copy to the City and the Participating Underwriter.

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

Section 7. Duration of Reporting Obligation.

(a) All of the Property Owner's obligations hereunder shall commence on the date hereof and shall terminate (except as provided in Section 12) on the earliest to occur of the following:

(i) upon the legal defeasance, prior redemption or payment in full of all the 2019 Bonds, or

(ii) if the Property Owner is Tracy Phase I, LLC, at such time as (A) 90% of the total construction costs shown in Table 6 of the Official Statement are completed and (B) the Property owned by the Property Owner is less than 185 residential lots (or property that will be subdivided into less than 185 residential lots), or

(iii) if the Property Owner is other than Tracy Phase I, LLC, at such time as the Property owned by the Property Owner is less than 185 residential lots (or property that will be subdivided into less than 185 residential lots), or

(iv) the date on which the Property Owner prepays in full all of the Special Taxes attributable to the Property.

The Property Owner shall give notice of the termination of its obligations under this Disclosure Certificate in the same manner as for a Listed Event under Section 5.

(b) If a portion of the Property is conveyed to a person or entity that, upon such conveyance, will be a Major Owner, the obligations of the Property Owner hereunder with respect to the property conveyed to such Major Owner may be assumed by such Major Owner and the Property Owner's obligations hereunder with respect to the property conveyed will be terminated. In order to effect such assumption, such Major Owner shall enter into an Assumption Agreement in form and substance equivalent to this Disclosure Certificate or as otherwise satisfactory to the City and the Participating Underwriter. However, a Major Owner shall not be required to enter into an Assumption Agreement if such Major Owner is already a party to a continuing disclosure certificate in form and substance similar to this Disclosure Certificate with respect to the 2019

Bonds, and under which the property conveyed to such Major Owner will become subject to future Semi-Annual Reports.

Section 8. Dissemination Agent. The Property Owner may, from time to time, with the written consent of the City, appoint or engage a Dissemination Agent to assist the Property Owner in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with the written consent of the City, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing 30 days' written notice to the City and the Property Owner.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Property Owner may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied (provided, however, that the Dissemination Agent shall not be obligated under any such amendment that modifies or increases its duties or obligations hereunder without its written consent thereto):

(a) if the amendment or waiver relates to the provisions of sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, or change in law;

(b) the proposed amendment or waiver either (i) is approved by holders of the 2019 Bonds in the manner provided in the Fiscal Agent Agreement with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the 2019 Bonds.

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

Section 11. Default. In the event of a failure of the Property Owner to comply with any provision of this Disclosure Certificate, the Fiscal Agent shall (upon written direction and only to the extent indemnified to its satisfaction from any liability, cost or expense, including fees and expenses of its attorneys), and the Participating Underwriter and any holder or beneficial owner of the 2019 Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Property Owner to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the Property Owner to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Property Owner agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the reasonable costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding (i) losses,

expenses and liabilities due to the Dissemination Agent's, and its officers, directors, employees, and agents' negligence or willful misconduct, or failure to perform its duties hereunder, and (ii) losses, expenses and liabilities due to the failure of the City to pay the fees and expenses of the Dissemination Agent. The Dissemination Agent shall be paid compensation for its services provided hereunder from the Administrative Expense Fund established under the Fiscal Agent Agreement in accordance with the Dissemination Agent's schedule of fees as amended from time to time, which schedule, as amended, shall be reasonably acceptable, and all reasonable expenses, reasonable legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Property Owner, the Fiscal Agent, the 2019 Bond owners, or any other party. The obligations of the Property Owner under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 2019 Bonds, but shall be assumed by a Major Owner from and after the date of such assumption when property is sold to a Major Owner and such Major Owner enters into an assumption agreement.

Section 13. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given by electronic, overnight, or regular mail as follows:

To the Issuer:	City of Tracy 333 Civic Plaza Tracy, CA 95376 Email: _____
To the Dissemination Agent:	Goodwin Consulting Group, Inc. 333 University Avenue, Suite 160 Sacramento, California 95825 Email: _____
To the Participating Underwriter:	Piper Jaffray & Co. 2321 Rosecrans Avenue El Segundo, California 90245 Email: _____
To the Property Owner:	Tracy Phase I, LLC c/o Integral Communities San Clemente, Suite 100 Newport Beach, CA 92660 Email: _____

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Property Owner (its successors and assigns), the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the 2019 Bonds, and shall create no rights in any other person or entity. All obligations of the Property Owner hereunder shall be assumed by any legal successor to the obligations of the Property Owner as a result of a sale, merger, consolidation or other reorganization.

Section 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

TRACY PHASE I, LLC
A Delaware limited liability company

By: _____

Name: _____

Title: _____

AGREED AND ACCEPTED:
Goodwin Consulting Group, Inc.,
as Dissemination Agent

By: _____

Name: _____

Title: _____

EXHIBIT A

SEMI-ANNUAL REPORT

[MARCH 31, ____ / SEPTEMBER 30, ____]

\$ _____

**IMPROVEMENT AREA NO. 1
OF THE CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (TRACY HILLS)
SPECIAL TAX BONDS, SERIES 2019**

This Semi-Annual Report is hereby submitted under Section 4 of the Continuing Disclosure Certificate (Property Owner) (the "Disclosure Certificate") dated as of [closing date]_____, 2019, executed by the undersigned (the "Property Owner") in connection with the issuance by the City of Tracy (the "City") of the bonds captioned above (the "2019 Bonds") for Improvement Area No. 1 ("Improvement Area No. 1") of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) (the "District").

Capitalized terms used in this Semi-Annual Report but not otherwise defined have the meanings given to them in the Disclosure Certificate.

I. Property Ownership and Development

The information in this section is provided as of _____ (this date must be not more than 60 days before the date of this Semi-Annual Report).

A. Description of the Property currently owned by the Property Owner in Improvement Area No. 1 of the District (the "Property"), in substance and form similar to such information in the Official Statement for the 2019 Bonds:

B. Updated information regarding land development and home construction activities with respect to the Property described in the Official Statement for the 2019 Bonds or the Semi-Annual Report last filed in accordance with the Disclosure Certificate:

C. Status of building permits and any material changes to the description of land use or development entitlements for the Property described in the Official Statement for the 2019 Bonds or the Semi-Annual Report last filed in accordance with the Disclosure Certificate:

D. Status of any land purchase contracts with regard to the Property, whether acquisition of land in Improvement Area No. 1 by the Property Owner or sales of land to other property owners (other than individual homeowners).

II. Legal and Financial Status of Property Owner

Unless such information has previously been included or incorporated by reference in a Semi-Annual Report, describe any material change in the legal structure of the Property Owner or the financial condition and financing plan of the Property Owner that would materially and adversely interfere with its ability to complete the development plan with respect to the Property described in the Official Statement. To the extent that the ownership of the Property Owner has changed, describe all material terms of the new ownership structure.

III. Change in Development or Financing Plans

Unless such information has previously been included or incorporated by reference in a Semi-Annual Report, describe any development plans or financing plans relating to the Property *that are materially different from* the proposed development and financing plan for the Property described in the Official Statement or in a previous Semi-Annual Report.

IV. Change in Relationship with Builders

Describe any material change in the relationship between the Property Owner and merchant builders with respect to the construction, marketing and sale of homes within Improvement Area No 1, including any changes to financial arrangements between the Property Owner and any merchant builder. To the extent that a new builder has been engaged to carry out home construction, marketing and sales activity in Improvement Area No. 1, fully describe all material terms of the relationship between the Property Owner and any such new builder.

V. Official Statement Updates

Unless such information has previously been included or incorporated by reference in a Semi-Annual Report, (i) describe any other significant changes in the information relating to the Property Owner or the Property contained in the Official Statement under the heading “PROPERTY OWNERSHIP AND THE DEVELOPMENT” that would materially and adversely interfere with the Property Owner’s ability to develop and sell the Property as described in the Official Statement, and (ii) provide an update to the status of infrastructure construction contained in Table 6 of the Official Statement.

V. Status of Tax Payments

Describe status of payment of taxes, special taxes (including the Special Taxes) or assessments due with respect to the Property owned by the Property Owner and its Affiliates.

VI. Other Material Information

In addition to any of the information expressly required above, provide such further information, if any, with respect to the Property and the Property Owner as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Certification

On behalf of the Property Owner, the undersigned Authorized Representative, based on actual knowledge after reasonable inquiry of employees of Property Owner and its affiliates, hereby certifies that this Semi-Annual Report constitutes the Semi-Annual Report required to be furnished by the Property Owner under the Disclosure Certificate.

ANY OTHER STATEMENTS REGARDING THE PROPERTY OWNER, THE DEVELOPMENT OF THE PROPERTY, THE PROPERTY OWNER'S FINANCING PLAN OR FINANCIAL CONDITION, OR THE 2019 BONDS, OTHER THAN STATEMENTS MADE BY THE PROPERTY OWNER IN AN OFFICIAL RELEASE, OR FILED WITH THE MUNICIPAL SECURITIES RULEMAKING BOARD, ARE NOT AUTHORIZED BY THE PROPERTY OWNER. THE PROPERTY OWNER IS NOT RESPONSIBLE FOR THE ACCURACY, COMPLETENESS OR FAIRNESS OF ANY SUCH UNAUTHORIZED STATEMENTS.

THE PROPERTY OWNER HAS NO OBLIGATION TO UPDATE THIS SEMI-ANNUAL REPORT OTHER THAN AS EXPRESSLY PROVIDED IN THE DISCLOSURE CERTIFICATE.

Dated: _____

TRACY PHASE I, LLC,
a Delaware limited liability company

By: _____

Name: _____

Title: _____

APPENDIX I

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the 2019 Bonds, payment of principal, interest and other payments on the 2019 Bonds (herein, the “Securities”) to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Securities and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Securities (the “Issuer”) nor the trustee, fiscal agent or paying agent appointed with respect to the Securities (the “Agent”) takes any responsibility for the information contained in this Appendix.

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

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

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

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

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

FIRST SUPPLEMENT TO FISCAL AGENT AGREEMENT

by and between the

CITY OF TRACY

and

**U.S. BANK NATIONAL ASSOCIATION,
as Fiscal Agent**

Dated as of _____ 1, 2019

RELATING TO

**\$ _____
IMPROVEMENT AREA NO. 1 OF THE
CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2016-1
(TRACY HILLS)
SPECIAL TAX BONDS, SERIES 2019**

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FIRST SUPPLEMENT TO FISCAL AGENT AGREEMENT

THIS FIRST SUPPLEMENT TO FISCAL AGENT AGREEMENT, dated as of _____ 1, 2019 (the "**First Supplement to Fiscal Agent Agreement**"), by and between the CITY OF TRACY, a municipal corporation and general law city organized and existing under and by virtue of the Constitution and laws of the State of California (the "**City**") for and on behalf of the "City of Tracy Community Facilities District No. 2016-1 (Tracy Hills)" (the "**CFD**") with respect to its "Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills)" ("**Improvement Area No. 1**"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America with a corporate trust office located in San Francisco, California, as fiscal agent (the "**Fiscal Agent**");

WITNESSETH:

WHEREAS, the City Council of the City (the "**City Council**") has formed the CFD, including Improvement Area No. 1, under the provisions of the Mello-Roos Community Facilities Act of 1982, as amended (section 53311 *et seq.* of the California Government Code) (the "**Act**"); and

WHEREAS, the City Council, as the legislative body with respect to the CFD, is authorized under the Act to levy special taxes within Improvement Area No. 1 to pay for the costs of facilities and to authorize the issuance of bonds secured by said special taxes under the Act; and

WHEREAS, the City and the Fiscal Agent previously executed a Fiscal Agent Agreement, dated as of August 1, 2018 (the "**Original Fiscal Agent Agreement**"), and the City issued and sold, for and on behalf of the CFD with respect to Improvement Area No. 1, the Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2018 (the "**Series 2018 Bonds**") in the initial principal amount of \$32,625,000; and

WHEREAS, the City wishes to pay a portion of the costs of acquiring and constructing authorized facilities, and proposes to issue, on behalf of the CFD with respect to Improvement Area No. 1, the Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2019 (the "**Series 2019 Bonds**"), which Series 2019 Bonds will constitute a series of Parity Bonds under Section 3.06 of the Original Fiscal Agent Agreement; and

WHEREAS, on _____, 2019, the Board adopted Resolution No. _____ (the "**Resolution**") authorizing the issuance of the Series 2019 Bonds for and on behalf of the CFD with respect to Improvement Area No. 1; and

WHEREAS, it is in the public interest and for the benefit of the City, the CFD, Improvement Area No. 1 and the persons responsible for the payment of special taxes that the City enter into this First Supplement to Fiscal Agent Agreement to provide for the issuance of the Series 2019 Bonds and disbursement of proceeds of the Series 2019 Bonds, the disposition

of the special taxes securing the Series 2019 Bonds and the administration and payment of the Series 2019 Bonds; and

WHEREAS, the City has determined that all acts and proceedings required by law and the Original Fiscal Agent Agreement necessary to make the Series 2019 Bonds, when executed by the City, authenticated and delivered by the Fiscal Agent and duly issued, the valid, binding and legal special obligations of the City, and to constitute this First Supplement to Fiscal Agent Agreement a valid and binding agreement for the uses and purposes herein set forth, in accordance with its terms, have been done and taken; and the execution and delivery of this First Supplement to Fiscal Agent Agreement have been in all respects duly authorized;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties hereto agree as follows:

ARTICLE X

DEFINITIONS; AUTHORIZATION AND PURPOSE OF SERIES 2019 BONDS; EQUAL SECURITY

Section 10.01. Definitions.

Unless the context clearly otherwise requires or unless otherwise defined in this Section, the capitalized terms in this First Supplement to Fiscal Agent Agreement shall have the respective meanings that they have in the Original Fiscal Agent Agreement.

“Authorized Denomination” means \$5,000 or any integral multiple thereof.

“Closing Date” means the date of initial issuance and delivery of the Series 2019 Bonds.

“Interest Payment Date” for the Series 2019 Bonds means March 1 and September 1 of each year, commencing [September 1, 2019].

“Original Purchaser” and **“Participating Underwriter”** means Piper Jaffray & Co., as the first purchaser of the Series 2019 Bonds from the City.

“Qualified Reserve Account Credit Instrument” means an irrevocable standby or direct-pay letter of credit, insurance policy, or surety bond issued by a commercial bank or insurance company and deposited with the Fiscal Agent, provided that all of the following requirements are met at the time of acceptance thereof by the Fiscal Agent: (a) in the case of a commercial bank, the long-term credit rating of such bank at the time of delivery of the irrevocable standby or direct-pay letter of credit is at least "A" from S&P or "A" from Moody's and, in the case of an insurance company, the claims paying ability of such insurance company at the time of delivery of the insurance policy or surety bond is at least "A" from S&P, or "A" from Moody's or, if not rated by S&P or Moody's but is rated by A.M. Best & Company, is rated at the time of delivery in the highest rating category by A.M. Best & Company; (b) such letter of credit, insurance policy or surety bond has a term of at least 12 months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the 2019 Reserve Requirement with respect to which funds are proposed to be released; and (d) the Fiscal Agent is authorized pursuant to the terms of such letter of credit, insurance policy or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Bond Fund for the purpose of making payments with respect to the Series 2019 Bonds and any 2019 Related Parity Bonds.

“Series 2018 Bonds” shall have the meaning given that term in the recitals to this First Supplement to Fiscal Agent Agreement.

“Series 2019 Bonds” shall have the meaning given that term in the recitals to this First Supplement to Fiscal Agent Agreement.

“Series 2019 Term Bonds” means the (i) Series 2019 Bonds maturing on September 1, 20__, (ii) the 2019 Bonds maturing on September 1, 20__, (iii) the 2019 Bonds maturing on

September 1, 20__, (iv) the 2019 Bonds maturing on September 1, 20__ and (v) the 2019 Bonds maturing on September 1, 20__.

“2019 Capitalized Interest Account” means the 2019 Capitalized Interest Account established pursuant to Section 12.05.

“2019 Costs of Issuance Fund” means the 2019 Costs of Issuance Fund established pursuant to Section 12.03

“2019 Related Parity Bonds” means any series of Parity Bonds for which (i) the Proceeds are deposited into the 2019 Reserve Fund so that the balance therein is equal to the 2019 Reserve Requirement following issuance of such Parity Bonds and (ii) the related Supplemental Agreement specifies that the 2019 Reserve Fund shall act as a reserve for the payment of the principal of, and interest and any premium on, such series of Parity Bonds.

“2019 Reserve Fund” means the 2019 Reserve Fund established pursuant to Section 12.04.

“2019 Reserve Requirement” means the amount as of any date of calculation equal to the least of (a) Maximum Annual Debt Service on the Series 2019 Bonds and 2019 Related Parity Bonds, if any, (b) 125% of average Annual Debt Service on the Series 2019 Bonds and 2019 Related Parity Bonds, if any and (c) 10% of the outstanding principal of the Series 2019 Bonds and 2019 Related Parity Bonds, if any; provided, however:

(A) that with respect to the calculation of clause (c), the issue price of the Series 2019 Bonds or any 2019 Related Parity Bonds excluding accrued interest shall be used rather than the outstanding principal amount, if (i) the net original issue discount or premium of the Series 2019 Bonds or any 2019 Related Parity Bonds was less than 98% or more than 102% of the original principal amount of the Series 2019 Bonds or any 2019 Related Parity Bonds and (ii) using the issue price would produce a lower result than using the outstanding principal amount;

(B) that in no event shall the amount calculated hereunder exceed the amount on deposit in the Series 2019 Reserve Fund on the date of issuance of the Series 2019 Bonds (if they are the only Bonds covered by the 2019 Reserve Fund) or the most recently issued series of 2019 Related Parity Bonds (if any 2019 Related Parity Bonds are covered by the 2019 Reserve Fund) except in connection with any increase associated with the issuance of 2019 Related Parity Bonds; and

(C) that in no event shall the amount required to be deposited into the 2019 Reserve Fund in connection with the issuance of a series of 2019 Related Parity Bonds exceed the maximum amount under the Tax Code that can be financed with tax-exempt bonds and invested an unrestricted yield.

Section 10.02. Rules of Construction. All references in this First Supplement to Fiscal Agent Agreement to “Articles,” “Sections,” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this First Supplement to Fiscal Agent Agreement; and the words “herein,” “hereof,” “hereunder,” and other words of similar import refer to this First Supplement to Fiscal Agent Agreement as a whole and not to any particular Article, Section or subdivision hereof.

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

Section 10.03. Authorization. Each of the parties represents and warrants that it has full legal authority and is duly empowered to enter into this First Supplement to Fiscal Agent Agreement and has taken all actions necessary to authorize the execution of this First Supplement to Fiscal Agent Agreement by the officers and persons signing it.

Section 10.04. Equal Security. As Parity Bonds issued pursuant to Section 3.06 of the Original Fiscal Agent Agreement, the Series 2019 Bonds shall be secured by a lien and charge upon the Special Taxes and the respective funds and accounts established under the Original Fiscal Agent Agreement equal to and on a parity with the lien and charge securing the outstanding Series 2018 Bonds.

From and after the Closing Date, all references to “Bonds” in the Original Fiscal Agent Agreement shall be deemed to be a reference to the Series 2019 Bonds and any other Parity Bonds issued and Outstanding under Section 3.06 of the Original Fiscal Agent Agreement, except to the extent provided in this First Supplement to Fiscal Agent Agreement or any other supplement to the Original Fiscal Agent Agreement.

ARTICLE XI

ISSUANCE OF SERIES 2019 BONDS

Section 11.01. Terms of Series 2019 Bonds.

(A) The Series 2019 Bonds authorized to be issued by the City under and subject to the Act and the terms of the Original Fiscal Agent Agreement, as amended and supplemented by this First Supplement to Fiscal Agent Agreement, shall be designated the "Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2019," and shall be issued in the initial principal amount of [] Dollars (\$[]).

(B) The Series 2019 Bonds shall be dated the Closing Date, issued in fully registered form without coupons in Authorized Denominations, and shall mature on the dates and in the principal amounts and shall bear interest at the rates per annum set forth in the following schedule:

<u>Maturity</u> (September 1) 2019	<u>Principal</u> <u>Amount</u> \$	<u>Interest</u> <u>Rate</u> %
--	---	-------------------------------------

*Series 2019 Term Bonds

The Series 2019 Bonds maturing September 1, 20__ and the Series 2019 Bonds maturing September 1, 20__ (“**Series 2019 Term Bonds**”) shall be subject to mandatory sinking fund redemption under Section 11.03 of this First Supplement to Fiscal Agent Agreement as follows:

Series 2019 Bonds Maturing September 1, 20__

Sinking Fund Redemption Date <u>(September 1)</u>	Principal Amount <u>To be Redeemed (\$)</u> \$
---	--

20__ (maturity)

Series 2019 Bonds Maturing September 1, 20__

Sinking Fund Redemption Date <u>(September 1)</u>	Principal Amount <u>To be Redeemed (\$)</u> \$
---	--

20__ (maturity)

(C) Except as otherwise set forth in this Section 11.01, Sections 2.02-2.10 of the Original Fiscal Agent Agreement shall govern the Series 2019 Bonds.

Section 11.02. Payment of Interest on the Series 2019 Bonds. The Series 2019 Bonds shall bear interest at the rates set forth above in Section 11.01 payable on the Interest Payment Dates in each year set forth in Section 11.01 above. Interest shall be calculated on the basis of a 360-day year composed of twelve 30-day months. Each Series 2019 Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (i) it is authenticated on an Interest Payment Date, in which event it shall bear interest from such date of authentication, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the Record Date preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) it is authenticated prior to the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from the Closing Date; provided, however, that if at the time of authentication of a Bond, interest is in default thereon, such Series 2019 Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Section 11.03. Redemption of Series 2019 Bonds.

(A) Redemption Provisions.

(i) Mandatory Prepayment Redemption. Special Tax Prepayments and any corresponding transfers from the 2019 Reserve Fund shall be used to redeem

Series 2019 Bonds on the next Interest Payment Date for which notice of redemption can timely be given, among maturities so as to maintain substantially the same debt service profile for the Series 2019 Bonds as in effect prior to such redemption and by lot within a maturity, at a redemption price (expressed as a percentage of the principal amount of the Series 2019 Bonds to be redeemed), as set forth below, together with accrued interest to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
Any Interest Payment Date on or before March 1, 20__	__%
September 1, 20__ and March 1, 20__	__
September 1, 20__ and March 1, 20__	__
September 1, 20__ and any Interest Payment Date thereafter	100

(ii) Optional Redemption from any Source other than Prepayments. The Series 2019 Bonds maturing on or after September 1, 20__, are subject to optional redemption as directed by the City, from sources of funds other than prepayments of Special Taxes, prior to their stated maturity on any date on or after September 1, 20__, as a whole or in part, at the redemption prices (expressed as a percentage of the principal amount of the Series 2019 Bonds to be redeemed) set forth below, together with accrued interest thereon to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
September 1, 20__ through August 31, 20__	__%
September 1, 20__ through August 31, 20__	__
September 1, 20__ through August 31, 20__	__
September 1, 20__ through any date thereafter	100

(iii) Mandatory Sinking Fund Redemption. The Series 2019 Term Bonds shall also be subject to mandatory redemption in part by lot, from Sinking Fund Payments made by the City from the Bond Fund, at a redemption price equal to the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts, all as set forth in the table in Section 11.01 above; provided, however, if some but not all of the Series 2019 Term Bonds of a given maturity have been redeemed under subsections (i) and (ii) above the total amount of all future Sinking Fund Payments relating to such maturity shall be reduced by the aggregate principal amount of Series 2019 Term Bonds of such maturity so redeemed, to be allocated among such Sinking Fund Payments as directed by the City. In the event of a redemption pursuant to Section 11.03(a)(i) and (ii), the City shall provide the Trustee with a revised sinking fund schedule giving effect to the redemption so completed.

(B) Notice to Fiscal Agent. The City shall give the Fiscal Agent written notice of its intention to redeem Series 2019 Bonds under subsection (a)(i) or (ii) not less than forty-five (45) days prior to the applicable redemption date unless waived by the Fiscal Agent.

(C) Purchase of Series 2019 Bonds in Lieu of Redemption.

(i) In lieu of redemption under Section 11.03(A), moneys in the Bond Fund may be used and withdrawn by the Fiscal Agent for purchase of Outstanding Series 2019 Bonds, upon the filing with the Fiscal Agent of an Officer's Certificate requesting such purchase, at public or private sale as and when, and at such prices (including brokerage and other charges) as such Officer's Certificate may provide, but in no event

may Series 2019 Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase and any premium which would otherwise be due if such Series 2019 Bonds were to be redeemed in accordance with this First Supplement to Fiscal Agent Agreement.

(ii) In lieu of and following distribution of a notice of an optional redemption under Section 11.03(A)(ii), the City shall have the right to purchase or to cause the purchase of all or a portion of the Series 2019 Bonds in lieu of the optional redemption and to leave such Series 2019 Bonds outstanding.

(D) Redemption Procedure by Fiscal Agent.

(i) **Notices.** The Fiscal Agent shall cause notice of any redemption to be mailed by first class mail, postage prepaid, at least thirty (30) days but not more than sixty (60) days prior to the date fixed for redemption, to the Original Purchaser, to the Securities Depositories, and to the respective registered Owners of any Series 2019 Bonds designated for redemption, at their addresses appearing on the Series 2019 Bond registration books in the Principal Office of the Fiscal Agent; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice, or any defect therein, shall not affect the validity of the proceedings for the redemption of such Series 2019 Bonds. In addition, the Fiscal Agent shall file each notice of redemption with the MSRB through its EMMA system.

(ii) **Contents of Notices.** Such notice shall state the redemption date and the redemption price and, if less than all of the then Outstanding Series 2019 Bonds are to be called for redemption shall state as to any Series 2019 Bond called in part the principal amount thereof to be redeemed, and shall require that such Series 2019 Bonds be then surrendered at the Principal Office of the Fiscal Agent for redemption at the said redemption price, and shall state that further interest on such Series 2019 Bonds will not accrue from and after the redemption date. The cost of mailing any such redemption notice and any expenses incurred by the Fiscal Agent in connection therewith shall be paid by the City.

Any redemption notice may specify that redemption on the specified date will be subject to receipt by the City of moneys sufficient to cause such redemption (and shall specify the proposed source of such moneys), and neither the City nor the Fiscal Agent shall have any liability to the Owners or any other party as a result of its failure to redeem the Series 2019 Bonds as a result of insufficient moneys. The City shall have the right to rescind any redemption by written notice to the Fiscal Agent on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the Series 2019 Bonds then called for redemption, and such cancellation shall not constitute a default hereunder. The Fiscal Agent shall mail notice of rescission of redemption in the same manner that notice of redemption was originally provided.

(iii) **Selection of Series 2019 Bonds for Redemption.** Whenever provision is made in this First Supplement to Fiscal Agent Agreement for the redemption of less than all of the Series 2019 Bonds of any maturity or any given portion thereof, the Fiscal Agent shall select the Series 2019 Bonds to be redeemed, from all Series 2019 Bonds or such given portion thereof not previously called for redemption, as directed by the City or, in the absence of direction by the City, on a pro rata basis among maturities, and,

within a maturity, by lot in any manner which the Fiscal Agent in its sole discretion shall deem appropriate.

(iv) **New Bonds.** Upon surrender of Series 2019 Bonds redeemed in part only, the City shall execute and the Fiscal Agent shall authenticate and deliver to the registered Owner, at the expense of the City, a new Series 2019 Bond or Series 2019 Bonds, of the same series and maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Series 2019 Bond or Series 2019 Bonds.

(E) **Effect of Redemption.** From and after the date fixed for redemption, if funds available for the payment of the principal of, and interest and any premium on, the Series 2019 Bonds so called for redemption shall have been deposited in the Bond Fund, such Series 2019 Bonds so called shall cease to be entitled to any benefit under this Agreement other than the right to receive payment of the redemption price, and no interest shall accrue thereon on or after the redemption date specified in the notice of redemption. All Series 2019 Bonds redeemed and purchased by the Fiscal Agent under this Section 11.03 shall be canceled by the Fiscal Agent. The Fiscal Agent shall destroy the canceled Bonds in accordance with the Fiscal Agent's retention policy then in effect.

Section 11.04. Form of Series 2019 Bonds. The Series 2019 Bonds, the Fiscal Agent's certificate of authentication, and the assignment to appear thereon, shall be substantially in the respective forms set forth in Exhibit A attached hereto and by this reference incorporated herein, with necessary or appropriate variations, omissions and insertions, as permitted or required by this First Supplement to Fiscal Agent Agreement.

ARTICLE XII

ISSUE OF SERIES 2019 BONDS

Section 12.01. Issuance of Series 2019 Bonds.

(A) **Series 2019 Bonds.** Upon the execution and delivery of this First Supplement to Fiscal Agent Agreement, satisfaction of the requirements for issuance of Parity Bonds under Section 3.06 of the Original Fiscal Agent Agreement, and satisfaction of the conditions to issuance of refunding bonds pursuant to Section 53362.5 of the Act, to the extent applicable, the City shall execute and deliver Series 2019 Bonds in the aggregate initial principal amount of [] Dollars (\$[]) to the Fiscal Agent for authentication and delivery to the Original Purchaser thereof upon receipt by the Fiscal Agent of an Officer's Certificate requesting authentication and delivery.

(B) **Improvement Area No. 1 Bonded Indebtedness Limit.** As a result of the issuance of the Series 2018 Bonds, the remaining unissued amount of authorized bonded indebtedness of Improvement Area No. 1 has decreased from \$80,000,000 to \$47,375,000. As a result of the issuance of the Series 2019 Bonds, the remaining unissued amount of authorized bonded indebtedness of the CFD has further decreased to \$[].

Section 12.02. Application of Proceeds of Sale of Series 2019 Bonds. On the Closing Date, the proceeds of sale of the Series 2019 Bonds shall be paid to the Fiscal Agent in the amount of \$[], which is equal to the aggregate principal amount of the Series 2019 Bonds, plus a net original issue premium in the amount of \$[], less an underwriter's discount in the amount of \$[]. The Fiscal Agent shall apply the proceeds described in the previous sentence as follows:

(A) The Fiscal Agent shall deposit into the 2019 Costs of Issuance Fund, maintained and administered by the Fiscal Agent in accordance with Section 12.03 of this First Supplement to Fiscal Agent Agreement, the sum of \$[] for payment of the Costs of Issuance of the Series 2019 Bonds.

(B) The Fiscal Agent shall deposit \$[] in the 2019 Reserve Fund maintained and administered by the Fiscal Agent in accordance with Section 12.04 of this First Supplement to Fiscal Agent Agreement, which is equal to the initial 2019 Reserve Requirement.

(C) The Fiscal Agent shall deposit \$[] in the Bond Proceeds Account of the Improvement Fund maintained and administered by the Fiscal Agent in accordance with Section 4.07 of the Original Fiscal Agent Agreement.

(D) The Fiscal Agent shall deposit \$[] in the Bond Fund maintained and administered by the Fiscal Agent in accordance with Section 4.04 of the Original Fiscal Agent Agreement, which amount shall represent capitalized interest and be deposited into the 2019 Capitalized Interest Account maintained and administered by the Fiscal Agent in accordance with Section 12.05 of this First Supplement to Fiscal Agent Agreement.

Section 12.03. 2019 Costs of Issuance Fund.

(A) Establishment of the 2019 Costs of Issuance Fund; Deposit. There is hereby established as a separate fund to be held by the Fiscal Agent to be designated the “Series 2019 Costs of Issuance Fund” (the “**2019 Costs of Issuance Fund**”), to the credit of which a deposit shall be made as required by Section 12.02(A). Moneys in the 2019 Costs of Issuance Fund shall be held in trust by the Fiscal Agent and shall be disbursed as provided in paragraph (b) of this Section for the payment or reimbursement of 2019 Costs of Issuance.

(B) Disbursement. Amounts in the 2019 Costs of Issuance Fund shall be disbursed from time to time to pay Costs of Issuance, as set forth in an Officer’s Certificate of the City containing respective amounts to be paid to the designated payees, and delivered to the Fiscal Agent concurrently with the delivery of the Series 2019 Bonds, or in any future Officer’s Certificate in the form of Exhibit B, which is attached hereto, submitted to the Fiscal Agent. Each such certificate shall be sufficient evidence to the Fiscal Agent of the facts stated therein and the Fiscal Agent shall have no duty to confirm the accuracy of such facts. The Fiscal Agent shall pay all Costs of Issuance after receipt of an invoice from any such payee which requests payment in an amount which is less than or equal to the amount set forth with respect to such payee pursuant to the Officer’s Certificate requesting payment of Costs of Issuance. The Fiscal Agent shall maintain the 2019 Costs of Issuance Fund for a period of 180 days from the date of delivery of the Series 2019 Bonds and then shall transfer any moneys remaining therein, including any investment earnings thereon, to the Improvement Fund.

(C) Investment. Moneys in the 2019 Costs of Issuance Fund shall be invested and deposited in accordance with Section 6.01 of the Original Fiscal Agent Agreement. Interest earnings and profits resulting from said investment shall be retained by the Fiscal Agent in the 2019 Costs of Issuance Fund to be used for the purposes of such fund.

Section 12.04. 2019 Reserve Fund.

(A) Establishment of Fund. The 2019 Reserve Fund is hereby established as a separate fund to be held by the Fiscal Agent to the credit of which a deposit shall be made as required by Section 12.02(B), which deposit, as of the Closing Date, is equal to the initial 2019 Reserve Requirement with respect to the Series 2019 Bonds, and deposits shall be made as provided in Sections 3.06(C) and 4.05(A) and (B). Moneys in the 2019 Reserve Fund shall be held by the Fiscal Agent for the benefit of the Owners of the Series 2019 Bonds and any 2019 Related Parity Bonds as a reserve for the payment of the principal of, and interest and any premium on, the Series 2019 Bonds and any 2019 Related Parity Bonds and shall be subject to a lien in favor of the Owners of the Series 2019 Bonds and any 2019 Related Parity Bonds. Owners of the Series 2019 Bonds shall have no interest in or claim to the 2018 Reserve Fund and the Owners of the Bonds covered by the 2018 Reserve Fund will have no interest in or claim to the 2019 Reserve Fund.

(B) Use of 2019 Reserve Fund. Except as otherwise provided in this Section, all amounts deposited in the 2019 Reserve Fund shall be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Bond Fund in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal of, and interest and any premium on, the Series 2019 Bonds and any 2019 Related Parity Bonds or, in accordance with the provisions of this Section, for the purpose of redeeming Series 2019 Bonds and any 2019 Related Parity Bonds from the Bond Fund. Whenever a transfer is made from the 2019 Reserve Fund to the Bond Fund due to a deficiency in the Bond Fund for payment of the

principal of, and interest and any premium on, the Series 2019 Bonds and any 2019 Related Parity Bonds, the Fiscal Agent shall provide written notice thereof to the Finance Director, specifying the amount withdrawn.

(C) Transfer of Excess of Reserve Requirement. Whenever, on or before any Interest Payment Date, or on any other date at the request of the Finance Director, the amount in the 2019 Reserve Fund exceeds the 2019 Reserve Requirement, the Fiscal Agent shall transfer an amount equal to the excess from the 2019 Reserve Fund to the Bond Fund, to be used to pay interest on the Series 2019 Bonds and any 2019 Related Parity Bonds on the next Interest Payment Date.

(D) Transfer for Rebate Purposes. Amounts in the 2019 Reserve Fund shall be withdrawn for purposes of making payment to the federal government to comply with Section 13.01, upon receipt by the Fiscal Agent of an Officer's Certificate specifying the amount to be withdrawn and to the effect that such amount is needed for rebate purposes; *provided, however*, that no amounts in the 2019 Reserve Fund shall be used for rebate unless the amount in the 2019 Reserve Fund following such withdrawal equals the 2019 Reserve Requirement.

(E) Transfer When Balance Exceeds Outstanding Bonds. Whenever the balance in the 2019 Reserve Fund exceeds the amount required to redeem or pay the Outstanding 2019 Bonds and all Outstanding 2019 Related Parity Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent shall, upon the written request of the Finance Director, transfer any cash or Permitted Investments in the 2019 Reserve Fund to the Bond Fund to be applied, on the redemption date to the payment and redemption, in accordance with Section 4.04 or 11.03 and the provisions of the Supplemental Agreement related to the 2019 Related Parity Bonds, as applicable, of all of the Outstanding 2019 Bonds and Outstanding 2019 Related Parity Bonds. In the event that the amount so transferred from the 2019 Reserve Fund to the Bond Fund exceeds the amount required to pay and redeem the Outstanding 2019 Bonds and Outstanding 2019 Related Parity Bonds, the balance in the 2019 Reserve Fund shall be transferred to the Finance Director to be used by the City for any lawful purpose.

Notwithstanding the provisions of the first paragraph of this Section 12.04(E), no amounts shall be transferred from the 2019 Reserve Fund under this Section 12.04(E) until after: (i) the calculation of any amounts due to the federal government under Section 13.01 and withdrawal of any such amount under Section 12.04(D) for purposes of making such payment to the federal government; and (ii) payment of any fees and expenses due to the Fiscal Agent.

(F) Transfer Upon Special Tax Prepayment. Whenever Special Taxes are prepaid and Series 2019 Bonds or any 2019 Related Parity Bonds are to be redeemed with the proceeds of such prepayment pursuant to Section 11.03(A)(i) or a Supplemental Agreement related to any 2019 Related Parity Bonds, a proportionate amount in the 2019 Reserve Fund (determined on the basis of the principal of Series 2019 Bonds and 2019 Related Parity Bonds to be redeemed and the then-Outstanding principal of the Series 2019 Bonds and 2019 Related Parity Bonds, but in any event not in excess of the amount that will leave the balance in the 2019 Reserve Fund following the proposed redemption equal to the 2019 Reserve Requirement) shall be transferred on the Business Day prior to the redemption date by the Fiscal Agent to the Bond Fund to be applied to the redemption of the Series 2019 Bonds pursuant to Section 11.03(A)(i) or a Supplemental Agreement related to any 2019 Related Parity Bonds. The Finance Director shall deliver to the Fiscal Agent an Officer's Certificate

specifying any amount to be so transferred, and the Fiscal Agent may rely on any such Officer's Certificate.

(G) Investment. Moneys in the 2019 Reserve Fund shall be invested by the Fiscal Agent under Section 6.01.

(H) Qualified Reserve Account Credit Instruments. The City shall have the right at any time to direct the Fiscal Agent to release funds from the 2019 Reserve Fund, in whole or in part, by tendering to the Fiscal Agent: (i) a Qualified Reserve Account Credit Instrument, and (ii) an opinion of Bond Counsel stating that neither the release of such funds nor the acceptance of such Qualified Reserve Account Credit Instrument will cause interest on the Series 2019 Bonds or any 2019 Related Parity Bonds the interest on which is excluded from gross income of the owners thereof for federal income tax purposes to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Fiscal Agent, and upon delivery by the City to the Fiscal Agent of a written calculation of the amount permitted to be released from the 2019 Reserve Fund (upon which calculation the Fiscal Agent may conclusively rely), the Fiscal Agent shall transfer such funds from the 2019 Reserve Fund to the Improvement Fund to be used for the purposes thereof. The Fiscal Agent shall comply with all documentation relating to a Qualified Reserve Account Credit Instrument as shall be required to maintain such Qualified Reserve Account Credit Instrument in full force and effect and as shall be required to receive payments thereunder in the event and to the extent required to make any payment when and as required under this Section. Upon the scheduled expiration of any Qualified Reserve Account Credit Instrument, the City shall either (i) replace such Qualified Reserve Account Credit Instrument with a new Qualified Reserve Account Credit Instrument, or (ii) deposit or cause to be deposited with the Fiscal Agent an amount of funds equal to the 2019 Reserve Requirement, to be derived from the first available Special Tax Revenues. If the 2019 Reserve Requirement is being maintained partially in cash and partially with a Qualified Reserve Account Credit Instrument, the cash shall be first used to meet any deficiency which may exist from time to time in the Bond Fund with respect to the Series 2019 Bonds and any 2019 Related Parity Bonds. If the 2019 Reserve Requirement is being maintained with two or more Qualified Reserve Account Credit Instruments, any draw to meet a deficiency which may exist from time to time in the Bond Fund with respect to the Series 2019 Bonds and any 2019 Related Parity Bonds shall be pro-rata with respect to each such instrument.

In the event that a Qualified Reserve Account Credit Instrument is available to be drawn upon for only one or more particular series of Bonds, a separate subaccount in the 2019 Reserve Fund may be established for such series, and the calculation of the Reserve Requirement with respect to any 2019 Related Parity Bonds shall exclude the debt service on such issue of 2019 Related Parity Bonds.

The City will have no obligation to replace a Qualified Reserve Account Credit Instrument or to fund the 2019 Reserve Fund with cash if, at any time that the Series 2019 Bonds are Outstanding, the Qualified Reserve Account Credit Instrument (or its provider) is downgraded or the provider becomes insolvent, if there is an unscheduled termination of the Qualified Reserve Account Credit Instrument or if for any reason insufficient amounts are available to be drawn upon under the Qualified Reserve Account Credit Instrument; provided, however, that the City shall reimburse the provider, in accordance with the terms of the Qualified Reserve Account Credit Instrument, for any draws made thereon.

The City and the Fiscal Agent shall comply with the terms of the Qualified Reserve Account Credit Instrument as shall be required to receive payments thereunder in the event and to the extent required under this Section.

Section 12.05. 2019 Capitalized Interest Account. There is hereby established, within the Bond Fund maintained and administered by the Fiscal Agent in accordance with Section 4.04 of the Original Fiscal Agent Agreement, a separate account to be held by the Fiscal Agent to be designated the “Series 2019 Capitalized Interest Account” (the “**2019 Capitalized Interest Account**”), to the credit of which a deposit shall be made as required by Section 12.02(D). Moneys in the 2019 Capitalized Interest Account shall be held in trust by the Fiscal Agent and shall be used and withdrawn by the Fiscal Agent solely for the payment of interest on the Series 2019 Bonds. When the amount in the 2019 Capitalized Interest Account is fully expended for the payment of interest on the Series 2019 Bonds, the account shall be closed.

ARTICLE XIII

COVENANTS

Section 13.01. Rebate Requirement. The City shall take any and all actions necessary to assure compliance with section 148(f) of the Tax Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Series 2019 Bonds. The Finance Director shall take note of any investment of monies hereunder in excess of the yield on the Series 2019 Bonds, and shall take such actions as are necessary to ensure compliance with this Section 13.01, such as increasing the portion of the Special Tax levy for Administration Expenses as appropriate to have funds available in the Administrative Expense Fund to satisfy any rebate liability under this Section. If necessary to satisfy its obligations under this Section 13.01, the City may use:

- (A) Amounts in the 2019 Reserve Fund if the amount on deposit in the 2019 Reserve Fund, following the proposed transfer, is at least equal to the 2019 Reserve Requirement, and amounts in any other reserve account for Parity Bonds that are not Related Parity Bonds to the extent permitted by the Supplemental Agreement;
- (B) Amounts on deposit in the Administrative Expense Fund; and
- (C) Any other funds available to the City related to Improvement Area No. 1, including amounts advanced by the City, in its sole discretion, to be repaid by funds related to Improvement Area No. 1 as soon as practicable from amounts described in the preceding clauses (A) and (B).

Section 13.02. Private Activity Bond Limitations. The City shall assure that the proceeds of the Series 2019 Bonds are not so used as to cause the Series 2019 Bonds to satisfy the private business tests of section 141(b) of the Tax Code or the private loan financing test of section 141(c) of the Code.

Section 13.03. Federal Guarantee Prohibition. The City shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Series 2019 Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Tax Code.

Section 13.04. No Arbitrage. The City shall not take, or permit or suffer to be taken by the Fiscal Agent or otherwise, any action with respect to the proceeds of the Series 2019 Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Series 2019 Bonds would have caused the Series 2019 Bonds to be “arbitrage bonds” within the meaning of section 148 of the Tax Code.

Section 13.05. Yield of the Series 2019 Bonds. In determining the yield of the Series 2019 Bonds to comply with Sections 13.01 and 13.04, the City will take into account redemption (including premium, if any) in advance of maturity based on the reasonable expectations of the City, as of the Closing Date, regarding prepayments of Special Taxes and use of prepayments for redemption of the Series 2019 Bonds, without regard to whether or not prepayments are received or 2019 Bonds redeemed.

13.06. Maintenance of Tax-Exemption. The City shall take all actions necessary to assure the exclusion of interest on the Series 2019 Bonds from the gross income of the Owners of the Series 2019 Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the date of issuance of the Series 2019 Bonds.

Section 13.07. Continuing Disclosure. The City hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Agreement, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an event of default for the purposes of this Agreement. However, any Owner or Beneficial Owner of the Series 2019 Bonds may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

One or more owners of the real property in Improvement Area No. 1 as of the Closing Date may also have executed a continuing disclosure agreement for the benefit of the holders and Beneficial Owners of the Series 2019 Bonds. Any Participating Underwriter or Holder or Beneficial Owner may take such actions as may be necessary and appropriate directly against any such landowner to compel performance by it of its obligations thereunder, including seeking mandate or specific performance by court order; however, the City shall have no obligation whatsoever to enforce any obligations under any such agreement.

ARTICLE XIV

ADDITIONAL PROVISIONS

Section 14.01. Applicable Law. This First Supplement to Fiscal Agent Agreement shall be governed by and enforced in accordance with the laws of the State of California applicable to contracts made and performed in the State of California.

Section 14.02. Conflict with Act. In the event of a conflict between any provision of this First Supplement to Fiscal Agent Agreement and any provision of the Act as in effect on the Closing Date, the provision of the Act shall prevail over the conflicting provision of this First Supplement to Fiscal Agent Agreement.

Section 14.03. Conclusive Evidence of Regularity. Series 2019 Bonds issued pursuant to this First Supplement to Fiscal Agent Agreement shall constitute conclusive evidence of the regularity of all proceedings under the Act relative to their issuance and the levy of the Special Taxes.

Section 14.04. Confirmation of Original Fiscal Agent Agreement; Conflict With Original Fiscal Agent Agreement. All representations, covenants, warranties and other provisions of the Original Fiscal Agent Agreement, unless specifically amended, modified or supplemented by this First Supplement to Fiscal Agent Agreement, are hereby confirmed as applicable to this First Supplement to Fiscal Agent Agreement. In the event of any conflict between the provisions of this First Supplement to Fiscal Agent Agreement and the Original Fiscal Agent Agreement, the provisions of this First Supplement to Fiscal Agent Agreement shall govern.

Section 14.05. Counterparts. This First Supplement to Fiscal Agent Agreement may be executed in counterparts, each of which shall be deemed an original.

IN WITNESS WHEREOF, the CITY OF TRACY has caused this First Supplement to Fiscal Agent Agreement to be signed in its name by an authorized representative, and U.S. BANK NATIONAL ASSOCIATION, has caused this First Supplement to Fiscal Agent Agreement to be signed in its corporate name by its officer identified below, all as of the day and year first above written.

CITY OF TRACY,
for and on behalf of
CITY OF TRACY COMMUNITY
FACILITIES DISTRICT NO. 2016-1
(TRACY HILLS)

By _____
Finance Director

U.S. BANK NATIONAL ASSOCIATION,
as Fiscal Agent

By _____
Vice President

EXHIBIT A

FORM OF SERIES 2019 BOND

No. ____

\$_____

**UNITED STATES OF AMERICA
STATE OF CALIFORNIA
COUNTY OF SAN JOAQUIN**

**IMPROVEMENT AREA NO. 1 OF THE
CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2016-1
(TRACY HILLS)
SPECIAL TAX BONDS, SERIES 2019**

<u>INTEREST RATE</u>	<u>MATURITY DATE</u>	<u>DATED DATE</u>	<u>CUSIP</u>
%	September 1, ____	_____, 2019	

REGISTERED OWNER:

PRINCIPAL AMOUNT: *****DOLLARS

The City of Tracy (the "City") for and on behalf of the "City of Tracy Community Facilities District No. 2016-1 (Tracy Hills)" (the "CFD") with respect to its "Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills)" ("Improvement Area No. 1"), for value received, hereby promises to pay solely from the Special Tax (as hereinafter defined) to be collected in Improvement Area No. 1 or amounts in certain funds and accounts held under the Fiscal Agent Agreement (as hereinafter defined), to the registered owner named above, or registered assigns, on the maturity date set forth above, unless redeemed prior thereto as hereinafter provided, the principal amount set forth above, and to pay interest on such principal amount from the Dated Date set forth above, or from the most recent Interest Payment Date (as hereinafter defined) to which interest has been paid or duly provided for (unless this Bond is authenticated on or before an Interest Payment Date (as hereinafter defined) and after the close of business on the fifteenth day of the calendar month preceding such Interest Payment Date, whether or not such day is a Business Day (the "Record Date"), in which event it shall bear interest from such Interest Payment Date, or unless this Bond is authenticated on or prior to the first Interest Payment Date, in which event it shall bear interest from the Dated Date identified above, payable semiannually on each March 1 and September 1, commencing [September 1, 2019] (each an "Interest Payment Date"), at the interest rate set forth above, until the principal amount hereof is paid or made available for payment provided, however, that if at the time of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment.

Principal of and interest on the Bonds (including the final interest payment upon maturity or earlier redemption), is payable on the applicable Interest Payment Date by check of the Fiscal Agent (defined below) mailed by first class mail to the registered Owner thereof at such registered Owner's address as it appears on the registration books maintained by the Fiscal Agent at the close of business on the Record Date preceding the Interest Payment Date, or by wire transfer made on such Interest Payment Date upon written instructions of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds delivered to the Fiscal Agent prior to the applicable Record Date. The principal of the Bonds and any premium on the Bonds are payable in lawful money of the United States of America upon surrender of the Bonds at the Principal Office of the Fiscal Agent or such other place as designated by the Fiscal Agent.

This Bond is one of a duly authorized issue of bonds in the aggregate principal amount of \$[] approved by a resolution of the City Council of the City adopted on _____, 2019 (the "Resolution"), under the Mello-Roos Community Facilities Act of 1982, as amended, Sections 53311, *et seq.*, of the California Government Code (the "Act") for the purpose of funding certain facilities, and is one of the series of bonds designated "Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2019" (the "Bonds").

The issuance of the Bonds and the terms and conditions thereof are provided for by a Fiscal Agent Agreement, dated as of August 1, 2018 (the "Original Fiscal Agent Agreement"), between the City and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"), as supplemented by a First Supplement to Fiscal Agent Agreement, dated as of _____ 1, 2019 (the "First Supplement to Fiscal Agent Agreement," and together with the Original Fiscal Agent Agreement, as supplemented, the "Fiscal Agent Agreement"), and this reference incorporates the Fiscal Agent Agreement herein, and by acceptance hereof the owner of this Bond assents to said terms and conditions. The Fiscal Agent Agreement is authorized under, this Bond is issued under and both are to be construed in accordance with, the laws of the State of California.

Pursuant to the Act, the Resolution and the Fiscal Agent Agreement, the principal of and interest on this Bond are payable solely from the annual special tax authorized under the Act to be collected within Improvement Area No. 1 (the "Special Tax") and certain funds held under the Fiscal Agent Agreement on a parity with the Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2018. Any tax for the payment hereof shall be limited to the Special Tax, except to the extent that provision for payment has been made by the City, as may be permitted by law. The Bonds do not constitute obligations of the City for which the City is obligated to levy or pledge, or has levied or pledged, general or special taxation other than described herein. Neither the faith and credit nor the taxing power of the City (except to the limited extent set forth in the Fiscal Agent Agreement) or the State of California or any political subdivision thereof is pledged to the payment of the Bonds.

Optional Redemption. The Bonds maturing on or after September 1, 20__ are subject to optional redemption, as directed by the City, from sources of funds other than prepayments of Special Taxes, prior to their stated maturity on any date on or after September 1, 20__ as a whole or in part, at a redemption prices (expressed as a percentage of the principal amount of the Series 2019 Bonds to be redeemed) set forth below, together with accrued interest thereon to the date fixed for redemption:

Redemption Dates

Redemption Price

September 1, 20__ through August 31, 20__	1__%
September 1, 20__ through August 31, 20__	1__
September 1, 20__ through August 31, 20__	1__
September 1, 20__ through any date thereafter	100

Mandatory Sinking Fund Redemption. The Bonds maturing on September 1, 20__ and the Bonds maturing on September 1, 20__, are subject to mandatory redemption in part by lot, from Sinking Fund Payments made by the City from the Bond Fund, at a redemption price equal to the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts and on the dates set forth in the following table:

Series 2019 Bonds Maturing September 1, 20__

Sinking Fund Redemption Date <u>(September 1)</u>	Principal Amount <u>To be Redeemed (\$)</u> \$
20__ (maturity)	

Series 2019 Bonds Maturing September 1, 20__

Sinking Fund Redemption Date <u>(September 1)</u>	Principal Amount <u>To be Redeemed (\$)</u> \$
20__ (maturity)	

Provided, however, if some but not all of the Term Bonds of a given maturity have been redeemed as a result of an optional redemption or a mandatory redemption, the total amount of all future Sinking Fund Payments relating to such maturity shall be reduced by the aggregate principal amount of Term Bonds of such maturity so redeemed, to be allocated among such Sinking Fund Payments on a pro rata basis in integral multiples of \$5,000 as determined by the Fiscal Agent, notice of which determination shall be given by the Fiscal Agent to the City.

Redemption From Special Tax Prepayments. Special Tax Prepayments and any corresponding transfers from the 2019 Reserve Fund shall be used to redeem Bonds on the next Interest Payment Date for which notice of redemption can timely be given, among maturities so as to maintain substantially the same debt service profile for the Bonds as in effect prior to such redemption and by lot within a maturity, at a redemption price (expressed as a percentage of the principal amount of the Bonds to be redeemed), as set forth below, together with accrued interest to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
Any Interest Payment Date on or before March 1, 20__	1__%
September 1, 20__ and March 1, 20__	1__
September 1, 20__ and March 1, 20__	1__
September 1, 20__ and any Interest Payment Date thereafter	100

Notice of redemption with respect to the Bonds to be redeemed shall be given to the registered owners thereof, in the manner, to the extent and subject to the provisions of the Fiscal Agent Agreement.

This Bond shall be registered in the name of the owner hereof, as to both principal and interest. Each registration and transfer of registration of this Bond shall be entered by the Fiscal Agent in books kept by it for this purpose and authenticated by its manual signature upon the certificate of authentication endorsed hereon.

No transfer or exchange hereof shall be valid for any purpose unless made by the registered owner, by execution of the form of assignment endorsed hereon, and authenticated as herein provided, and the principal hereof, interest hereon and any redemption premium shall be payable only to the registered owner or to such owner's order. The Fiscal Agent shall require the registered owner requesting transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such transfer or exchange. No transfer or exchange hereof shall be required to be made (i) fifteen days prior to the date established by the Fiscal Agent for selection of Bonds for redemption or (ii) with respect to a Bond after such Bond has been selected for redemption.

The Fiscal Agent Agreement and the rights and obligations of the City thereunder may be modified or amended as set forth therein. The principal of the Bonds is not subject to acceleration upon a default under the Fiscal Agent Agreement or any other document.

This Bond shall not become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been dated and signed by the Fiscal Agent.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED by the City that all acts, conditions and things required by law to exist, happen and be performed precedent to and in the issuance of this Bond have existed, happened and been performed in due time, form and manner as required by law, and that the amount of this Bond, together with all other indebtedness of the City, does not exceed any debt limit prescribed by the laws or Constitution of the State of California.

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

IN WITNESS WHEREOF, City of Tracy has caused this Bond to be signed by the facsimile signature of its Finance Director and countersigned by the facsimile signature of the Clerk.

Clerk

Finance Director

[FORM OF FISCAL AGENT'S CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the Fiscal Agent Agreement which has been authenticated on _____, 2019.

U.S. BANK NATIONAL ASSOCIATION,
as Fiscal Agent

By: _____
Authorized Signatory

FORM OF ASSIGNMENT

For value received, the undersigned do(es) hereby sell, assign and transfer unto

(Name, Address and Tax Identification or Social Security Number of Assignee)

the within Bond and do(es) hereby irrevocably constitute and appoint _____
_____, attorney, to transfer the same on the registration books of the Fiscal Agent, with
full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

NOTICE: Signature(s) must be guaranteed
by an eligible guarantor.

NOTICE: Signature guarantee shall be
made by a guarantor institution participating
in the Securities Transfer Agents Medallion
Program or in such other guarantee
program acceptable to the Fiscal Agent

EXHIBIT B

FORM OF 2019 COSTS OF ISSUANCE FUND REQUISITION

**IMPROVEMENT AREA NO. 1 OF THE
CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2016-1
(TRACY HILLS)
SPECIAL TAX BONDS, SERIES 2019**

**OFFICER'S CERTIFICATE REQUESTING DISBURSEMENT
FROM SERIES 2019 COSTS OF ISSUANCE FUND**

REQUISITION NO. _____

The undersigned hereby states and certifies that:

(i) I am the duly appointed, qualified and acting Finance Director of the City of Tracy, a general law city duly organized and existing under the laws of the State of California (the "City") and as such, am familiar with the facts herein certified and am authorized to certify the same;

(ii) I am an "Authorized Officer," as such term is defined in that certain Fiscal Agent Agreement (the "Original Fiscal Agent Agreement"), dated as of August 1, 2018 by and between the City and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"), as supplemented by a First Supplement to Fiscal Agent Agreement, dated as of _____ 1, 2019 (the "First Supplement to Fiscal Agent Agreement," and together with the Original Fiscal Agent Agreement, the "Fiscal Agent Agreement"), between the City and the Fiscal Agent;

(iii) under Section 12.03(B) of the First Supplement to Fiscal Agent Agreement, the undersigned hereby requests and authorizes the Fiscal Agent to disburse from the Series 2019 Costs of Issuance Fund (the "Costs of Issuance Fund") established under the First Supplement to Fiscal Agent Agreement to each payee designated on Schedule A attached hereto and by this reference incorporated herein, the amount set forth opposite such payee, for payment or reimbursement of previous payment of Costs of Issuance (as that term is defined in the Fiscal Agent Agreement) as described on the attached Schedule A;

(iv) the disbursements described on the attached Schedule A constitute Costs of Issuance, and are properly chargeable to the Costs of Issuance Fund.

Dated: _____

CITY OF TRACY

By: _____
Finance Director

SCHEDULE A

Payee Name and Address

Purpose of Obligation

Amount

\$ _____
**IMPROVEMENT AREA NO. 1 OF THE CITY OF TRACY
 COMMUNITY FACILITIES DISTRICT NO. 2016-1 (TRACY HILLS)
 SPECIAL TAX BONDS, SERIES 2019**

BOND PURCHASE AGREEMENT

_____, 2019

City of Tracy
 333 Civic Center Plaza
 Tracy, California 95376

Ladies and Gentlemen:

Piper Jaffray & Co., as underwriter (the “Underwriter”), acting not as a fiduciary or agent for you, but on behalf of itself, offers to enter into this Bond Purchase Agreement (this “Purchase Agreement”) with the City of Tracy (the “City”), which upon acceptance will be binding upon the Underwriter and the City. This offer is made subject to the City’s acceptance by the execution of this Purchase Agreement and its delivery to the Underwriter at or before 8:00 P.M., California time, on the date hereof, and, if not so accepted, will be subject to withdrawal by the Underwriter upon notice delivered to the City at any time prior to the acceptance hereof by the City. All capitalized terms used herein, which are not otherwise defined, shall have the meaning provided for such terms in the Fiscal Agent Agreement (the “Original Fiscal Agent Agreement”), dated as of August 1, 2018, as supplemented by the First Supplement to Fiscal Agent Agreement dated as of _____ 1, 2019 (the “First Supplement” and, together with the Original Fiscal Agent Agreement, the “Fiscal Agent Agreement”), each by and between the City and U.S. Bank National Association, as fiscal agent (the “Fiscal Agent”).

1. Purchase, Sale and Delivery of the Bonds.

A. Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Underwriter hereby agrees to purchase from the City and the City hereby agrees to sell to the Underwriter all (but not less than all) of the \$ _____ aggregate principal amount of the Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2019 (the “Bonds”), dated the Closing Date (as hereinafter defined), bearing interest at the rates and maturing on the dates and in the principal amounts set forth in Exhibit A hereto. The purchase price for the Bonds shall be \$ _____ (being 100% of the aggregate principal amount thereof plus an original issue premium of \$ _____ and less an Underwriter’s discount of \$ _____).

The Bonds shall be substantially in the form described in, shall be issued and secured under the provisions of, and shall be payable from the Special Tax Revenues on a parity with the City’s Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2018 (the “2018 Bonds”), as provided in the Fiscal Agent Agreement, the Preliminary Official Statement (as hereinafter defined), and the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5 of Part 1 of Division 2 of Title 5 (commencing with

Section 53311) of the Government Code of the State of California (the “Act”). The issuance of the Bonds has been duly authorized by the City pursuant to Resolution No. 2016-161, adopted on July 19, 2016, as supplemented by Resolution No. 2019-____, adopted on _____, 2019 (collectively, the “Approving Resolution”).

The net proceeds of the Bonds will be used, as indicated in the Fiscal Agent Agreement, for the following purposes: (1) paying costs of issuance of the Bonds; (2) funding the 2019 Reserve Fund; (3) providing funds for the acquisition of certain public facilities; and (4) providing funds to pay interest on the Bonds through September 1, 2019.

Prior to the acceptance of this Purchase Agreement by the City, the City shall have caused to be delivered to the Underwriter (i) a Letter of Representations duly executed by Tracy Phase I, LLC, a Delaware limited liability company (the “Developer”) in substantially the form set forth in Exhibit B-1 hereto, with only such changes thereto as shall have been accepted by the Underwriter, and (ii) Letters of Representations duly executed by each of Lennar Homes of California, Inc. (“Lennar”), Meritage Homes of California, Inc., and Shea Homes Limited Partnership (each, a “Builder” and, collectively, the “Builders”), each in substantially the form set forth in Exhibit B-2 hereto, with only such changes thereto as shall have been accepted by the Underwriter.

B. The City acknowledges that the Underwriter is entering into this Purchase Agreement in reliance on the representations and agreements made by the City herein, and the City shall take all action necessary to enforce its rights hereunder for the benefit of the Underwriter and shall immediately notify the Underwriter if it becomes aware that any representation or agreement made by the City herein is incorrect in any material respect.

The City acknowledges and agrees that: (i) the purchase and sale of the Bonds pursuant to this Purchase Agreement is an arm’s-length commercial transaction between the City and the Underwriter; (ii) in connection therewith and with the discussions, undertakings and procedures leading up to the consummation of such transaction, the Underwriter is and has been acting solely as principal and is not acting as a Municipal Advisor (as defined in Section 15B of the Securities Exchange Act of 1934, as amended); (iii) the Underwriter has not assumed an advisory or fiduciary responsibility in favor of the City with respect to the offering contemplated hereby or the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the City on other matters); and (iv) the City has consulted its own legal, financial and other advisors to the extent that the City has deemed appropriate.

C. Pursuant to the authorization of the City, the Underwriter has distributed copies of the Preliminary Official Statement dated _____, 2019, relating to the Bonds, which, together with the cover page, inside cover page and appendices thereto is herein called the “Preliminary Official Statement.” By its acceptance of this Purchase Agreement, the City hereby ratifies the use by the Underwriter of the Preliminary Official Statement and the preparation and distribution of the final Official Statement (together with any supplements thereto, the “Official Statement”) consisting of the Preliminary Official Statement with such changes as are noted thereon and as may be made thereto, with the approval of Jones Hall, A Professional Law Corporation, the City’s Bond Counsel (“Bond Counsel”) and Disclosure Counsel (“Disclosure Counsel”) and the Underwriter. The City agrees to execute the Official Statement and to provide a copy thereof to the Underwriter as set forth in Section 5.E.1. hereof. The City hereby authorizes and requires the Underwriter to use and promptly distribute, in connection with the offer and sale of the Bonds, the

Preliminary Official Statement, the Official Statement and any supplement or amendment thereto. The City further authorizes the Underwriter to use and distribute, in connection with the offer and sale of the Bonds, the Fiscal Agent Agreement, this Purchase Agreement and all information contained herein, and all other documents, certificates and statements furnished by or on behalf of the City to the Underwriter in connection with the transactions contemplated by this Purchase Agreement.

D. To assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”), the City will undertake pursuant to the Continuing Disclosure Certificate, in the form attached to the Official Statement as Appendix G (the “Continuing Disclosure Certificate”), to provide annual reports and notices of certain enumerated events. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement.

E. Except as the Underwriter and the City may otherwise agree, the City will deliver to the Underwriter, at the offices of Bond Counsel in San Francisco, California, or at such other location as may be mutually agreed upon by the Underwriter and the City, the documents hereinafter mentioned; and the City will deliver to the Underwriter through the facilities of The Depository Trust Company (“DTC”) in New York, New York, the Bonds, in definitive form (all Bonds bearing CUSIP numbers), duly executed by the City and authenticated by the Fiscal Agent in the manner provided for in the Fiscal Agent Agreement and the Act at 8:00 a.m. California time, on _____, 2019 (the “Closing Date”), and the Underwriter will accept such delivery and pay the purchase price of the Bonds as set forth in paragraph (A) of this Section by wire transfer, payable in federal or other immediately available funds (such delivery and payment being herein referred to as the “Closing”). The Bonds shall be in fully registered book-entry form (which may be typewritten) and shall be registered in the name of Cede & Co., as nominee of DTC.

2. Public Offering and Establishment of Issue Price.

A. The Underwriter agrees to make a bona fide public offering of all of the Bonds initially at the public offering prices (or yields) set forth in Exhibit A attached hereto and incorporated herein by reference. Subsequent to the initial public offering, the Underwriter reserves the right to change the public offering prices (or yields) as it deems necessary in connection with the marketing of the Bonds, provided that the Underwriter shall not change the interest rates set forth in Exhibit A. The Bonds may be offered and sold to certain dealers at prices lower than such initial offering prices

B. The Underwriter agrees to assist the City in establishing the issue price of the Bonds and shall execute and deliver to the City at Closing an “issue price” or similar certificate, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Exhibit F, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Underwriter, the City and Bond Counsel, to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the Bonds. All actions to be taken by the City under this section to establish the issue price of the Bonds may be taken on behalf of the City by CSG Advisors Incorporated (the “Municipal Advisor”) and any notice or report to be provided to the City may be provided to the Municipal Advisor.

C. Except as otherwise set forth in Exhibit A, the City will treat the first price at which 10% of each maturity of the Bonds (the “10% test”) is sold to the public as the issue price of

that maturity (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% test). At or promptly after the execution of this Purchase Agreement, the Underwriter shall report to the City the price or prices at which it has sold to the public each maturity of the Bonds. If at that time the 10% test has not been satisfied as to any maturity of the Bonds, the Underwriter agrees to promptly report to the City the prices at which it sells the unsold Bonds of that maturity to the public. That reporting obligation shall continue, whether or not the Closing Date has occurred, until the 10% test has been satisfied as to the Bonds of that maturity or until all Bonds of that maturity have been sold to the public.

D. The Underwriter confirms that it has offered the Bonds to the public on or before the date of this Purchase Agreement at the offering price or prices (the “initial offering price”), or at the corresponding yield or yields, set forth in Exhibit A, except as otherwise set forth therein. Exhibit A also sets forth, identified under the column “Hold the Offering Price Rule Used,” as of the date of this Purchase Agreement, the maturities, if any, of the Bonds for which the 10% test has not been satisfied and for which the City and the Underwriter agree that the restrictions set forth in the next sentence shall apply, which will allow the City to treat the initial offering price to the public of each such maturity as of the sale date as the issue price of that maturity (the “hold-the-offering-price rule”). So long as the hold-the-offering-price rule remains applicable to any maturity of the Bonds, the Underwriter will neither offer nor sell unsold Bonds of that maturity to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

1. the close of the fifth (5th) business day after the sale date; or
2. the date on which the Underwriter has sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The Underwriter shall promptly advise the City when it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.

E. The Underwriter confirms that any selling group agreement and any retail distribution agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each dealer who is a member of the selling group and each broker-dealer that is a party to such retail distribution agreement, as applicable, to: (1) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the Underwriter that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public; and (2) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the Underwriter. The City acknowledges that, in making the representation set forth in this subsection, the Underwriter will rely on: (A) in the event that a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, if applicable, as set forth in a selling group agreement and the related pricing wires; and (B) in the event that a retail distribution agreement was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the hold-the-offering-price rule, if applicable, as set forth in the retail distribution agreement and the related pricing wires. The City further acknowledges that the Underwriter shall not be liable for the failure of any dealer who is a member

of a selling group, or of any broker-dealer that is a party to a retail distribution agreement, to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

F. The Underwriter acknowledges that sales of any Bonds to any person that is a related party to the Underwriter shall not constitute sales to the public for purposes of this section. Further, for purposes of this section:

1. “public” means any person other than an underwriter or a related party;

2. “underwriter” means: (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public; and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public);

3. a purchaser of any of the Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to: (A) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another); (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another); or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other); and

4. “sale date” means the date of execution of this Purchase Agreement by all parties.

3. **Representations and Covenants of the City.** The City represents and covenants to the Underwriter that:

A. The City is duly organized and validly existing as a municipal corporation under the Constitution and laws of the State of California, and has duly authorized the formation of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) (the “Community Facilities District”) and Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) (“Improvement Area No. 1”) pursuant to resolutions and an ordinance duly adopted by the City Council (collectively, the “Community Facilities District Formation Resolution”). Subsequent to the formation of the District and Improvement Area No. 1, the City Council, as the legislative body of the City and the Community Facilities District, adopted resolutions (collectively, the “Change Proceedings Resolutions” and, together with the Community Facilities District Formation Resolution and the Approving Resolution authorizing the issuance and sale of the Bonds, the “City Resolutions”) pursuant to the Act to: (i) increase the bonded indebtedness limit for Improvement Area No. 1 to \$80,000,000, (ii) increase the bonded indebtedness limit for the Future Annexation Area (as defined in the Official Statement) to \$305,000,000, (iii) increase the appropriations limit for Improvement Area No. 1 to \$80,000,000, (iv) amend the boundaries of the Community Facilities District, Improvement Area No. 1 and Future Annexation Area, and (v) amend

the rate and method of apportionment of special tax for Improvement Area No. 1 (as amended, the “Rate and Method”).

The City Council, as the legislative body of the City and the Community Facilities District, (i) has duly adopted the City Resolutions, (ii) has duly adopted Ordinance No. 1224 of the City on August 16, 2016, and Ordinance No. _____ of the City on _____, 2018, levying special taxes within the Community Facilities District (together, the “Ordinance”), and (iii) has caused to be recorded in the real property records of San Joaquin County a notice of special tax lien (the “Amended Notice of Special Tax Lien”) (the Community Facilities District Formation Resolution, the Change Proceedings Resolutions, the Ordinance, the Rate and Method, and the Amended Notice of Special Tax Lien are collectively referred to herein as the “Formation Documents”).

Each of the Formation Documents remains in full force and effect as of the date hereof and has not been amended, except to the extent set forth therein. The Community Facilities District is duly organized and validly existing as a Community Facilities District under the laws of the State of California. The City has, and at the Closing Date will have, as the case may be, full legal right, power and authority: (i) to execute, deliver and perform its obligations under the Fiscal Agent Agreement and this Purchase Agreement, and to carry out all transactions contemplated by each of such agreements; (ii) to issue, sell and deliver its Bonds to the Underwriter; (iii) to enter into the Continuing Disclosure Certificate; and (iv) to carry out, give effect to and consummate the transactions contemplated by the Formation Documents, the Fiscal Agent Agreement, the Continuing Disclosure Certificate, this Purchase Agreement, the Bonds and the Official Statement.

This Purchase Agreement, the Fiscal Agent Agreement, the Bonds and the Continuing Disclosure Certificate are collectively referred to herein as the “City Documents.”

B. The City has complied, and will at the Closing Date be in compliance in all material respects, with the Formation Documents and the City Documents, and any immaterial noncompliance by the City, if any, will not impair the ability of the City to carry out, give effect to or consummate the transactions contemplated by the foregoing. From and after the date of issuance of the Bonds, the City will continue to comply with the covenants of the City contained in the City Documents.

C. Except as described in the Preliminary Official Statement, the City is not, in any respect material to the transactions referred to herein or contemplated hereby, in breach of or in default under, any law or administrative rule or regulation of the State of California, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the City is a party or is otherwise subject or bound, and the execution and delivery and the performance of its obligations under the City Documents and compliance with the provisions of each thereof, or the performance of the conditions precedent to be performed by the City pursuant to the City Documents, will not conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the City is a party or is otherwise subject or bound, in any manner that would materially and adversely affect the performance by the City of its obligations under the City Documents or the

performance of the conditions precedent to be performed by the City pursuant to the City Documents.

D. Except as may be required under the “blue sky” or other securities laws of any jurisdiction, all approvals, consents, authorizations, elections and orders of, or filings or registrations with, any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to, or the absence of which would materially adversely affect, the performance by the City of its obligations under the City Documents, have been or will be obtained at the Closing Date and are or will be in full force and effect at the Closing Date.

E. The City Documents conform as to form and tenor to the descriptions thereof contained in the Official Statement.

F. The Bonds are payable from the Special Tax Revenues generated by the levy of special taxes in Improvement Area No. 1 (the “Special Taxes”), as set forth in the Fiscal Agent Agreement. The levy of the Special Taxes has been duly and validly authorized pursuant to the Act and, subject to the maximum rate of Special Taxes in the Rate and Method and the application of the Special Tax Revenues as set forth in the Fiscal Agent Agreement, the levy of the Special Taxes within Improvement Area No. 1 will be fixed and levied in an amount which, together with other available funds, is required for the payment of the principal of, and interest on, the 2018 Bonds and the Bonds when due and payable, all as provided in the Fiscal Agent Agreement. The City has covenanted in the Fiscal Agent Agreement to cause the Special Taxes to be levied and collected at the same time and in the same manner as ordinary *ad valorem* property taxes.

G. The Fiscal Agent Agreement creates a valid pledge of, first lien upon and security interest in, the Special Tax Revenues, and in the moneys in the Special Tax Fund established pursuant to the Fiscal Agent Agreement, on the terms and conditions set forth in the Fiscal Agent Agreement.

H. Except as disclosed in the Preliminary Official Statement, there are, to the best of the City’s knowledge, no entities with outstanding assessment liens against any of the properties within Improvement Area No. 1 or which are senior to or on a parity with the Special Taxes referred to in paragraph (G) hereof.

I. The information contained in the Preliminary Official Statement and in the Official Statement (other than statements therein pertaining to DTC and its book-entry system and under the caption “PROPERTY OWNERSHIP AND THE DEVELOPMENT” (except for the information under the subcaptions “—Regional Transportation Impact Fee Ongoing Dispute” and “—Development Plan for Improvement Area No. 1 — Conditions of Approval,” excluding information related to the Developer’s planning, budgeting and status and timing of construction and completion and the Jefferson School District facilities and the Welcome Center) as to which no view is expressed) does not and shall not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and, upon delivery and up to and including 25 days after the End of the Underwriting Period (as defined in paragraph (J) below), the Official Statement will be amended and supplemented so as to contain no misstatement of any material fact or omission of any statement necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading.

J. Up to and including 25 days after the End of the Underwriting Period, the City will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent will not be unreasonably withheld. The City will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise materially affecting the use of the Official Statement in connection with the offering, sale or distribution of the Bonds. As used herein, the term “End of the Underwriting Period” means the later of such time as: (i) the Bonds are delivered to the Underwriter; or (ii) the Underwriter does not retain, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public. Unless the Underwriter gives notice to the contrary, the End of the Underwriting Period shall be deemed to be the Closing Date. Any notice delivered pursuant to this provision shall be a written notice delivered to the City at or prior to the Closing Date, and shall specify a date (other than the Closing Date) to be deemed the “End of the Underwriting Period.”

K. At the time of acceptance hereof there is and as of the Closing there will be no action pending (notice of which has been served on the City) or to the best knowledge of the City threatened, in which any such action: (i) in any way questions the existence of the Community Facilities District or the titles of the officers of the City to their respective offices; (ii) affects, contests or seeks to prohibit, restrain or enjoin the issuance or delivery of the Bonds or the payment or collection of Special Tax Revenues or any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contests or affects the validity of the City Documents or the consummation of the transactions on the part of the City contemplated thereby; (iii) contests the exemption of interest on the Bonds from federal or State income taxation or contests the powers of the City or the Community Facilities District which may result in any material adverse change relating to the financial condition of the Community Facilities District; or (iv) contests the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserts that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and as of the time of acceptance hereof there is and, as of the Closing Date, there will be no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (i) through (iv) of this sentence.

L. Any certificate signed on behalf of the City by any officer or employee of the City authorized to do so shall be deemed a representation by the City to the Underwriter as to the statements made therein.

M. At or prior to the Closing, the City will have duly authorized, executed and delivered the Continuing Disclosure Certificate in substantially the form attached as Appendix G to the Official Statement. Except as disclosed in the Preliminary Official Statement, the City has not failed to comply in all respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events in the last five years.

N. The City will apply the proceeds of its Bonds in accordance with the Fiscal Agent Agreement.

O. Between the date of the Purchase Agreement and the date of Closing, the City will not offer or issue any bonds, notes or other obligations for borrowed money payable or secured by Special Taxes, except as previously disclosed to the Underwriter.

The execution and delivery of this Purchase Agreement by the City shall constitute a representation to the Underwriter that the representations contained in this Section 3 are true as of the date hereof.

4. **[Reserved]**.

5. **Conditions to the Obligations of the Underwriter.** The obligation of the Underwriter to accept delivery of and pay for the Bonds on the Closing Date shall be subject, at the option of the Underwriter, to the accuracy in all material respects of the representations on the part of the City contained herein, to the accuracy in all material respects of the statements of the officers and other officials of the City made in any certificates or other documents furnished pursuant to the provisions hereof, to the performance by the City of its obligations to be performed hereunder at or prior to the Closing Date and, to the following additional conditions:

A. At the Closing Date, the City Resolutions, the Formation Documents, and the City Documents shall be in full force and effect, and shall not have been amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter, and there shall have been taken in connection therewith, with the issuance of the Bonds, and with the transactions contemplated thereby, and by this Purchase Agreement, all such actions as, in the opinion of Bond Counsel, shall be necessary and appropriate.

B. At the Closing Date, except as was described in the Official Statement, the City shall not be, in any respect material to the transactions referred to herein or contemplated hereby, in breach of or in default under, any law or administrative rule or regulation of the State of California, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the City is a party or is otherwise subject or bound, and the execution and delivery and the performance by the City of its obligations under the City Documents, the City Resolutions and any other instruments contemplated by any of such documents, and compliance with the provisions of each thereof, will not conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State of California, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the City is a party or is otherwise subject or bound, in any manner that would materially and adversely affect the performance by the City of its obligations under the City Documents or the City Resolutions.

C. The information contained in the Official Statement is, as of the Closing Date and as of the date of any supplement or amendment thereto pursuant hereto, true and correct in all material respects and does not, as of the Closing Date or as of the date of any supplement or amendment thereto, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

D. Between the date hereof and the Closing Date, the market price or marketability, at the initial offering prices set forth on the inside cover page of the Official Statement, of the Bonds shall not have been materially adversely affected, in the judgment of the Underwriter

(evidenced by a written notice to the City terminating the obligation of the Underwriter to accept delivery of and pay for the Bonds), by reason of any of the following:

1. Legislation introduced in or enacted (or resolution passed) by the Congress of the United States of America or recommended to the Congress by the President of the United States, the Department of the Treasury, the Internal Revenue Service, or any member of Congress, or favorably reported for passage to either House of Congress by any committee of such House to which such legislation had been referred for consideration, or a decision rendered by a court established under Article III of the Constitution of the United States of America or by the Tax Court of the United States of America, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Treasury Department of the United States of America or the Internal Revenue Service, with the purpose or effect, directly or indirectly, of imposing federal income taxation upon such interest as would be received by any owners of the Bonds beyond the extent to which such interest is subject to taxation as of the date hereof;

2. Legislation introduced in or enacted (or resolution passed) by the Congress or an order, decree or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the Securities Act of 1933, as amended, or that the Fiscal Agent Agreement are not exempt from qualification under or other requirements of the Fiscal Agent Agreement Act of 1939, as amended, or that the issuance, offering or sale of obligations of the general character of the Bonds, including any or all underlying arrangements, as contemplated hereby or by the Official Statement or otherwise is or would be in violation of the federal securities laws as amended and then in effect;

3. A general suspension of trading in securities on the New York Stock Exchange, or a general banking moratorium declared by Federal, State of New York or State of California officials authorized to do so;

4. The introduction, proposal or enactment of any amendment to the Federal or California Constitutions or any action by any Federal or California court, legislative body, regulatory body or other authority materially adversely affecting the tax status of the City, its property, income, securities (or interest thereon), or the validity or enforceability of Special Taxes as contemplated by the Official Statement;

5. Any event occurring, or information becoming known which, in the judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Preliminary Official Statement or in the Official Statement, or has the effect that the Preliminary Official Statement or the Official Statement contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

6. Any national securities exchange, the Comptroller of the Currency, or any other governmental authority, shall impose as to the Bonds or obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in

force, with respect to the extension of credit by, or the charge to the net capital requirements of, the Underwriter;

7. There shall have occurred any material outbreak or escalation of hostilities or other calamity or crisis the effect of which on the financial markets of the United States is such as to make it impracticable, in the judgment of the Underwriter, following consultation with the City, to sell the Bonds;

8. The filing or threat of an Action described Section 3.K hereof; or

9. Any proceeding shall have been commenced or be threatened in writing by the Securities and Exchange Commission against the City.

E. At or prior to the Closing Date, the Underwriter shall have received a counterpart original or certified copy of the following documents, in each case satisfactory in form and substance to the Underwriter:

1. The Official Statement, executed on behalf of the City by its Finance Director or other authorized officer;

2. The City Documents, duly executed and delivered by all parties thereto;

3. The City Resolutions, together with a certificate dated as of the Closing Date of the City Clerk to the effect that the City Resolutions are true, correct and complete copies of the City Resolutions duly adopted by the City Council;

4. The Formation Documents, together with a certificate dated as of the Closing Date of the City Clerk to the effect that the Formation Documents are true, correct and complete copies of the Formation Documents duly adopted by the City Council;

5. An unqualified approving opinion for the Bonds, dated the Closing Date and addressed to the City, of Bond Counsel, in substantially the form included as Appendix F to the Official Statement;

6. A supplemental opinion or opinions, dated the Closing Date and addressed to the Underwriter, of Bond Counsel, in substantially the form attached hereto as Exhibit D;

7. A letter from Holland & Knight LLP, counsel to the Developer, dated the Closing Date and addressed to the Underwriter and the City, substantially in the form attached hereto as Exhibit E-1;

8. A letter from Holland & Knight LLP, counsel to Lennar, dated the Closing Date and addressed to the Underwriter and the City, substantially in the form attached hereto as Exhibit E-2;

9. An opinion of counsel to Lennar dated as of the Closing Date and addressed to the Underwriter as to the due authorization, execution, delivery and validity of the

Lennar Continuing Disclosure Certificate (as defined below), in form and substance acceptable to the Underwriter

10. A certificate dated the Closing Date and signed by an authorized representative of the City or an authorized designee, on behalf of the City to the effect that: (i) the representations made by the City contained in this Purchase Agreement are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date, provided that any references as to the Preliminary Official Statement shall be deemed to be to the Official Statement; (ii) to the best knowledge of such officer, no event has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein not misleading in any material respect; and (iii) the City has complied with all the agreements and satisfied all the conditions on its part to be satisfied under the City Documents prior to the Closing Date;

11. An opinion of the City Attorney of the City, dated the date of Closing and addressed to the Underwriter and the City, to the effect that:

(i) The City is a municipal corporation, corporate and politic, duly organized and existing under the Constitution and laws of the State of California;

(ii) The City Resolutions and the Formation Documents have been duly adopted at a meeting of the City Council, which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and the City Resolutions and the Formation Documents are in full force and effect and have not been modified, amended, rescinded or repealed since the date of their adoption;

(iii) The City Documents and the Official Statement have been duly authorized, executed and delivered by the City and the City Documents constitute the legal, valid and binding obligations of the City enforceable against the City in accordance with their terms, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles where equitable remedies are sought and to the exercise of judicial discretion in appropriate cases;

(iv) To the best knowledge of such counsel, the execution and delivery of the City Documents and the Official Statement and compliance with the provisions thereof under the circumstances contemplated thereby: (a) do not in any material respect conflict with or constitute on the part of the City a breach of or default under any agreement or other instrument to which the City is a party or by which it is bound; and (b) do not and will not in any material respect or constitute on the part of the City a violation, breach of or default under any court order or consent decree to which the City is subject;

(v) Except as may be stated in the Official Statement, there is no action, suit, proceeding or investigation before or by any court, public board or body pending (notice of which has been served on the City) or, to such counsel's knowledge, threatened wherein an unfavorable decision, ruling or finding would: (a) affect the creation, organization, existence or powers of the City or the Community Facilities District, or the titles of its members and officers to their respective offices; or (b) affect the validity of the City Documents, the City Resolutions or the Formation Documents, or restrain or enjoin the repayment of the Bonds or in any

way contest or affect the validity of the City Documents, the City Resolutions or the Formation Documents, or contest the authority of the City to enter into or perform its obligations under any of the City Documents, the City Resolutions or the Formation Documents, or under which a determination adverse to the City would have a material adverse effect upon the financial condition or the revenues of the City or the Community Facilities District, questions the right of the City to use Special Tax Revenues for the repayment of the Bonds or affects in any manner the right or ability of the City to collect or pledge the Special Taxes levied within Improvement Area No. 1 for the repayment of the Bonds;

12. A transcript of all proceedings relating to the authorization, issuance, sale and delivery of the Bonds, including certified copies of the Fiscal Agent Agreement and all resolutions of the City relating thereto;

13. A certificate dated the Closing Date from Goodwin Consulting Group, Inc. addressed to the City and the Underwriter to the effect that: (i) the Special Taxes (after payment of estimated Administrative Expenses) if collected in the maximum amounts permitted pursuant to the Rate and Method as of the Closing Date would generate at least 110% of the annual debt service payable with the 2018 Bonds and the Bonds in each year, based on such assumptions and qualifications as shall be acceptable to the Underwriter; and (ii) the statements in the Official Statement provided by Goodwin Consulting Group, Inc. concerning the Special Taxes and the Rate and Method and all information supplied by it for use in the Official Statement as of the date of the Official Statement and as of the Closing Date did not and do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading;

14. Certified copies of the general resolution of the Fiscal Agent authorizing the execution and delivery of certain documents by certain officers of the Fiscal Agent, which resolution authorizes the execution of the Fiscal Agent Agreement and the authentication of the Bonds;

15. A certificate of the Fiscal Agent, addressed to the Underwriter and the City dated the Closing Date, to the effect that: (i) the Fiscal Agent is authorized to carry out corporate trust powers, and have full power and authority to perform its duties under the Fiscal Agent Agreement; (ii) the Fiscal Agent is duly authorized to execute and deliver the Fiscal Agent Agreement, to accept the obligations created by the Fiscal Agent Agreement and to authenticate the Bonds pursuant to the terms of the Fiscal Agent Agreement; (iii) no consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Fiscal Agent that has not been obtained is or will be required for the authentication of the Bonds or the consummation by the Fiscal Agent of the other transactions contemplated to be performed by the Fiscal Agent in connection with the authentication of the Bonds and the acceptance and performance of the obligations created by the Fiscal Agent Agreement; and (iv) to the best of its knowledge, compliance with the terms of the Fiscal Agent Agreement will not conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, trust agreement, bond, note, resolution or any other agreement or instrument to which the Fiscal Agent is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Fiscal Agent or any of its activities or properties;

16. An opinion of counsel to the Fiscal Agent, dated the Closing Date, addressed to the Underwriter and the City to the effect that the Fiscal Agent is a national banking

association duly organized and validly existing under the laws of the United States having full power and being qualified to enter into, accept and agree to the provisions of the Fiscal Agent Agreement, and that the Fiscal Agent Agreement has been duly authorized, executed and delivered by the Fiscal Agent and, assuming due execution and delivery by the other parties thereto, constitutes the legal, valid and binding obligation of the Fiscal Agent enforceable in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting the enforcement of creditors' rights in general and except as such enforceability may be limited by the application of equitable principles if equitable remedies are sought;

17. A certificate of the City dated the Closing Date, in a form acceptable to Bond Counsel and the Underwriter, that the Bonds are not arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended;

18. An opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, counsel to the Underwriter ("Underwriter's Counsel"), dated the date of Closing and addressed to the Underwriter in form and substance acceptable to the Underwriter;

19. A certificate of the Developer dated the Closing Date, substantially in the form attached as Exhibit C-1 hereto;

20. Certificates of each of the Builders dated the Closing Date, substantially in the form attached as Exhibit C-2 hereto;

21. A Certificate of the Appraiser, substantially in the form attached hereto as Exhibit G;

22. A Certificate of the Market Absorption Consultant, substantially in the form attached hereto as Exhibit H;

23. A continuing disclosure certificate executed and delivered by Lennar, dated as of the Closing Date in the form attached as Appendix H to the Official Statement (the "Lennar Continuing Disclosure Certificate"); and

24. Such additional legal opinions, certificates, instruments and other documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the material representations of the City contained herein, and of the statements and information contained in the Official Statement and the due performance or satisfaction by the City at or prior to the Closing of all agreements then to be performed and all conditions then to be satisfied by the City in connection with the transactions contemplated hereby and by the Fiscal Agent Agreement and the Official Statement.

If the City shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds contained in this Purchase Agreement, or if the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds shall be terminated for any reason permitted by this Purchase Agreement, this Purchase Agreement shall terminate and neither the City nor the Underwriter shall be under any further obligation hereunder, except that the respective obligations of the Underwriter and the City set forth in Section 7 hereof shall continue in full force and effect.

6. **Conditions to the Obligations of the City.** The obligations of the City shall be subject to the satisfaction of the conditions contained in Section 5 of this Purchase Agreement.

7. **Expenses.** Whether or not the transactions contemplated by this Purchase Agreement are consummated, the Underwriter shall be under no obligation to pay, and the City shall pay only from the proceeds of the Bonds or any other legally available funds of the City or the Community Facilities District, but only as the City and such other party providing such services may agree, all expenses and costs of the City incident to the performance of its obligations in connection with the authorization, execution, sale and delivery of the Bonds to the Underwriter, including, without limitation, printing costs, initial fees of the Fiscal Agent, including fees and disbursements of their counsel, if any, fees and disbursements of Bond Counsel, Disclosure Counsel and other professional advisors employed by the City, costs of preparation, printing, signing, transportation, delivery and safekeeping of the Bonds and for expenses (included in the expense component of the spread) incurred by the Underwriter on behalf of the City's employees which are incidental to implementing this Purchase Agreement, including, but not limited to, meals, transportation and lodging of those employees. The Underwriter shall pay all out-of-pocket expenses of the Underwriter, including, without limitation, advertising expenses, the California Debt and Investment Advisory Commission fee, CUSIP Services Bureau charges, regulatory fees imposed on new securities issuers and any and all other expenses incurred by the Underwriter in connection with the public offering and distribution of the Bonds, including fees of its counsel.

8. **Notices.** Any notice of other communication to be given to the City under this Purchase Agreement may be given by delivering the same in writing to the City of Tracy, 333 Civic Center Plaza, Tracy, California 95376, Attention: Finance Director; any notice or other communication to be given to the Underwriter under this Purchase Agreement may be given by delivering the same in writing to Piper Jaffray & Co, 8880 Cal Center Drive, Suite 400, Sacramento, CA 95826, Attention: Dennis McGuire.

9. **Parties In Interest.** This Purchase Agreement is made solely for the benefit of the City and the Underwriter (including any successors or assignees of the Underwriter) and no other person shall acquire or have any right hereunder or by virtue hereof.

10. **Survival of Representations.** The representations of the City under this Purchase Agreement shall not be deemed to have been discharged, satisfied or otherwise rendered void by reason of the Closing and regardless of any investigations made by or on behalf of the Underwriter (or statements as to the results of such investigations) concerning such representations and statements of the City and regardless of delivery of and payment for the Bonds.

11. **Execution in Counterparts.** This Purchase Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

12. **Effective.** This Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the City and shall be valid and enforceable as of the time of such acceptance.

13. **No Prior Agreements.** This Purchase Agreement supersedes and replaces all prior negotiations, agreements and understanding among the parties hereto in relation to the sale of the Bonds by the City.

14. **Governing Law.** This Purchase Agreement shall be governed by the laws of the State of California.

15. **Effective Date.** This Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the City and shall be valid and enforceable as of the time of such acceptance.

Very truly yours,

PIPER JAFFRAY & CO.

By: _____
Its: Authorized Officer

Time of Execution: _____

CITY OF TRACY

By: _____
Jenny Haruyama
City Manager

EXHIBIT A

\$ _____

**IMPROVEMENT AREA NO. 1 OF THE CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (TRACY HILLS)
SPECIAL TAX BONDS, SERIES 2019**

**Schedule of Bond Maturities, Principal Amounts, Interest Rates, Yields
and Initial Offering Prices**

<i>Maturity Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Initial Offering Price</i>	<i>10% Test Used</i>	<i>Hold the Price Offering Rule Used</i>
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Optional Redemption. The Bonds maturing on or after September 1, 20__, are subject to optional redemption as directed by the City, from sources of funds other than prepayments of Special Taxes, prior to their stated maturity on any date on or after September 1, 20__, as a whole or in part, at the redemption prices (expressed as a percentage of the principal amount of the Bonds to be redeemed) set forth below, together with accrued interest thereon to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
-------------------------	-------------------------

Mandatory Sinking Fund Redemption. The Bonds maturing on September 1, 20__ (the “Term Bonds”), will also be subject to mandatory redemption in part by lot, from Sinking Fund Payments made by the City from the Bond Fund, at a redemption price equal to the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts, as set forth in the table below; provided, however, if some but not all of the Term Bonds of a given maturity have been redeemed through optional redemption or mandatory prepayment redemption as described above and below, the total amount of all future Sinking Fund Payments relating to such maturity will

be reduced by the aggregate principal amount of Term Bonds of such maturity so redeemed, to be allocated among such Sinking Fund Payments as directed by the City:

Sinking Fund Redemption Date (<u>September 1</u>)	Sinking Fund Payments
--	----------------------------------

(maturity)

Redemption from Special Tax Prepayments. Special Tax Prepayments and any corresponding transfers from the 2019 Reserve Fund will be used to redeem Bonds on the next Interest Payment Date for which notice of redemption can timely be given under the Fiscal Agent Agreement, among maturities so as to maintain substantially the same debt service profile for the Bonds as in effect prior to such redemption and by lot within a maturity, at a redemption price (expressed as a percentage of the principal amount of the Bonds to be redeemed), as set forth below, together with accrued interest to the date fixed for redemption:

Redemption Dates

Redemption Price

EXHIBIT B-1

**IMPROVEMENT AREA NO. 1 OF THE CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (TRACY HILLS)
SPECIAL TAX BONDS, SERIES 2019**

**LETTER OF REPRESENTATIONS OF
TRACY PHASE I, LLC**

_____, 2019

City of Tracy
333 Civic Center Plaza
Tracy, California 95376

Piper Jaffray & Co.
8880 Cal Center Drive, Suite 400
Sacramento, California 95826

Ladies and Gentlemen:

Reference is made to the Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2019 (the “Bonds”) and to the Bond Purchase Agreement to be entered into in connection therewith (the “Purchase Agreement”). This Letter of Representations of Tracy Phase I, LLC (the “Letter of Representations”) is delivered pursuant to the Purchase Agreement. Capitalized terms used and not otherwise defined herein have the meanings ascribed to them in the Purchase Agreement.

The undersigned certifies that he or she is familiar with the facts herein certified and is authorized and qualified to certify the same as an authorized officer or representative of Tracy Phase I, LLC, a Delaware limited liability company (the “Developer”), and the undersigned, on behalf of the Developer, further certifies as follows:

1. The Developer is a limited liability company validly existing and in good standing as a limited liability company under the laws of the State of Delaware and is duly registered to transact intrastate business in the State of California as a foreign limited liability company and is in good standing in the State of California and has all requisite limited liability company right, power and authority: (i) to execute and deliver this Letter of Representations; and (ii) to undertake all of the transactions on its part described in the Preliminary Official Statement.

2. As set forth in the Preliminary Official Statement, certain property within Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) (the “Improvement Area”) is held in the name of the Developer (herein the “Property”). The undersigned, on behalf of the Developer, makes the representations herein with respect to all such Property.

3. Except as disclosed in the Preliminary Official Statement, to the Actual Knowledge of the Undersigned (defined below), (a) the Developer and its Affiliates are not in breach of or in default under any applicable judgment or decree or any loan agreement, option agreement, development agreement, indenture, fiscal agent agreement, bond or note (collectively, the “Material Agreements”) to which the Developer or its Affiliates are a party or otherwise subject, which breach or default could reasonably be expected to materially and adversely affect the Developer’s ability to complete the development of the Property as described in the Preliminary Official Statement or to pay the Special Taxes on the Property (to the extent the responsibility of the Developer) prior to delinquency, and (b) no event has occurred and is continuing that with the passage of time or giving of notice, or both, would constitute such a breach or default.

4. To the Actual Knowledge of the Undersigned, neither the Developer, nor any of its Affiliates is in default on any obligation to repay borrowed money, which default is reasonably likely to materially and adversely affect the Developer’s ability to complete the development of the Property as described in the Preliminary Official Statement or to pay the Special Taxes on the Property (to the extent the responsibility of the Developer) prior to delinquency.

5. Except as set forth in the Preliminary Official Statement, no action, suit, proceeding, inquiry or investigation at law or in equity, before or by any court, regulatory agency, public board or body is pending against the Developer (with proper service of process to the Developer having been accomplished) or, to the Actual Knowledge of the Undersigned, is pending against any current Affiliate (with proper service of process to such Affiliate having been accomplished) or to the Actual Knowledge of the Undersigned is threatened in writing against the Developer or any such Affiliate which if successful, is reasonably likely to materially and adversely affect the Developer’s ability to complete the development of the Property as described in the Preliminary Official Statement or to pay the Special Taxes on the Property (to the extent the responsibility of the Developer) prior to delinquency.

6. As of the date thereof, the Preliminary Official Statement, solely with respect to information contained therein with respect to the Developer, its Affiliates, ownership of the Property, the Developer’s development plan, the Developer’s financing plan, the Developer’s lenders, if any, and contractual arrangements of the Developer or any Affiliates (including, if material to the Developer’s development plan or the Developer’s financing plan, other loans of such Affiliates) as set forth under the caption “PROPERTY OWNERSHIP AND THE DEVELOPMENT” (but specifically excluding any information under the captions “—The Merchant Builders,” “Lennar Homes,” “—Meritage,” and “—Shea” for which no certification is made) (but excluding any information cited as coming from a source other than the Developer) is true and correct in all material respects and did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

7. The Developer covenants that, while the 2018 Bonds, the Bonds or any refunding obligations related thereto are outstanding, the Developer and its Affiliates which it controls will not bring any action, suit, proceeding, inquiry or investigation at law or in equity, before any court, regulatory agency, public board or body, that in any way seeks to challenge or overturn the formation of the Community Facilities District or the Improvement Area, to challenge the adoption of ordinance(s) of the City levying Special Taxes within the Improvement Area, to invalidate the Community Facilities District or the Improvement Area or any of the Bonds or any refunding bonds related thereto, or to invalidate the special tax liens imposed under Section 3115.5 of the Streets and

Highways Code based on recordation of the amended notice of special tax lien relating thereto. The foregoing covenant shall not prevent the Developer in any way from bringing any action, suit, proceeding, inquiry or investigation at law or in equity, before any court, regulatory agency, public board or body including, without limitation, (a) an action or suit contending that the Special Taxes have not been levied in accordance with the methodologies contained in the Community Facilities District's Amended and Restated Rate and Method of Apportionment of Special Tax Revenues pursuant to which the Special Taxes are levied, (b) an action or suit with respect to the application or use of the Special Taxes levied and collected, (c) the enforcement of the obligations of the City or the Community Facilities District under the Fiscal Agent Agreement or any agreements between the Developer and the City or the Community Facilities District or under which the Developer is a beneficiary.

8. Except as disclosed in the Preliminary Official Statement, to the Actual Knowledge of the Undersigned, the Developer is not aware that any other public debt secured by a tax or assessment on the Property exists or is in the process of being authorized or any assessment districts or community facilities districts have been or are in the process of being formed that include any portion of the Property.

9. To the Actual Knowledge of the Undersigned, neither the Developer nor any Affiliate has been delinquent to any material extent in the payment of any *ad valorem* property tax, special assessment or special tax on property owned by the Developer or any Affiliate within the boundaries of a community facilities district or an assessment district within California that (a) would have caused a draw on a reserve fund relating to such assessment district or community facilities district financing or (b) resulted in a foreclosure action being commenced in a court of law against the Developer or any such Affiliate.

10. The Developer intends to comply with the provision of the Mello-Roos Act of 1982, as amended, relating to the Notice of Special Tax described in Government Code Section 53341.5 in connection with the sale of the Property, or portions thereof.

11. To the Actual Knowledge of the Undersigned, the Developer is able to pay its bills as they become due and no legal proceedings are pending against the Developer (with proper service of process to the Developer having been accomplished) or, to the Actual Knowledge of the Undersigned, threatened in writing in which the Developer may be adjudicated as bankrupt or discharged from any and all of its debts or obligations, or granted an extension of time to pay its debts or obligations, or be allowed to reorganize or readjust its debts, or be subject to control or supervision of the Federal Deposit Insurance Corporation.

12. To the Actual Knowledge of the Undersigned, Affiliates of the Developer are able to pay their bills as they become due and no legal proceedings are pending against any Affiliates of the Developer (with proper service of process to such Affiliate having been accomplished) or to the Actual Knowledge of the Undersigned, threatened in writing in which the Affiliates of the Developer may be adjudicated as bankrupt or discharged from any or all of their debts or obligations, or granted an extension of time to pay their debts or obligations, or be allowed to reorganize or readjust their debts or obligations, or be subject to control or supervision of the Federal Deposit Insurance Corporation.

13. If between the date hereof and the Closing Date any event relating to or affecting the Developer, its Affiliates, ownership of the Property, the Developer's development plan, the

Developer's financing plan, the Developer's lenders, if any, and contractual arrangements of the Developer or any Affiliates (including, if material to the Developer's development plan or the Developer's financing plan, other loans of such Affiliates) shall occur of which the undersigned has actual knowledge and which the undersigned believes would cause the information under the sections of the Preliminary Official Statement indicated in Paragraph 6 hereof, to contain an untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the undersigned shall notify the City and the Underwriter and if in the opinion of counsel to the City or the Underwriter such event requires the preparation and publication of a supplement or amendment to the Preliminary Official Statement, the Developer shall reasonably cooperate with the City in the preparation of an amendment or supplement to the Preliminary Official Statement in form and substance reasonably satisfactory to counsel to the City and to the Underwriter.

14. The Developer agrees to deliver a Closing Certificate dated the date of issuance of the Bonds at the time of issuance of the Bonds in substantially the form attached to the Purchase Agreement as Exhibit C-1.

15. As used in this Letter of Representations, the term "Actual Knowledge of the Undersigned" means the knowledge that the undersigned currently has or has obtained through (i) interviews with such current officers and responsible employees of the Developer as the undersigned has reasonably determined are likely, in the ordinary course of their respective duties, to have knowledge of the matters set forth in this Letter of Representations including the chief financial officer of the Developer or, if the Developer does not have a chief financial officer, the person who performs the functions usually associated with such officer (unless the undersigned is the chief financial officer or such person), and (ii) reviews of documents reasonably available to the undersigned and which the undersigned reasonably deemed necessary for the undersigned to execute this Letter of Representations. The undersigned has not conducted any extraordinary inspection or inquiry other than such inspections or inquiries as are prudent and customary in connection with the ordinary course of the Developer's current business and operations. The undersigned has not contacted any individuals who are no longer employed by, or associated with, the Developer.

16. As used in this Letter of Representations, the term "Affiliate" of the Developer means any person directly (or indirectly through one or more intermediaries) that exercises managerial control over the Developer or that is under managerial control of the Developer, and about whom information could be material to potential investors in their investment decision regarding the Bonds, but excludes the Builders.

17. On behalf of the Developer, I have reviewed the contents of this Letter of Representations and have met with counsel to the Developer for the purpose of discussing the meaning of its contents.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; EXECUTION PAGE FOLLOWS]

The undersigned has executed this Letter of Representations solely in his or her capacity as an authorized officer or representative of Developer and he or she will have no personal liability arising from or relating to this Letter of Representations. Any liability arising from or relating to this Letter of Representations may only be asserted against the Developer.

Tracy Phase I, LLC
a Delaware limited liability company

By: _____
Authorized Representative

EXHIBIT B-2

**IMPROVEMENT AREA NO. 1 OF THE CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (TRACY HILLS)
SPECIAL TAX BONDS, SERIES 2019**

**LETTER OF REPRESENTATIONS OF
[NAME OF BUILDER]**

_____, 2019

City of Tracy
333 Civic Center Plaza
Tracy, California 95376

Piper Jaffray & Co.
8880 Cal Center Drive, Suite 400
Sacramento, California 95826

Ladies and Gentlemen:

Reference is made to the Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2019 (the “Bonds”) and to the Bond Purchase Agreement to be entered into in connection therewith (the “Purchase Agreement”). This Letter of Representations of [NAME OF BUILDER] (the “Letter of Representations”) is delivered pursuant to the Purchase Agreement. Capitalized terms used and not otherwise defined herein have the meanings ascribed to them in the Purchase Agreement.

The undersigned certifies that he or she is familiar with the facts herein certified and is authorized and qualified to certify the same as an authorized officer or representative of [Name of Builder], a _____ (the “Builder”), and the undersigned, on behalf of the Builder, further certifies as follows:

1. The Builder is a [limited liability company/limited partnership] validly existing and in good standing as a [limited liability company/limited partnership] under the laws of the State of [California] and is duly registered to transact intrastate business in the State of California as a [foreign] limited liability company and is in good standing in the State of California and has all requisite right, power and authority: (i) to execute and deliver this Letter of Representations; and (ii) to undertake all of the transactions on its part described in the Preliminary Official Statement.

2. As set forth in the Preliminary Official Statement, the Builder owns certain property within Improvement Area No. 1 (“Improvement Area No. 1”) of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) (herein the “Property”). The undersigned, on behalf of the Builder, makes the representations herein with respect to all such Property.

3. Except as disclosed in the Preliminary Official Statement, to the Actual Knowledge of the Undersigned (defined below), (a) the Builder and its Affiliates are not in breach of or in default under any applicable judgment or decree or any loan agreement, option agreement, development agreement, indenture, fiscal agent agreement, bond or note (collectively, the “Material Agreements”) to which the Builder and its Affiliates are a party or otherwise subject, which breach or default could reasonably be expected to materially and adversely affect the Builder’s ability to complete the development of the Property as described in the Preliminary Official Statement or to pay the Special Taxes on the Property (to the extent the responsibility of the Builder) prior to delinquency, and (b) no event has occurred and is continuing that with the passage of time or giving of notice, or both, would constitute such a breach or default.

4. To the Actual Knowledge of the Undersigned, neither the Builder nor any of its Affiliates is in default on any obligation to repay borrowed money, which default is reasonably likely to materially and adversely affect the Builder’s ability complete the development of the Property as described in the Preliminary Official Statement or to pay the Special Taxes on the Property (to the extent the responsibility of the Builder) prior to delinquency.

5. Except as set forth in the Preliminary Official Statement, no action, suit, proceeding, inquiry or investigation at law or in equity, before or by any court, regulatory agency, public board or body is pending against the Builder (with proper service of process to the Builder having been accomplished) or, to the Actual Knowledge of the Undersigned, is pending against any current Affiliate (with proper service of process to such Affiliate having been accomplished) or to the Actual Knowledge of the Undersigned is threatened in writing against the Builder or any such Affiliate which if successful, is reasonably likely to materially and adversely affect the Builder’s ability to complete the development of the Property as described in the Preliminary Official Statement or to pay the Special Taxes on the Property (to the extent the responsibility of the Builder) prior to delinquency.

6. As of the date thereof, information set forth in the Preliminary Official Statement under the captions “PROPERTY OWNERSHIP AND THE DEVELOPMENT—The Merchant Builders” and “[Name of Builder]” but, in each caption, solely as such information pertains to Builder, its Affiliates (defined below), the Property, Builder’s development of the Property and Builder’s contractual arrangements with respect thereto contained or contain any untrue statement of a material fact or omitted or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

7. The Builder covenants that, while the 2018 Bonds and the Bonds or any refunding obligations related thereto are outstanding, the Builder and its Affiliates which it controls will not bring any action, suit, proceeding, inquiry or investigation at law or in equity, before any court, regulatory agency, public board or body, that in any way seeks to challenge or overturn the formation of the Community Facilities District or Improvement Area No. 1, to challenge the adoption of the ordinance(s) of the City levying Special Taxes within Improvement Area No. 1, to invalidate the Community Facilities District or any of the Bonds or any refunding bonds related thereto, or to invalidate the special tax liens imposed under Section 3115.5 of the Streets and Highways Code based on recordation of the amended notice of special tax lien relating thereto. The foregoing covenant shall not prevent the Builder in any way from bringing any action, suit, proceeding, inquiry or investigation at law or in equity, before any court, regulatory agency, public board or body including, without limitation, (a) an action or suit contending that the Special Taxes have not been levied in accordance with the methodologies contained in the Community Facilities District’s

Amended and Restated Rate and Method of Apportionment of Special Tax Revenues pursuant to which the Special Taxes are levied, (b) an action or suit with respect to the application or use of the Special Taxes levied and collected, or (c) the enforcement of the obligations of the City or the Community Facilities District under the Fiscal Agent Agreement or any agreements between the Builder and the City or the Community Facilities District or under which the Builder is a beneficiary.

8. To the Actual Knowledge of the Undersigned, neither the Builder nor any Affiliate has been delinquent to any material extent in the payment of any *ad valorem* property tax, special assessment or special tax on property owned by the Builder or any Affiliate within the boundaries of a community facilities district or an assessment district within California that (a) would have caused a draw on a reserve fund relating to such assessment district or community facilities district financing or (b) resulted in a foreclosure action being commenced in a court of law against the Builder or any such Affiliate.

9. To the Actual Knowledge of the Undersigned, the Builder is able to pay its bills as they become due and no legal proceedings are pending against the Builder (with proper service of process to the Builder having been accomplished) or, to the Actual Knowledge of the Undersigned, threatened in writing in which the Builder may be adjudicated as bankrupt or discharged from any and all of its debts or obligations, or granted an extension of time to pay its debts or obligations, or be allowed to reorganize or readjust its debts, or be subject to control or supervision of the Federal Deposit Insurance Corporation.

10. To the Actual Knowledge of the Undersigned, Affiliates of the Builder are able to pay their bills as they become due and no legal proceedings are pending against any Affiliates of the Builder (with proper service of process to such Affiliate having been accomplished) or to the Actual Knowledge of the Undersigned, threatened in writing in which the Affiliates of the Builder may be adjudicated as bankrupt or discharged from any or all of their debts or obligations, or granted an extension of time to pay their debts or obligations, or be allowed to reorganize or readjust their debts or obligations, or be subject to control or supervision of the Federal Deposit Insurance Corporation.

11. If between the date hereof and the Closing Date any event relating to or affecting the Builder, its Affiliates, ownership of the Property, the Builder's development plan, the Builder's financing plan, the Builder's lenders, if any, and contractual arrangements of the Builder or any Affiliates (including, if material to the Builder's development plan or the Builder's financing plan, other loans of such Affiliates) shall occur of which the undersigned has actual knowledge and which the undersigned believes would cause the information under the sections of the Preliminary Official Statement indicated in Paragraph 6 hereof, to contain an untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the undersigned shall notify the City and the Underwriter and if in the opinion of counsel to the City or the Underwriter such event requires the preparation and publication of a supplement or amendment to the Preliminary Official Statement, the Builder shall reasonably cooperate with the City in the preparation of an amendment or supplement to the Preliminary Official Statement in form and substance reasonably satisfactory to counsel to the City and to the Underwriter.

12. The Builder agrees to deliver a Closing Certificate dated the date of issuance of the Bonds at the time of issuance of the Bonds in substantially the form attached to the Purchase Agreement as Exhibit C-2.

13. As used in this Letter of Representations, the term “Actual Knowledge of the Undersigned” means the knowledge that the undersigned currently has or has obtained through (i) interviews with such current officers and responsible employees of the Builder as the undersigned has reasonably determined are likely, in the ordinary course of their respective duties, to have knowledge of the matters set forth in this Letter of Representations including the chief financial officer of the Builder or, if the Builder does not have a chief financial officer, the person who performs the functions usually associated with such officer (unless the undersigned is the chief financial officer or such person), and (ii) reviews of documents reasonably available to the undersigned and which the undersigned reasonably deemed necessary for the undersigned to execute this Letter of Representations. The undersigned has not conducted any extraordinary inspection or inquiry other than such inspections or inquiries as are prudent and customary in connection with the ordinary course of the Builder’s current business and operations. The undersigned has not contacted any individuals who are no longer employed by, or associated with, the Builder.

14. As used in this Letter of Representations, the term “Affiliate” of Builder means any person directly (or indirectly through one or more intermediaries) under managerial control of Builder, and about whom information could be material to potential investors in their investment decision regarding the Bonds (including, without limitation, information relevant to the proposed development of the Property, or to Builder’s ability to pay the Special Taxes on the Property (to the extent the responsibility of the Builder) prior to delinquency).

15. On behalf of the Builder, I have reviewed the contents of this Letter of Representations and have met with counsel to the Builder for the purpose of discussing the meaning of its contents.

The undersigned has executed this Letter of Representations solely in his or her capacity as an authorized officer or representative of Builder and he or she will have no personal liability arising from or relating to this Letter of Representations. Any liability arising from or relating to this Letter of Representations may only be asserted against the Builder.

[Name of Builder]
a _____

By: _____
Authorized Representative

EXHIBIT C-1

\$ _____
IMPROVEMENT AREA NO. 1 OF THE CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (TRACY HILLS)
SPECIAL TAX BONDS, SERIES 2019

CLOSING CERTIFICATE OF TRACY PHASE I, LLC

_____, 2019

City of Tracy
333 Civic Center Plaza
Tracy, California 95376

Piper Jaffray & Co.
8880 Cal Center Drive, Suite 400
Sacramento, California 95826

Ladies and Gentlemen:

Reference is made to the Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2019 (the "Bonds") and to the Bond Purchase Agreement, dated _____, 2019 (the "Purchase Agreement"), entered into in connection therewith. This Closing Certificate of Tracy Phase I, LLC (the "Closing Certificate") is delivered by Tracy Phase I, LLC, a Delaware limited liability company (the "Developer") pursuant to the Purchase Agreement. Capitalized terms used herein or in the Letter of Representations (defined below) and not otherwise defined have the meanings ascribed to them in the Purchase Agreement. A copy of a Letter of Representations of Tracy Phase I, LLC (the "Letter of Representations"), dated _____, 2019, delivered by the Developer, is attached hereto as Exhibit A.

The undersigned certifies that he or she is familiar with the facts herein certified and is authorized and qualified to certify the same as an authorized officer or representative of the Developer, and the undersigned, on behalf of the Developer, further certifies as follows:

1. The Developer has received the final Official Statement relating to the Bonds. Each statement, representation and warranty made in the Letter of Representations is true and correct in all material respects on and as of the date hereof with the same effect as if made on the date hereof, except that all references therein to the Preliminary Official Statement shall be deemed to be references to the final Official Statement.

2. To the Actual Knowledge of the Undersigned, no event has occurred since the date of the Preliminary Official Statement affecting the statements and information described in Paragraph 6 of the Letter of Representations relating to the Developer, its Affiliates, ownership of the Property, the Developer's development plan, the Developer's financing plan, the Developer's lenders, if any, and contractual arrangements of the Developer or any Affiliates (including, if material to the Developer's development plan or the Developer's financing plan, other loans of such Affiliates) which should be disclosed in the Official Statement for the purposes for which it is to be used in

order to make such statements and information contained in the Official Statement not misleading in any material respect.

3. For the period through 25 days after the “End of the Underwriter Period” as defined in the Purchase Agreement to mean the Closing Date unless otherwise notified in writing by the Underwriter, if any event relating to or affecting the Developer, its Affiliates, ownership of the Property, the Developer’s development plan, the Developer’s financing plan, the Developer’s lenders, if any, and contractual arrangements of the Developer or any Affiliates (including, if material to the Developer’s development plan or the Developer’s financing plan, other loans of such Affiliates) shall occur as a result of which it is necessary, in the opinion of the Underwriter or counsel to the City, to amend or supplement the Official Statement in order to make the Official Statement not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, the Developer shall reasonably cooperate with the City and the Underwriter in the preparation of an amendment or supplement to the Official Statement in form and substance reasonably satisfactory to the Underwriter and Disclosure Counsel which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time the Official Statement is delivered to a purchaser, not misleading.

4. The undersigned has executed this Closing Certificate solely in his or her capacity as an officer of Developer and he or she will have no personal liability arising from or relating to this Closing Certificate. Any liability arising from or relating to this Closing Certificate may only be asserted against the Developer.

Tracy Phase I, LLC
a Delaware limited liability company

By: _____
Authorized Representative

EXHIBIT C-2

\$ _____
IMPROVEMENT AREA NO. 1 OF THE CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (TRACY HILLS)
SPECIAL TAX BONDS, SERIES 2019

CLOSING CERTIFICATE OF [NAME OF BUILDER]

_____, 2019

City of Tracy
333 Civic Center Plaza
Tracy, California 95376

Piper Jaffray & Co.
8880 Cal Center Drive, Suite 400
Sacramento, California 95826

Ladies and Gentlemen:

Reference is made to the Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2019 (the "Bonds") and to the Bond Purchase Agreement, dated _____, 2019 (the "Purchase Agreement"), entered into in connection therewith. This Closing Certificate of [NAME OF BUILDER] is delivered by [Name of Builder], a _____ (the "Builder") pursuant to the Purchase Agreement. Capitalized terms used herein or in the Letter of Representations (defined below) and not otherwise defined have the meanings ascribed to them in the Purchase Agreement. A copy of a Letter of Representations of [NAME OF BUILDER] (the "Letter of Representations"), dated _____, 2019, delivered by the Builder, is attached hereto as Exhibit A.

The undersigned certifies that he or she is familiar with the facts herein certified and is authorized and qualified to certify the same as an authorized officer or representative of the Builder, and the undersigned, on behalf of the Builder, further certifies as follows:

1. The Builder has received the final Official Statement relating to the Bonds. Each statement, representation and warranty made in the Letter of Representations is true and correct in all material respects on and as of the date hereof with the same effect as if made on the date hereof, except that all references therein to the Preliminary Official Statement shall be deemed to be references to the final Official Statement.

2. To the Actual Knowledge of the Undersigned, no event has occurred since the date of the Preliminary Official Statement affecting the statements and information described in Paragraph 6 of the Letter of Representations relating to the Builder, its Affiliates, ownership of the Property, the Builder's development plan, the Builder's financing plan, the Builder's lenders, if any, and contractual arrangements of the Builder or any Affiliates (including, if material to the Builder's development plan or the Builder's financing plan, other loans of such Affiliates) which should be disclosed in the Official Statement for the purposes for which it is to be used in order to make such

statements and information contained in the Official Statement not misleading in any material respect.

3. For the period through 25 days after the “End of the Underwriter Period” as defined in the Purchase Agreement to mean the Closing Date unless otherwise notified in writing by the Underwriter, if any event relating to or affecting the Builder, its Affiliates, ownership of the Property, the Builder’s development plan, the Builder’s financing plan, the Builder’s lenders, if any, and contractual arrangements of the Builder or any Affiliates (including, if material to the Builder’s development plan or the Builder’s financing plan, other loans of such Affiliates) shall occur as a result of which it is necessary, in the opinion of the Underwriter or counsel to the City, to amend or supplement the Official Statement in order to make the Official Statement not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, the Builder shall reasonably cooperate with the City and the Underwriter in the preparation of an amendment or supplement to the Official Statement in form and substance reasonably satisfactory to the Underwriter and Disclosure Counsel which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time the Official Statement is delivered to a purchaser, not misleading.

4. The undersigned has executed this Closing Certificate solely in his or her capacity as an officer of Builder and he or she will have no personal liability arising from or relating to this Closing Certificate. Any liability arising from or relating to this Closing Certificate may only be asserted against the Builder.

[Name of Builder]

a _____

By: _____
Authorized Representative

EXHIBIT D

SUPPLEMENTAL OPINION OF BOND COUNSEL

[Date of Issuance]

Piper Jaffray & Co., as Underwriter
Sacramento, California

§ _____
Improvement Area No. 1 of the City of Tracy
Community Facilities District No. 2016-1 (Tracy Hills)
Special Tax Bonds, Series 2019

(Supplemental Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Tracy (the “City”) of the above-referenced bonds (the “Bonds”) pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being sections 53311 et seq. of the California Government Code (the “Law”), resolutions of the City adopted on July 19, 2016 and _____, 2019 (together, the “Resolution”) and a Fiscal Agent Agreement (the “Original Fiscal Agent Agreement”), dated as of August 1, 2018, as supplemented by the First Supplement to Fiscal Agent Agreement dated as of _____ 1, 2019 (the “First Supplement” and, together with the Original Fiscal Agent Agreement, the “Fiscal Agent Agreement”), each by and between the City, for and on behalf of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) (the “District”), and U.S. Bank National Association, as fiscal agent. Capitalized terms used herein but not defined have the meaning given them in the Bond Purchase Agreement, dated _____, 2019 (the “Purchase Agreement”), by and between Piper Jaffray & Co., as underwriter (the “Underwriter”), and the City, acting for and on behalf of the District.

We have examined the Fiscal Agent Agreement, the Purchase Agreement, and the Continuing Disclosure Certificate, dated _____, 2019 (the “Continuing Disclosure Certificate”), executed and delivered by the City and agreed and accepted by Goodwin Consulting Group, Inc., as dissemination agent, (collectively, the “City Documents”), the Law and such certified proceedings and other papers as we deem necessary to render this opinion.

This letter is being delivered in our capacity as bond counsel to the City and not as counsel to the Underwriter.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Resolution, the Fiscal Agent Agreement and the certified proceedings and certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

(i) the Purchase Agreement has been duly authorized, executed and delivered by the City, and, assuming that the Purchase Agreement constitutes the valid and binding obligation the Underwriter, constitutes the legally valid and binding obligations of the City enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and general principles of equity (regardless of whether such enforceability is considered in equity or at law);

(ii) the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Fiscal Agent Agreement is exempt from qualification under the Trust Indenture Act of 1939, as amended;

(iii) the information contained in the Official Statement on the cover and under the captions "INTRODUCTION," "THE 2019 BONDS," "SECURITY FOR THE BONDS," "TAX MATTERS" and Appendices E and F thereof (except that no opinion or belief is expressed as to any financial or statistical data contained therein), insofar as it purports to summarize certain provisions of the Act, the Bonds, the Fiscal Agent Agreement and the exclusion from gross income for federal income tax purposes and exemption from State personal income taxes of interest on the Bonds, presents a fair and accurate summary of such provisions; and

(iv) We are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement, dated as of _____, 2019 (the "Official Statement"), and make no representation that we have independently verified the accuracy, completeness or fairness of any such statements; however, in connection with the Official Statement, we have reviewed certain documents and have participated in conferences in which the contents of the Official Statement and related matters were discussed. During the course of our work on this matter, no facts have come to our attention that have caused us to believe that the Official Statement (except for the following items, which we expressly exclude from the scope of this sentence: any financial, statistical and demographic data or forecasts, numbers, charts, estimates, projections, assumptions or expressions of opinion, the appraisal, and information regarding DTC and its book-entry only system, that is contained or incorporated by reference in the Official Statement and the appendices to the Official Statement) as of the date of the Official Statement or the date hereof contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

The preceding paragraph is not an opinion but constitutes negative observations based on certain limited activities performed by specific lawyers in our firm in our role as special disclosure counsel to the City. The scope of the activities we performed for purposes of delivering this letter was inherently limited and does not purport to encompass all activities necessary for compliance with applicable securities laws. In addition, in performing those activities, we relied on third party representations, warranties, certifications and opinions, including and primarily, representations, warranties and certifications made by the City. The preceding paragraph is otherwise subject to the conditions set forth herein.

This opinion letter is solely for your benefit in connection with the transaction covered by the first paragraph of this letter and may not be relied upon, used, circulated, quoted or referred to, nor any copies hereof be delivered to, any other person without our prior written approval.

Very truly yours,

JONES HALL, a Professional Law Corporation

EXHIBIT E-1

NEGATIVE ASSURANCE LETTER FOR TRACY PHASE I, LLC

_____, 2019

City of Tracy
333 Civic Center Plaza
Tracy, California 95376

Piper Jaffray & Co.
8880 Cal Center Drive, Suite 400
Sacramento, California 95826

**Re: \$_____ Improvement Area No. 1 of the City of Tracy Community
Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2019**

Ladies and Gentlemen:

We have acted as special counsel to Tracy Phase I, LLC, a Delaware limited liability company (the “Developer”) in connection with the development of certain property owned by the Developer (the “Property”) located within the boundaries of Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) (the “Improvement Area”) and in connection with the issuance and sale by the City of Tracy (the “City”) of \$_____ Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2019 (the “Bonds”). The Bonds are described in that certain Official Statement dated _____, 2019 (the “Official Statement”).

The Bonds are being sold to Piper Jaffray & Co., as underwriter (the “Underwriter”), pursuant to that certain Bond Purchase Agreement, dated _____, 2019 (the “Bond Purchase Agreement”), by and between the City and the Underwriter. This letter is provided for the benefit of the City, the Community Facilities District, and the Underwriter pursuant to Section 5.E.7. of the Bond Purchase Agreement.

We advise you that we are not general counsel to the Developer and do not represent the Developer on a continuing basis. Rather, we represent the Developer as requested from time to time on specific matters.

The primary purpose of our professional engagement was not to establish or confirm factual matters or quantitative information. We are not passing upon and do not assume any responsibility for the accuracy, completeness, or fairness of any of the statements contained in the Official Statement and make no representation that we have independently verified the accuracy, completeness, or fairness of any such statements. However, in our capacity as special counsel to the Developer, we reviewed the Official Statement and we met in conferences with representatives of the Developer, the Underwriter and its counsel, Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel, and others, during which conferences the contents of the Official Statement and related matters were discussed. We have reviewed only the electronic version of the Official Statement delivered to Robert M. Haight, Jr. (robert.haight@hkllaw.com) on _____, 2019,

from _____ (the “Official Electronic Version”), and we assume that any printed version and all other electronic versions of the Official Statement are identical in all respects to such Official Electronic Version. Our statements herein with respect to the Official Statement do not pertain to any printed or electronic version of the Official Statement that is not identical in all respects to the Official Electronic Version. We also reviewed certain written statements of officers and other representatives of the Developer and others as to the existence and consequence of certain factual and other matters.

Based on our participation, review, and reliance as described above, we advise you that no information came to the attention of the lawyers in our firm rendering legal services in connection with such representation that caused us to believe that, as of the date of the Official Statement and as of the date hereof, the statements in the Official Statement relating to the Developer and its Affiliates, the Property and the Developer’s improvement and sale of the Property under the caption “PROPERTY OWNERSHIP AND THE DEVELOPMENT” (but specifically excluding any information under the captions “—The Merchant Builders,” “—Lennar Homes,” “—Meritage” and “—Shea” for which no representation is made) contained or contain any untrue statement of a material fact or omitted or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except that no belief or view is expressed as to (a) any financial statements and other financial, statistical, economic, demographic, or engineering data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions, or expressions of opinion, or (b) any information about valuation, appraisals, market absorption, archaeological, or environmental matters). For purposes of this paragraph, “attention” refers to the conscious awareness of each of the lawyers in our firm who actively participated in rendering legal services in connection with such representation and “believe” refers to the actual, subjective, good faith belief of each of those lawyers. Please be advised that only Robert M. Haight, Jr. has rendered such legal services in connection with such representation.

We express no opinion or belief as to the applicability or effect on the subject transaction of the securities laws of the State of California or of the United States of America, including but not limited to the Securities Act of 1933, as amended.

No attorney-client relationship has existed or exists between our firm and the City, the Community Facilities District or the Underwriter in connection with the Bonds or by virtue of this letter. This letter is delivered as of the date hereof and is furnished solely for your benefit in connection with the subject transaction, and may not be relied upon for any other purpose or furnished to, used, circulated, quoted, or referred to by any other person without our prior written consent. This letter is not intended to, and may not, be relied upon by any owners of the Bonds.

Our engagement with respect to this matter has terminated as of the date hereof, and we do not undertake to advise you of any matters that may come to our attention subsequent to the date hereof that may affect the statements set forth herein.

This letter is limited to the matters expressly set forth herein, and no belief or assurance is implied or may be inferred beyond the matters expressly stated herein.

Respectfully submitted,

HOLLAND & KNIGHT LLP

NEGATIVE ASSURANCE LETTER FOR LENNAR

_____, 2019

City of Tracy
333 Civic Center Plaza
Tracy, California 95376

Piper Jaffray & Co.
8880 Cal Center Drive, Suite 400
Sacramento, California 95826

**Re: \$_____ Improvement Area No. 1 of the City of Tracy Community
Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2019**

Ladies and Gentlemen:

We have acted as special counsel to Lennar Homes of California, Inc., a California corporation (the “Developer”) in connection with the development of certain property owned by the Developer (the “Property”) located within the boundaries of Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) (the “Improvement Area”) and in connection with the issuance and sale by the City of Tracy (the “City”) of \$_____ Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2019 (the “Bonds”). The Bonds are described in that certain Official Statement dated _____, 2019 (the “Official Statement”).

The Bonds are being sold to Piper Jaffray & Co., as underwriter (the “Underwriter”), pursuant to that certain Bond Purchase Agreement, dated _____, 2019 (the “Bond Purchase Agreement”), by and between the City and the Underwriter. This letter is provided for the benefit of the City, the Community Facilities District, and the Underwriter pursuant to Section 5.E.8. of the Bond Purchase Agreement.

We advise you that we are not general counsel to the Developer and do not represent the Developer on a continuing basis. Rather, we represent the Developer as requested from time to time on specific matters.

The primary purpose of our professional engagement was not to establish or confirm factual matters or quantitative information. We are not passing upon and do not assume any responsibility for the accuracy, completeness, or fairness of any of the statements contained in the Official Statement and make no representation that we have independently verified the accuracy, completeness, or fairness of any such statements. However, in our capacity as special counsel to the Developer, we reviewed the Official Statement and we met in conferences with representatives of the Developer, the Underwriter and its counsel, Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel, and others, during which conferences the contents of the Official Statement and related matters were discussed. We have reviewed only the electronic version of the Official Statement delivered to Robert M. Haight, Jr. (robert.haight@hkllaw.com) on _____, 2019, from _____ (the “Official Electronic Version”), and we assume that any printed version and all other electronic versions of the Official Statement are identical in all respects to such Official

Electronic Version. Our statements herein with respect to the Official Statement do not pertain to any printed or electronic version of the Official Statement that is not identical in all respects to the Official Electronic Version. We also reviewed certain written statements of officers and other representatives of the Developer and others as to the existence and consequence of certain factual and other matters.

Based on our participation, review, and reliance as described above, we advise you that no information came to the attention of the lawyers in our firm rendering legal services in connection with such representation that caused us to believe that, as of the date of the Official Statement and as of the date hereof, the statements in the Official Statement relating to the Developer and its Affiliates, the Property and the Developer's improvement and sale of the Property under the caption "PROPERTY OWNERSHIP AND THE DEVELOPMENT—Lennar Homes," and "CONTINUING DISCLOSURE—Lennar Continuing Disclosure" contained or contain any untrue statement of a material fact or omitted or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except that no belief or view is expressed as to (a) any financial statements and other financial, statistical, economic, demographic, or engineering data or forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions, or expressions of opinion, or (b) any information about valuation, appraisals, market absorption, archaeological, or environmental matters). For purposes of this paragraph, "attention" refers to the conscious awareness of each of the lawyers in our firm who actively participated in rendering legal services in connection with such representation and "believe" refers to the actual, subjective, good faith belief of each of those lawyers. Please be advised that only Robert M. Haight, Jr. has rendered such legal services in connection with such representation.

We express no opinion or belief as to the applicability or effect on the subject transaction of the securities laws of the State of California or of the United States of America, including but not limited to the Securities Act of 1933, as amended.

No attorney-client relationship has existed or exists between our firm and the City, the Community Facilities District or the Underwriter in connection with the Bonds or by virtue of this letter. This letter is delivered as of the date hereof and is furnished solely for your benefit in connection with the subject transaction, and may not be relied upon for any other purpose or furnished to, used, circulated, quoted, or referred to by any other person without our prior written consent. This letter is not intended to, and may not, be relied upon by any owners of the Bonds.

Our engagement with respect to this matter has terminated as of the date hereof, and we do not undertake to advise you of any matters that may come to our attention subsequent to the date hereof that may affect the statements set forth herein.

This letter is limited to the matters expressly set forth herein, and no belief or assurance is implied or may be inferred beyond the matters expressly stated herein.

Respectfully submitted,

HOLLAND & KNIGHT LLP

EXHIBIT F

\$ _____

**IMPROVEMENT AREA NO. 1 OF THE CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (TRACY HILLS)
SPECIAL TAX BONDS, SERIES 2019**

FORM OF ISSUE PRICE CERTIFICATE

The undersigned, on behalf of Piper Jaffray & Co. (the “**PJC**”), hereby certifies as set forth below with respect to the sale and issuance of the above-captioned bonds (the “**Bonds**”).

1. ***Sale of the General Rule Maturities.*** As of the date of this certificate, for each Maturity of the General Rule Maturities, the first price at which at least 10% of such Maturity was sold to the Public is the respective price listed in Schedule A.

2. ***Initial Offering Price of the Hold-the-Offering-Price Maturities.***

(a) **PJC** offered the Hold-the-Offering-Price Maturities to the Public for purchase at the respective initial offering prices listed in Schedule I (the “**Initial Offering Prices**”) on or before the Sale Date. A copy of the pricing wire or equivalent communication for the Bonds is attached to this certificate as Schedule II.

(b) As set forth in the Bond Purchase Agreement, dated _____, 2019, by and between **PJC** and the Issuer, PJC has agreed in writing that: (i) for each Maturity of the Hold-the-Offering-Price Maturities, it would neither offer nor sell any of the Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the “**hold-the-offering-price rule**”); and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any retail distribution agreement shall contain the agreement of each broker-dealer who is a party to the retail distribution agreement, to comply with the hold-the-offering-price rule. Pursuant to such agreement, no Underwriter (as defined below) has offered or sold any Maturity of the Hold-the-Offering-Price Maturities at a price that is higher than the respective Initial Offering Price for that Maturity of the Bonds during the Holding Period.

3. ***Defined Terms.***

(a) ***General Rule Maturities*** means those Maturities of the Bonds listed in Schedule I hereto as the “General Rule Maturities.”

(b) ***Hold-the-Offering-Price Maturities*** means those Maturities of the Bonds listed in Schedule I hereto as the “Hold-the-Offering-Price Maturities.”

(c) ***Holding Period*** means, with respect to a Hold-the-Offering-Price Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the _____, 2019 (the Sale Date), or (ii) the date on which the Underwriter has sold at least 10% of such Hold-the-Offering-Price Maturity to the Public at prices that are no higher than the Initial Offering Price for such Hold-the-Offering-Price Maturity.

(d) *Issuer* means the City of Tracy.

(e) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate maturities.

(f) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(g) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is ____ __, 2019.

(h) *Underwriter* means: (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public; and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents PJC’s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Jones Hall, a Professional Law Corporation, in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

PIPER JAFFRAY & CO.

By: _____

Name: _____

Dated: _____, 2019

SCHEDULE A

SALE PRICES OF THE GENERAL RULE MATURITIES

(Attached)

EXHIBIT G

\$ _____

**IMPROVEMENT AREA NO. 1 OF THE CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (TRACY HILLS)
SPECIAL TAX BONDS, SERIES 2019**

CERTIFICATE OF APPRAISER

_____, 2019

City of Tracy
333 Civic Center Plaza
Tracy, California 95376

Piper Jaffray & Co.
8880 Cal Center Drive, Suite 400
Sacramento, California 95826

The undersigned hereby states and certifies:

1. That he is an authorized principal of Integra Realty Resources (the “Appraiser”) and as such is familiar with the facts herein certified and is authorized and qualified to certify the same.

2. That the Appraiser has prepared an appraisal report, dated _____, 2019 (the “Appraisal Report”), on behalf of the City of Tracy (the “City”) in connection with the Preliminary Official Statement, dated _____, 2019 (the “Preliminary Official Statement”) and the Official Statement dated _____, 2019 (“Official Statement”), for the Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2019 (the “Bonds”).

3. That the Appraiser hereby consents to the reproduction and use of the Appraisal Report appended to the Preliminary Official Statement and the Official Statement. The Appraiser also consents to the references to the Appraiser and the Appraisal Report made in the Preliminary Official Statement and the Official Statement.

4. In the opinion of the Appraiser the assumptions made in the Appraisal Report are reasonable. Since the date of value of the Appraisal Report, the Appraiser is not aware of any facts that would cause its opinion of value of the taxable property in the Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) (the “Improvement Area”) to be lower than the value in the Appraisal.

5. Each of the parcels appraised by the Appraiser is encompassed within the Improvement Area as set forth in the boundary map of the Improvement Area.

6. That, as of the date of the Official Statement and as of the date hereof, the Appraisal Report appended to the Official Statement, to the best of my knowledge and belief, and subject to all

of the Assumptions and Limiting Conditions set forth in the Appraisal Report, does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading, and no events or occurrences have been ascertained by us or have come to our attention that would substantially change the estimated values stated in the Appraisal Report. However, we have not performed any procedures since the date of the Appraisal Report to obtain knowledge of such events or occurrences nor are we obligated to do so in the future.

7. The City and the Underwriter, Piper Jaffray & Co., are entitled to rely on the Certificate.

INTEGRA REALTY RESOURCES

By: _____
Authorized Representative

EXHIBIT H

\$ _____

**IMPROVEMENT AREA NO. 1 OF THE CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (TRACY HILLS)
SPECIAL TAX BONDS, SERIES 2019**

CERTIFICATE OF MARKET ABSORPTION CONSULTANT

_____, 2019

City of Tracy
333 Civic Center Plaza
Tracy, California 95376

Piper Jaffray & Co.
8880 Cal Center Drive, Suite 400
Sacramento, California 95826

The undersigned hereby states and certifies:

1. That he is an authorized principal of Empire Economics, Inc. (the “Market Absorption Consultant”) and as such is familiar with the facts herein certified and is authorized and qualified to certify the same.

2. That the Market Absorption Consultant has prepared an Market report, dated _____, 2019 (the “Market Report”), on behalf of the City of Tracy (the “City”) in connection with the Preliminary Official Statement, dated _____, 2019 (the “Preliminary Official Statement”) and the Official Statement dated _____, 2019 (“Official Statement”), for the Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2019 (the “Bonds”).

3. That the Market Absorption Consultant hereby consents to the reproduction and use of the Market Report appended to the Preliminary Official Statement and the Official Statement. The Market Absorption Consultant also consents to the references to the Market Absorption Consultant and the Market Report made in the Preliminary Official Statement and the Official Statement.

4. In the opinion of the Market Absorption Consultant the assumptions made in the Market Report are reasonable. Since the date of the Market Report, the Market Absorption Consultant is not aware of any facts that would cause its opinion as to the timing of home sales in Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) to be different than the Market Report.

5. That, as of the date of the Official Statement and as of the date hereof, the Market Report appended to the Official Statement, to the best of my knowledge and belief, and subject to all of the limiting conditions and major assumptions set forth in the Market Report, does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the

statements contained therein, in the light of the circumstances under which they were made, not misleading, and no events or occurrences have been ascertained by us or have come to our attention that would substantially change the estimated timing of home sales stated in the Market Report. However, we have not performed any procedures since the date of the Market Report to obtain knowledge of such events or occurrences nor are we obligated to do so in the future.

6. The City and the Underwriter, Piper Jaffray & Co., are entitled to rely on the Certificate.

EMPIRE ECONOMICS

By: _____
Authorized Representative

RESOLUTION _____

A RESOLUTION SUPPLEMENTING RESOLUTION NO. 2016-161 TO AUTHORIZE THE ISSUANCE AND SALE OF SPECIAL TAX BONDS FOR THE PURPOSE OF FINANCING AUTHORIZED FACILITIES, AND APPROVING AND AUTHORIZING RELATED DOCUMENTS AND ACTIONS

Improvement Area No. 1 of the
City of Tracy Community Facilities District No. 2016-1 (Tracy Hills)

WHEREAS, the City Council previously conducted proceedings under and pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, Chapter 2.5 of Part 1 of Division 2 of Title 5 (commencing with Section 53311) of the California Government Code (the "Act"), to form (i) "City of Tracy Community Facilities District No. 2016-1 (Tracy Hills)" (the "CFD") and (ii) "Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills)" ("Improvement Area No. 1"), to authorize the levy of special taxes upon the land within the Improvement Area No. 1 and issue bonds secured by those special taxes for financing certain public improvements (the "Authorized Facilities") in the aggregate principal amount of \$80,000,000, all as described in those proceedings, and

WHEREAS, pursuant to Resolution No. 2016-161, which was adopted on July 19, 2016 (the "Original Resolution of Issuance"), this Council authorized the issuance of up to \$70,000,000 of bonded indebtedness and other debt on behalf of the CFD with respect to Improvement Area No. 1 (the "Improvement Area No. 1 Indebtedness Limit"), directed staff to prepare documentation for such bonded indebtedness and other debt and return to this Council for approval of such documentation, and appointed U.S. Bank National Association as fiscal agent for such bonded indebtedness and other debt (the "Fiscal Agent"), and

WHEREAS, subsequent to the adoption of the Original Resolution of Issuance, the City Council conducted change proceedings under the Act and adopted Resolution No. 2018-169 on August 21, 2018, in order, among other things, to increase the Improvement Area No. 1 Indebtedness Limit to \$80,000,000, and

WHEREAS, for the purpose of financing Authorized Facilities, under the provisions of the Act and a Fiscal Agent Agreement (the "Original Fiscal Agent Agreement"), dated as of August 1, 2018, by and between the City, for and on behalf of the CFD, and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"), the City previously issued, for and on behalf of the CFD, its \$32,625,000 initial principal amount Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2018 (the "2018 Bonds"), and

WHEREAS, as a result of the issuance of the 2018 Bonds, the remaining unissued amount of bonded indebtedness of Improvement Area No. 1 is \$47,375,000, and

WHEREAS, this City Council now wishes to supplement the Original Resolution of Issuance to finance the costs of acquiring and constructing Authorized Facilities, by issuing its Improvement Area No. 1 of the City of Tracy Community Facilities District No. 2016-1 (Tracy Hills) Special Tax Bonds, Series 2019 (the "Bonds"), and to supplement the Original Fiscal Agent Agreement, and there have been submitted to this City Council certain documents described below providing for such supplement and for the issuance of the Bonds for the CFD

and the use of the proceeds of those Bonds, and this City Council with the aid of its staff has reviewed the documents and found them to be in proper order, and

WHEREAS, there has also been submitted to this City Council a form of preliminary Official Statement in connection with the marketing of the Bonds, and the City Council, with the aid of its staff, has reviewed the preliminary Official Statement, and

WHEREAS, in accordance with Government Code Section 5852.1, this City Council has obtained and wishes to disclose the information set forth in Appendix A hereto, and

WHEREAS, all conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of the Bonds and the levy of the special taxes as contemplated by this resolution and the documents referred to herein exist, have happened and have been performed in due time, form and manner as required by the laws of the State of California, including the Act;

NOW, THEREFORE, BE IT RESOLVED, as follows:

Section 1. Bonds Authorized. Pursuant to the Act, the Original Resolution of Issuance, this Resolution and the Fiscal Agent Agreement, as supplemented by a First Supplement to Fiscal Agent Agreement (the "First Supplement to Fiscal Agent Agreement"; as it supplements the Original Fiscal Agent Agreement, the "Fiscal Agent Agreement"), by and between the City, for and on behalf of the CFD, and the Fiscal Agent, the Bonds are hereby authorized to be issued in the principal amount not to exceed eighteen million dollars (\$18,000,000.00).

The Bonds shall be dated, bear interest at the rates, mature on the dates, be issued in the form, be subject to redemption, and otherwise be issued on the terms and conditions, all as set forth in the First Supplement to Fiscal Agent Agreement and in accordance with this Resolution; provided, however, that the true interest cost payable with respect to the Bonds shall not exceed six and one-half percent (6.50%). The Fiscal Agent (as defined in the Recitals to this Resolution), an Authorized Officer (as defined in Section 3 of this Resolution) and other responsible officers of the City are hereby authorized and directed to take such actions as are required to cause the delivery of the Bonds upon receipt of the purchase price thereof.

Section 2. Findings. The City hereby finds the following:

(a) The issuance of the Bonds is in compliance with the Act, the Original Resolution of Issuance, the Original Fiscal Agent Agreement and the City's "Amended Local Goals and Policies for Community Facilities Districts (CFDs)" adopted by this City Council on February 4, 2014 by Resolution No. 2014-019 ("Goals and Policies"), except that the provision requiring property owners to provide continuing disclosure as long as they own property that is responsible for at least 10% of the special taxes in Improvement Area No. 1 is hereby waived so that the threshold can be established for the 2019 Bonds at a level acceptable to the Underwriter (as defined in Section 7).

(b) The appraisal described in the Preliminary Official Statement has been prepared consistent with the Goals and Policies.

(c) The current draft of the appraisal described in the Preliminary Official Statement concludes that the taxable property in Improvement Area No. 1 has a market value of \$193,910,000 (subject to the various assumptions and conditions set forth in the appraisal). In

furtherance of the issuance of the Bonds and pursuant to Section 53345.8 of the Act, the City Council hereby finds and determines that the appraised value of the real property subject to the Special Taxes levied pursuant to the Act to pay debt service on the Bonds is at least three times the aggregate principal amount of the Bonds and the principal amount of all other bonds outstanding that are secured by a special tax levied pursuant to the Act on property within Improvement Area No. 1, including the 2018 Bonds, or a special assessment levied on property within the Improvement Area No. 1, based upon the appraised value of the property within Improvement Area No. 1 that meets the requirement of Section 53345.8 of the Act.

Section 3. Authorities Granted. The Mayor, City Manager, Assistant City Manager, Finance Director, or such other official of the City as may be designated by such officer pursuant to Section 8 hereof (each, an "Authorized Officer") is hereby authorized and directed to execute and deliver the documents approved herein in substantially the form on file with the City Clerk, together with such additions or changes as are approved by such Authorized Officer, including such additions or changes as are necessary or advisable to permit the timely issuance, sale and delivery of the Bonds. The approval of such additions or changes shall be conclusively evidenced by the execution and delivery by an Authorized Officer of the documents herein specified.

Section 4. First Supplement to Fiscal Agent Agreement. The City Council hereby approves the First Supplement to Fiscal Agent Agreement, in substantially the form on file with the City Clerk. The terms and provisions of the Original Fiscal Agent Agreement, as supplemented by the First Supplement to Fiscal Agent Agreement, as executed, are incorporated herein by this reference as if fully set forth herein. An Authorized Officer is hereby authorized and directed to execute the First Supplement to Fiscal Agent Agreement on behalf of the City, and the City Clerk is hereby authorized and directed to attest thereto.

Section 5. Official Statement. The City Council hereby approves the Preliminary Official Statement prepared in connection with the Bonds in substantially the form on file with the Clerk of the City Council, together with any changes therein or additions thereto deemed advisable by an Authorized Officer. The City Council hereby approves and authorizes the distribution by the underwriter of the Bonds of the Preliminary Official Statement to prospective purchasers of the Bonds, and authorizes and directs an Authorized Officer on behalf of the City to deem the Preliminary Official Statement "final" pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule") prior to its distribution to prospective purchasers of the Bonds. The execution of the final Official Statement, which shall include Bond pricing information, such other changes and additions thereto deemed advisable by an Authorized Officer, and such information permitted to be excluded from the Preliminary Official Statement pursuant to the Rule, shall be conclusive evidence of the approval of the Official Statement by the City.

Section 6. Continuing Disclosure. The City Council hereby approves the form of the Continuing Disclosure Certificate with respect to the Bonds in substantially the form thereof attached to the Preliminary Official Statement on file with the City Clerk. An Authorized Officer is hereby authorized and directed to complete and execute the Continuing Disclosure Certificate on behalf of the City (for and on behalf of the CFD for Improvement Area No. 1) with such changes, additions or deletions as may be approved by the Authorized Officer.

Section 7. Sale of the Bonds; Bond Purchase Agreement. The Bond Purchase Agreement, between the City, for and on behalf of the CFD with respect to Improvement Area No. 1, and Piper Jaffray & Co. (the "Underwriter"), in substantially the form on file with the City Clerk and made a part hereof as though set forth in full herein, is hereby approved by the City

Council. An Authorized Officer is hereby authorized and directed to execute and deliver the Bond Purchase Agreement in such form, together with such changes, insertions and omissions that are approved by an Authorized Officer and that are in accordance with the provisions of this Resolution, such execution to be conclusive evidence of such approval; subject to the requirement that the Underwriter's discount on the purchase of the Bonds may not exceed 1.50% and the interest rate may not exceed the rate specified in Section 1 hereof. The City Council hereby approves the negotiated sale of the Bonds to the Underwriter pursuant to such Bond Purchase Agreement.

The City Council hereby finds that sale of the Bonds to the Underwriter at a negotiated sale pursuant to the Bond Purchase Agreement will result in a lower overall cost than would be achieved by selling the Bonds at a public sale utilizing competitive bidding because a negotiated sale provides more flexibility in the timing of the sale, the ability to implement the sale in a shorter time period, an increased ability to structure the Bonds to fit the needs of specific purchasers and a greater opportunity for the Underwriter to pre-market the Bonds to potential purchasers prior to the sale.

Section 8. Actions Authorized. All actions heretofore taken by the officers and agents of the City with respect to the establishment of the CFD and Improvement Area No. 1 and the sale and issuance of the Bonds are hereby approved, confirmed and ratified, and the appropriate officers of the City are hereby authorized and directed to do any and all things and take any and all actions and execute any and all certificates, agreements and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance and delivery of the Bonds in accordance with this resolution, including but not limited to any actions required in connection with issuance of ratings or a municipal bond insurance policy with respect to the Bonds, and any certificate, agreement, and other document described in the documents herein approved. All actions to be taken by an Authorized Officer, as defined herein, may be taken by such Authorized Officer or any designee, with the same force and effect as if taken by the Authorized Officer.

Section 9. Effectiveness. This resolution shall take effect from and after its adoption. The provisions of any previous resolutions in any way inconsistent with the provisions hereof in and for the issuance of the Bonds as herein described are hereby repealed.

* * * * *

The foregoing Resolution _____ was adopted by the Tracy City Council on the 2nd day of July, 2019, by the following vote:

Resolution _____
Page 5

AYES: COUNCIL MEMBERS:
NOES: COUNCIL MEMBERS:
ABSENT: COUNCIL MEMBERS:
ABSTAIN: COUNCIL MEMBERS

Mayor

ATTEST:

City Clerk

Government Code Section 5852.1 Disclosure

The good faith estimates set forth herein are provided with respect to the 2019 Bonds in accordance with California Government Code Section 5852.1. Such good faith estimates have been provided to the City by CSG Advisors Incorporated, the City's Municipal Advisor in consultation with Piper Jaffray & Co., Underwriter of the 2019 Bonds.

Principal Amount. The Municipal Advisor has informed the City that, based on the CFD financing plan and current market conditions, its good faith estimate of the aggregate principal amount of the 2019 Bonds to be sold is **\$14,900,000** (the "Estimated Principal Amount"), which excludes approximately **\$1,950,000** of net premium estimated to be generated from current market pricing. Net premium is generated when, on a net aggregate basis for a single issuance, the prices paid for the bonds are higher than the face values of such bonds.

True Interest Cost of the Bonds. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the 2019 Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate plus one half of one percentage point, its good faith estimate of the true interest cost of the Bonds, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the Bonds, is **4.14%**.

Finance Charge of the Bonds. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the 2019 Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the finance charge for the 2019 Bonds, which means the sum of all fees and charges paid to third parties (or costs associated with the 2019 Bonds), is **\$446,000**. Such fees and charges include fees for bond and disclosure counsel, municipal advisor, appraiser, market absorption consultant, special tax consultant, fiscal agent, city attorney and staff time related to bond issuance, set-aside for Fiscal Year 2019-20 CFD administrative expenses, printing, and underwriting.

Amount of Proceeds to be Received. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the 2019 Bonds is sold plus net premium, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the amount of proceeds expected to be received on behalf of the CFD and Improvement Area No. 1 for sale of the 2019 Bonds, less the finance charge of the Bonds, as estimated above, and any reserves or capitalized interest paid or funded with proceeds of the 2019 Bonds, is **\$15,000,000**.

Total Payment Amount. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the 2019 Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the total payment amount, which means the sum total of all payments that the Improvement Area No. 1 property owners will make to pay debt service on the 2019 Bonds, plus the finance charge for the 2019 Bonds, as described above, not paid with the proceeds of the 2019 Bonds, and exclusive of any reserve funds or capitalized interest that could offset such costs, calculated to the final maturity of the 2019 Bonds, is **\$31,305,000**.

The foregoing estimates constitute good faith estimates only. The actual principal amount of the 2019 Bonds issued and sold, the true interest cost thereof, the finance charges thereof, the

amount of proceeds received therefrom and total payment amount with respect thereto may differ from such good faith estimates due to (a) the actual date of the sale of the 2019 Bonds being different than the date assumed for purposes of such estimates, (b) the actual principal amount of 2019 Bonds sold being different from the Estimated Principal Amount, (c) the actual amortization of the 2019 Bonds being different than the amortization assumed for purposes of such estimates, (d) the actual market interest rates at the time of sale of the 2019 Bonds being different than those estimated for purposes of such estimates, (e) other market conditions, or (f) alterations in the CFD financing plan, delays in the financing, or a combination of such factors. The actual date of sale of the 2019 Bonds and the actual principal amount of 2019 Bonds sold will be determined by the City based on the timing of the need for proceeds of the 2019 Bonds and other factors. The actual interest rates borne by the 2019 Bonds will depend on market interest rates at the time of sale thereof. The actual amortization of the 2019 Bonds will also depend, in part, on market interest rates at the time of sale thereof. Market interest rates are affected by economic and other factors beyond the control of the City.

AGENDA ITEM 3.B

REQUEST

ADOPT RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF ONE OR MORE SERIES OF SPECIAL TAX REFUNDING BONDS, AND APPROVING AND AUTHORIZING RELATED DOCUMENTS AND ACTIONS- CITY OF TRACY COMMUNITY FACILITIES DISTRICT NO. 2006-01 (NEI PHASE II)

EXECUTIVE SUMMARY

In 2006, for the purpose of financing public facilities for development in the second phase of development in the Northeast Industrial Area, the City Council established City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) (the "CFD").

In 2006, the City issued, for and on behalf of the CFD, its \$10,660,000 City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) Special Tax Bonds, Series 2006 (the "2006 Bonds").

The 2006 Bonds are subject to optional redemption on any date, without premium. The City's bond underwriter and municipal advisor have concluded that the City can achieve debt service savings by refinancing the 2006 Bonds, as detailed below.

Staff recommends that the City Council adopt the attached resolution (the "2019 Bond Resolution").

DISCUSSION

BACKGROUND

Northeast Industrial Area. In 1995, the City adopted a Conceptual Development Plan ("CDP") for the Northeast Industrial Area (the "Northeast Industrial Area"); the CDP has subsequently been amended. The Northeast Industrial Area is located along the northeast boundary of the City. Adoption of the CDP was the first step in the planned development process, followed by preparation and certification by of an Environmental Impact Report for the Northeast Industrial Area in February, 1996 (the "EIR-NEI"). Following approval of the CDP and the annexation of certain lands in the Northeast Industrial Area to the City, the Northeast Industrial Area was formally zoned Planned Unit Development with light industrial land use designations.

In 1999, the City Council established Communities Facilities District No. 99-1 (Northeast Industrial Area) under the Mello-Roos Community Facilities Act of 1982 (the "Mello-Roos Act") in order to facilitate the first phase of development in the Northeast Industrial Area.

Purpose of the CFD and the 2006 Bonds. The CFD was formed on February 21, 2006 for the purpose of financing the following public facilities (the "CFD Facilities") serving properties in the second phase of development in the Northeast Industrial Area:

- Street Improvements: Acquisition of land and easements for future roadways and City infrastructure improvements.
- Wastewater Facilities: Construction of improvements to the wastewater collection system and acquisition of land and easements for wastewater collection and transmission.
- Water Facilities: The construction of a water line and the construction of water facilities in conjunction with the South County Surface Water Supply Project (SCSWSP).
- Storm Drain Facilities: Construction of improvements to the storm drain system and acquisition of land and easements for the storm drain system.
- Other Facilities: To the extent that funds remain after financing the facilities described above, the City may finance other public improvements in accordance with its Local Goals and Policies for Community Facilities Districts.

On July 20, 2006, the City issued the 2006 Bonds to provide financing for the CFD Facilities.

Status of Development in the CFD. Since 2006, the CFD is almost fully-developed, primarily by entities related to Prologis.

Refunding of Historical Special Tax Overlevies. Staff has determined that between fiscal year 2007-08 and fiscal year 2018-19, the amount of special taxes levied on properties in the CFD was sometimes greater for certain properties than required by the Rate and Method of Apportionment of Special Tax for the CFD and sometimes lower. As a result of these over- and underlevies, in aggregate certain property owners are owed a refund. Pursuant to a settlement agreement with those property owners which was previously approved by the City Council, the City will refund the property owners from available CFD funds concurrently with issuance of the 2019 Bonds. The settlement agreement evidences the City's satisfaction of any payment liability to such property owners.

PROPOSED 2019 BOND RESOLUTION

Staff recommends that the City Council adopt the 2019 Bond Resolution for the following purposes:

- (i) to provide for the issuance of one or more series of City of Tracy Community Facilities District No. 2006-01 (NEI Phase II), Special Tax Refunding Bonds, Series 2019 (the "2019 Bonds") in an aggregate principal amount not to exceed \$11,000,000,
- (ii) approve the sale of the 2019 Bonds to the Underwriter,
- (iii) approve the documents related to the 2019 Bonds, and
- (iv) authorize staff to take all actions necessary related to issuance of the 2019 Bonds.

TERMS OF THE 2019 BONDS

Pursuant to the 2019 Bond Resolution, the principal amount of the 2019 Bonds cannot exceed \$11,000,000 and the 2019 Bonds may be issued only if the net present value of debt service savings resulting from the issuance of the 2019 Bonds will be equal to at least 3.00% of the refunded principal amount of the 2006 Bonds.

As a result of the development of property in the CFD since 2006 and favorable market conditions, the underwriter of the 2019 Bonds, Piper Jaffray & Co. (the "Underwriter") and CSG Advisors Incorporated, the City's municipal advisor, estimate that, under current market conditions, the net present value of the savings that could be realized by the City as a result of the issuance of the 2019 Bonds (after deducting the costs of issuing the 2019 Bonds and refunding special taxes of the owners of properties that overpaid special taxes) is approximately \$1,690,000, or approximately 17.4% of the outstanding principal amount of the 2006 Bonds. Market conditions could change between the date of this report and the date on which the 2019 Bonds are sold to the Underwriter.

Government Code Section 5852.1 requires the City to obtain and disclose a good faith estimate of certain information about the 2019 Bonds, including the true interest cost, the financing costs, the use of proceeds and the total payment amount, and this information is included in Appendix A of the 2019 Bond Resolution. Based upon current market conditions, the 2019 Bonds are estimated to be issued in the amount of \$8,820,000, which does not include approximately \$1,057,000 of net premium estimated to be generated. Net premium is generated when, on a net aggregate basis for a single issuance of bonds, the price paid for such bonds is higher than the face value of such bonds. At current market conditions, the 2019 Bonds are expected to carry a true interest cost of approximately 3.53%.

The 2019 Bonds are a limited obligation of the City, payable only from special taxes levied in the CFD and moneys in the funds and accounts established under the Fiscal Agent Agreement described below.

City staff continues to work with Bond Counsel to determine whether the City will need to issue one tax-exempt series (where the interest on the Bonds would be exempt from federal income taxation) and one taxable series (where the interest on the Bonds would be subject to federal income taxation) in order for the City to use unspent proceeds of the 2006 Bonds to pay for the costs of CFD Facilities. The 2019 Bond Resolution authorizes staff to make this determination after consultation with the City's Bond Counsel, Municipal Advisor and Underwriter.

DOCUMENTS RELATED TO THE 2019 BONDS

The City Council is being asked to approve each of the following documents related to the 2019 Bonds:

Fiscal Agent Agreement: The City will issue the 2019 Bonds on behalf of the CFD pursuant to the Fiscal Agent Agreement, which is between the City, on behalf of the CFD, and U.S. Bank National Association, as fiscal agent (the "2019 Fiscal Agent").

Bond Purchase Agreement: On a “pricing date,” the Underwriter and the City will agree on the principal amount and interest rate of the 2019 Bonds, and will execute a Bond Purchase Agreement that will detail the terms of the 2019 Bonds and the conditions under which the Underwriter will buy the 2019 Bonds. The Bond Purchase Contract will establish a “closing date,” which will be approximately 2-3 weeks after the pricing date.

Official Statement: Prior to the pricing date, the Underwriter will distribute to potential investors a “Preliminary Official Statement” that is prepared on behalf of the City by Jones Hall, the City’s disclosure counsel. After execution of the Bond Purchase Agreement, the Underwriter provides each investor with a copy of a “final Official Statement,” which is identical to the Preliminary Official Statement except that it includes the principal amount and interest rates agreed upon in the Bond Purchase Agreement.

The attached Preliminary Official Statement has been reviewed and approved for transmittal to the City Council by City staff and its financing team. The distribution of the Preliminary Official Statement is subject to federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the Preliminary Official Statement to include all facts that would be material to an investor in the 2019 Bonds. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the 2019 Bonds. If the City Council concludes that the Preliminary Official Statement includes all facts that would be material to an investor in the 2019 Bonds, it must adopt a resolution that authorizes staff to execute a certificate to the effect that the Preliminary Official Statement has been “deemed final.”

The Securities and Exchange Commission (the “SEC”), the agency with regulatory authority over the City’s compliance with the federal securities laws, has issued guidance as to the duties of the City Council with respect to its approval of the Preliminary Official Statement. In its “Report of Investigation in the Matter of County of Orange, California as it Relates to the Conduct of the Members of the Board of Supervisors” (Release No. 36761 / January 24, 1996) (the “Release”), the SEC stated that, if a member of the City Council has knowledge of any facts or circumstances that an investor would want to know about prior to investing in the 2019 Bonds, whether relating to their repayment, tax-exempt status, undisclosed conflicts of interest with interested parties, or otherwise, he or she should endeavor to discover whether such facts are adequately disclosed in the Preliminary Official Statement. In the Release, the SEC stated that the steps that a member of the City Council could take include becoming familiar with the Preliminary Official Statement and questioning staff and consultants about the disclosure of such facts.”

As described above, the 2019 Bonds will be payable from special taxes only. The security for the 2019 Bonds is described in the section of the Preliminary Official Statement entitled “SECURITY FOR THE BONDS”; information about the CFD is set forth in “THE DISTRICT”. The District is sufficiently built-out so that annual debt service payments projected for the 2019 Bonds can be paid fully from special taxes derived from the developed property within the CFD. Information about the largest properties has been provided by the owner of those properties. The key risk factors associated with the 2019 Bonds are described in the section of the Preliminary Official Statement entitled “BOND OWNERS’ RISKS”.

Continuing Disclosure Certificate: Pursuant to a Continuing Disclosure Certificate, which is attached as an appendix to the Official Statement, the City will agree to provide annual updates of certain information in the Official Statement and notice of certain significant events.

Irrevocable Refunding Instructions: The City will instruct The Bank of New York Mellon Trust Company, N.A., as fiscal agent for the 2006 Bonds, to (1) use a portion of the proceeds of the 2019 Bonds to refinance the 2006 Bonds and (2) transfer the remaining proceeds of the 2006 Bonds in the Improvement Fund to the 2019 Fiscal Agent to provide funds for construction of additional CFD Facilities.

STRATEGIC PLAN

Governance - Goal 2: Ensure continued Fiscal Sustainability through Financial and Budgetary Stewardship.

FISCAL IMPACT

The fees and expenses of the financing team, including Bond Counsel, Disclosure Counsel, Underwriter, Municipal Advisor and Special Tax Consultant are paid from proceeds of the 2019 Bonds.

RECOMMENDATION

That Council adopt the 2019 Bond Resolution.

Prepared by: Karin Schnaider, Finance Director
Christopher Lynch, Jones Hall
Scott Smith, CSG Advisors Incorporated

Reviewed by: Midori Lichtwardt, Assistant City Manager

Approved by: Jenny Haruyama, City Manager

ATTACHMENTS

- A: Preliminary Official Statement (including Continuing Disclosure Certificate)
- B: Fiscal Agent Agreement
- C: Bond Purchase Agreement

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2019**NEW ISSUE – BOOK-ENTRY ONLY****NOT RATED**

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 2019 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. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."

\$9,025,000*
CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2006-01
(NEI PHASE II)
SPECIAL TAX REFUNDING BONDS, SERIES 2019

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

Authority for Issuance. The bonds captioned above (the "2019 Bonds") are being issued by the City of Tracy (the "City") for and on behalf of the City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) (the "District") under the Mello-Roos Community Facilities Act of 1982, as amended (the "Act"), the Resolution of Issuance (as defined herein), and a Fiscal Agent Agreement dated as of _____ 1, 2019 (the "Fiscal Agent Agreement"), by and between the City and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"). See "THE 2019 BONDS – Authority for Issuance."

Future Parity Bonds for Refunding. Under the Fiscal Agent Agreement, the City may issue future bonds ("Parity Bonds") on a parity with the 2019 Bonds, but only for refunding purposes, and subject to the conditions set forth in the Fiscal Agent Agreement. See "SECURITY FOR THE BONDS – Issuance of Future Parity Bonds." The 2019 Bonds and any Parity Bonds are referred to herein as the "Bonds."

Security and Sources of Payment. The City will annually levy special taxes (the "Special Taxes") on the property in the District (in accordance with the Rate and Method of Apportionment of Special Taxes for the District. The Bonds are secured by and payable from a first pledge of the proceeds of the Special Taxes received by the City (as more particularly defined in the Fiscal Agent Agreement, the "Special Tax Revenues"), net of the portion of the Special Tax levy for Administrative Expenses deposited in the Administrative Expense Fund. The Bonds will be additionally secured by certain funds and accounts established and held under the Fiscal Agent Agreement. See "SECURITY FOR THE BONDS."

Use of Proceeds. The 2019 Bonds are being issued to (i) refund and defease certain bonds previously issued by the City captioned "\$10,660,000 City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) Special Tax Bonds, Series 2006," (ii) fund a debt service reserve fund for the 2019 Bonds, and (iii) pay the costs of issuing the 2019 Bonds. See "FINANCING PLAN."

Bond Terms. Interest on the 2019 Bonds is payable on each March 1 and September 1, commencing March 1, 2020. The 2019 Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. The 2019 Bonds, when delivered, will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository for the 2019 Bonds. See "THE 2019 BONDS – General Bond Terms" and "APPENDIX G – DTC and the Book-Entry Only System."

Redemption. The 2019 Bonds are subject to optional redemption, mandatory sinking fund redemption and special redemption from prepaid Special Taxes. See "THE 2019 BONDS - Redemption."

The 2019 Bonds are not general obligations of the City, but are limited obligations, payable solely from the Special Tax Revenues and the funds pledged therefor under the Fiscal Agent Agreement. Neither the faith and credit nor the taxing power of the City (except to the limited extent set forth in the Fiscal Agent Agreement) or of the State of California (the "State") or any political subdivision thereof is pledged to the payment of the 2019 Bonds.

MATURITY SCHEDULE

(see inside cover)

This cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Investment in the 2019 Bonds involves risks which may not be appropriate for some investors. See "BOND OWNERS' RISKS" for a discussion of special risk factors that should be considered in evaluating the investment quality of the 2019 Bonds.

The 2019 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, and subject to certain other conditions. Jones Hall, A Professional Law Corporation, has served as disclosure counsel to the City. Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach, California, is serving as counsel to the Underwriter. It is anticipated that the 2019 Bonds, in book-entry form, will be available for delivery through the facilities of DTC on or about _____, 2019.

[Piper Jaffray Logo]

The date of this Official Statement is: _____, 2019.

* Preliminary; subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

MATURITY SCHEDULE

\$ _____ Serial Bonds
(Base CUSIP†: _____)

Maturity (September 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP†
---------------------------	---------------------	------------------	-------	-------	--------

\$ ____ % Term Bond due September 1, 20____, Yield: ____%, Price: ____%
CUSIP† No. ____

\$ ____ % Term Bond due September 1, 20____, Yield: ____%, Price: ____%
CUSIP† No. ____

* Preliminary; subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. Copyright(c) 2019 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. Neither the City nor the Underwriter or their agents or counsel assume responsibility for the accuracy of such numbers.

CITY OF TRACY

CITY COUNCIL

Robert Rickman, *Mayor*
Nancy Young, *Mayor Pro Tem*
Dan Arriola, *Council Member*
Rhodesia Ransom, *Council Member*
Veronica Vargas, *Council Member*

CITY STAFF

Jenny Haruyama, *City Manager*
Karin Schnaider, *Finance Director*
Adrienne Richardson, *City Clerk*
Leticia Ramirez, *Interim City Attorney*

PROFESSIONAL SERVICES

BOND COUNSEL and DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

MUNICIPAL ADVISOR

CSG Advisors Incorporated
San Francisco, California

SPECIAL TAX CONSULTANT

Goodwin Consulting Group, Inc.
Sacramento, California

FISCAL AGENT

U.S. Bank National Association
San Francisco, California

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[INSERT REGIONAL MAP]

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 2019 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 2019 Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the District, the Community Facilities District, any other parties described in this Official Statement, or in the condition of property within the District since the date of this Official Statement.

Use of this Official Statement. This Official Statement is submitted in connection with the sale of the 2019 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract with the purchasers of the 2019 Bonds.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness.

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 responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Document References and Summaries. All references to and summaries of the Fiscal Agent 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.

Stabilization of and Changes to Offering Prices. The Underwriter may over allot or take other steps that stabilize or maintain the market prices of the 2019 Bonds at levels above those that might otherwise prevail in the open market. If commenced, the Underwriter may discontinue such market stabilization at any time. The Underwriter may offer and sell the 2019 Bonds to certain securities dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriter.

Bonds are Exempt from Securities Laws Registration. The issuance and sale of the 2019 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.

Estimates and Projections. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors 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 District does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

The City maintains an Internet website, but the information on the website is not incorporated in this Official Statement.

OFFICIAL STATEMENT

\$9,025,000*
CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2006-01
(NEI Phase II)
SPECIAL TAX REFUNDING BONDS, SERIES 2019

INTRODUCTION

This Official Statement, including the cover page, inside cover and attached appendices, is provided to furnish information regarding the bonds captioned above (the “**2019 Bonds**”) to be issued by the City of Tracy (the “**City**”) on behalf of the City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) (the “**District**”).

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page, the inside cover and attached appendices, and the documents summarized or described in this Official Statement. A full review should be made of the entire Official Statement. The offering of the 2019 Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used but not defined in this Official Statement have the definitions given in the Fiscal Agent Agreement (as defined below).

The District. The District was formed and established by the City Council of the City (the “**City Council**”), as legislative body of the District, under the Mello-Roos Community Facilities Act of 1982, as amended (the “**Act**”), a resolution (the “**Resolution of Formation**”) adopted by the City Council on February 21, 2006, following a public hearing, and a special landowner election at which the qualified electors of the District, by more than a two-thirds vote, authorized the District to incur bonded indebtedness in the maximum principal amount of \$13,000,000 and approved the levy of special taxes (the “**Special Taxes**”) upon the taxable real property in the District for the purpose of financing certain public facilities.

The District is located within a larger district the City has designated the “Northeast Industrial Area,” consisting of approximately 870 acres located along the northeast boundary of the City. The District represents the second phase of development in the Northeast Industrial Area.

For detailed information about the location of and property ownership and land uses within the District, see “THE DISTRICT.”

Authority for Issuance of the 2019 Bonds. The 2019 Bonds are issued under the Act, a resolution adopted by the City Council on _____, 2019 (the “**Resolution of Issuance**”), and a Fiscal Agent Agreement dated as of _____ 1, 2019 (the “**Fiscal Agent Agreement**”), by and between the City and U.S. Bank National Association, as fiscal agent (the “**Fiscal Agent**”). See “THE 2019 BONDS – Authority for Issuance.”

* Preliminary; subject to change.

Future Parity Bonds for Refunding. Under the Fiscal Agent Agreement, the City may issue future bonds (“**Parity Bonds**”) on a parity with the 2019 Bonds, but only for refunding purposes, and subject to the conditions set forth in the Fiscal Agent Agreement. See “SECURITY FOR THE BONDS – Issuance of Future Parity Bonds.” The 2019 Bonds and any Parity Bonds are referred to herein as the “Bonds.”

Purpose of the 2019 Bonds. Proceeds of the 2019 Bonds will be used primarily to refund and defease certain bonds previously issued by the City captioned “\$10,660,000 City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) Special Tax Bonds, Series 2006” (the “**2006 Bonds**”). Proceeds of the 2019 Bonds will also fund a debt service reserve fund for the 2019 Bonds, and pay the costs of issuing the 2019 Bonds. See “FINANCING PLAN.”

Redemption of Bonds before Maturity. The 2019 Bonds are subject to optional redemption, mandatory sinking fund redemption and special redemption from prepaid Special Taxes (as defined below). See “THE 2019 BONDS – Redemption.”

Security and Sources of Payment for the Bonds. The City will annually levy the Special Taxes on the property in the District in accordance with the Rate and Method of Apportionment of Special Taxes for the District (the “**Rate and Method**”). The Bonds are secured by and payable from a first pledge of the proceeds of the Special Taxes received by the City (as more particularly defined herein, the “**Special Tax Revenues**”), net of the portion of the Special Tax levy for Administrative Expenses deposited in the Administrative Expense Fund. The Bonds will be additionally secured by certain funds and accounts established and held under the Fiscal Agent Agreement. See “SECURITY FOR THE BONDS.”

Debt Service Reserve Fund. In order to further secure the payment of principal of and interest on the 2019 Bonds (and any series of Parity Bonds the principal of and interest on which is payable from amounts in the 2019 Reserve Fund), certain proceeds of the 2019 Bonds will be deposited into the 2019 Reserve Fund in an amount equal to the 2019 Reserve Requirement (as defined herein). See “FINANCING PLAN – Estimated Sources and Uses of Funds” and “SECURITY FOR THE BONDS – 2019 Reserve Fund.”

Covenant to Foreclose. The City has covenanted in the Fiscal Agent Agreement to cause foreclosure proceedings to be commenced and prosecuted against certain parcels with delinquent installments of the Special Taxes. For a more detailed description of the foreclosure covenant see “SECURITY FOR THE BONDS - Covenant to Foreclose.”

Property Ownership and Development Status. The taxable property in the District is currently zoned for light industrial uses. Current ownership, occupancy and land use, and share of the Fiscal Year 2019-20 Special Tax levy are set forth below.

Owner ⁽¹⁾	Current Occupant/ Land Use	Acreage	FY 2019-20 Maximum Special Tax	Estimated FY 2019-20 Special Tax Levy	Percent of Estimated FY 2019-20 Tax Levy
Developed Property					
<u>Prologis and Affiliates</u>					
Prologis Amazon Tracy LLC	Amazon Parking Lot	14.14	\$55,972	\$52,304	7.56%
PAC Corporate Center Tracy ETAL	Crate and Barrel Warehouse	36.18	\$143,216	\$133,830	19.33%
Prologis Amazon Tracy LLC	Amazon Warehouse	54.25	\$214,745	\$200,671	28.99%
Subtotal		104.57	\$413,934	\$386,805	55.87%
<u>Other Property Owners</u>					
	Pactra Warehouse and DHL Warehouse	19.46	\$77,031	\$71,983	10.40%
BCI IV Pescadero DC LP					
Duke Realty LTD PTP	Home Depot Warehouse	44.03	\$174,290	\$162,867	23.53%
Subtotal		63.49	\$251,321	\$234,850	33.92%
Mixed Property ⁽²⁾					
<u>Prologis and Affiliates</u>					
PAC Corporate Center Tracy ETAL	Crate and Barrel Warehouse	19.09	\$75,567	\$70,614	10.20%
PAC Corporate Center Tracy ETAL	Undeveloped Portion of Parcel	9.31	\$36,853	\$0	0.00%
Subtotal		28.40	\$112,420	\$70,614	10.20%
Undeveloped Property					
<u>Prologis and Affiliates ⁽³⁾</u>					
Prologis Amazon Tracy LLC	Temporary Storm Drainage Pond	5.80	\$22,959	\$0	0.00%
PAC Corporate Center Tracy	Temporary Storm Drainage Pond	10.08	\$39,901	\$0	0.00%
PAC Corporate Center Tracy	Private Cul-de-sac	0.77	\$3,060	\$0	0.00%
PAC Corporate Center Tracy	Temporary Storm Drainage Pond	5.00	\$19,792	\$0	0.00%
Subtotal		21.65	\$85,712	\$0	0.00%
<u>Other Property Owners</u>					
Chand Shyani	Undeveloped Land	5.35	\$21,178	\$0	0.00%
ITC Tracy LLC	Undeveloped Land	4.73	\$18,723	\$0	0.00%
MLP Realty LLC	Undeveloped Land	2.94	\$11,638	\$0	0.00%
Subtotal		13.02	\$51,539	\$0	0.00%
TOTAL		231.13	\$914,925	\$692,268	100.00%

(1) Ownership information per the Assessor's Tax Roll, as of the lien date.

(2) Per Section B of the Rate and Method, if a building permit has been issued for development of a structure on a parcel in the District, and additional structures are anticipated to be built on the parcel as shown on the approved site plan, a portion of the acreage of the parcel will be taxed as Undeveloped Property. Approximately 19.09 acres of the 28.4 acre parcel is assigned to the Crate and Barrel Warehouse and per the Rate and Method is taxed as Developed Property. The remaining 9.31 acres is the undeveloped portion of the parcel that is currently planned for a future warehouse and is taxed as Undeveloped Property.

(3) Does not include APN 250-020-950 owned by Prologis Logistics Services Inc, which is currently a private driveway and subject to the special tax. The City expects that in the future this parcel may become a public street, and would subsequently be exempt from Special Taxes.

Source: *San Joaquin County Assessor's Office; San Joaquin County Tax Collector's Office; Goodwin Consulting Group, Inc.*

For additional information on property ownership and Special Tax levy by parcel, see "THE DISTRICT."

Estimated Property Values and Value-to-Lien Ratio. Based on the Fiscal Year 2018-19 assessed value of the taxable property within the District of \$187,971,092, and an estimated par amount of the 2019 Bonds of \$9,025,000*, the overall value-to-lien ratio of the taxable property within the District is approximately 20.83* to 1. This is an overall estimate, however, and the value-to-lien ratios of individual parcels varies widely from this ratio. See "THE DISTRICT – Value-to-Lien Estimates."

Risk Factors Associated with Purchasing the 2019 Bonds. Investment in the 2019 Bonds involves risks that may not be appropriate for some investors. See "BOND OWNERS' RISKS" for a discussion of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in considering the investment quality of the 2019 Bonds.

* Preliminary; subject to change.

FINANCING PLAN

Refunding Plan

The City issued the 2006 Bonds in July 2006 in the original principal amount of \$10,660,000 under a Fiscal Agent Agreement (the “**2006 Fiscal Agent Agreement**”) dated as of July 1, 2006, by and between the City, for and on behalf of the District, and The Bank of New York Mellon Trust Company, N.A., as escrow agent for the 2006 Bonds (the “**2006 Fiscal Agent**”).

The 2006 Bonds were issued primarily to finance the acquisition and construction of certain street, water and wastewater facilities and other public improvements. See “THE DISTRICT – Formation and Background.”

The 2006 Bonds are currently outstanding in the aggregate principal amount of \$9,740,000 and will be paid and redeemed in full, on a current basis, on August 19, 2019 (the “**Redemption Date**”), at a redemption price equal to the principal amount thereof, together with interest coming due and payable on the Redemption Date, without premium.

In order to accomplish the refinancing plan, the net proceeds of the 2019 Bonds, together with certain other funds on hand with respect to the 2006 Bonds, will be transferred to the 2006 Fiscal Agent for deposit into the Bond Fund established under the 2006 Fiscal Agent Agreement (the “**2006 Bond Fund**”) pursuant to Irrevocable Refunding Instructions dated as of the Closing Date given by the City to the 2006 Fiscal Agent.

The 2006 Fiscal Agent will hold all amounts on deposit in the 2006 Bond Fund in cash, uninvested. These amounts will be used to defease the 2006 Bonds on the Closing Date and are sized to be sufficient to redeem the 2006 Bonds in full on the Redemption Date.

The moneys held by the 2006 Fiscal Agent in the 2006 Bond Fund are pledged to the payment and redemption of the 2006 Bonds and will not be available for payment of the 2019 Bonds.

Estimated Sources and Uses of Funds

The estimated proceeds from the sale of the 2019 Bonds will be used as follows:

<u>SOURCES</u>	
Principal Amount of 2019 Bonds	\$
Plus funds related to the 2006 Bonds	
Plus/Less: [Net] Original Issue Premium/Discount	
<i>Total Sources</i>	<hr/> \$
 <u>USES</u>	
Deposit into 2006 Bond Fund (1)	\$
Deposit into 2019 Reserve Fund (2)	
Costs of Issuance (3)	
<i>Total Uses</i>	<hr/> \$

(1) To be used to refund and defease the 2006 Bonds. See “-Refunding Plan” above.

(2) Equal to the 2019 Reserve Requirement as of the Closing Date.

(3) Includes, among other things, the fees and expenses of Bond Counsel and Disclosure Counsel, the Fiscal Agent, the Municipal Advisor, and the Special Tax Consultant; printing the Preliminary and Final Official Statements; and Underwriter’s discount.

THE 2019 BONDS

This section generally describes the terms of the 2019 Bonds contained in the Fiscal Agent Agreement, which is summarized in more detail in APPENDIX C. Capitalized terms used but not defined in this section are defined in APPENDIX C.

Authority for Issuance

The 2019 Bonds are issued under the Act, the Resolution of Issuance and the Fiscal Agent Agreement. Under the Resolution of Issuance, the 2019 Bonds may be issued in a maximum principal amount of \$11,000,000.

General Bond Terms

Dated Date, Maturity and Authorized Denominations. The 2019 Bonds will be dated their date of delivery (the “**Closing Date**”) and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. The 2019 Bonds will be issued as fully registered Bonds, without coupons, in denominations of \$5,000 or any integral multiple of \$5,000.

Calculation of Interest. Interest will be calculated on the basis of a 360-day year composed of twelve 30-day months. The 2019 Bonds will bear interest at the annual rates set forth on the inside cover page of this Official Statement, payable semiannually on each March 1 and September 1, commencing March 1, 2020 (each, an “**Interest Payment Date**”).

Each 2019 Bond will bear interest from the Interest Payment Date next preceding its date of authentication unless:

(i) it is authenticated on an Interest Payment Date, in which event it will bear interest from such date of authentication, or

(ii) it is authenticated prior to an Interest Payment Date and after the close of business on the Record Date (as defined below) preceding such Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or

(iii) it is authenticated prior to the Record Date preceding the first Interest Payment Date, in which event it will bear interest from the Closing Date;

provided, however, that if at the time of authentication of a 2019 Bond, interest is in default thereon, such 2019 Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

“**Record Date**” means the 15th day of the calendar month next preceding the applicable Interest Payment Date, whether or not such day is a Business Day.

DTC and Book-Entry Only System. DTC will act as securities depository for the 2019 Bonds. The 2019 Bonds will be issued as fully-registered securities registered initially in the name of Cede & Co. (DTC’s partnership nominee). See APPENDIX G – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Payments of Interest and Principal. *For so long as DTC is used as depository for the 2019 Bonds, principal of, premium, if any, and interest payments on the 2019 Bonds will be made solely to DTC or its nominee, Cede & Co., as registered owner of the 2019 Bonds, for distribution to the beneficial owners of the 2019 Bonds in accordance with the procedures adopted by DTC.*

Interest on the 2019 Bonds (including the final interest payment upon maturity or earlier redemption), is payable on the applicable Interest Payment Date by check of the Fiscal Agent mailed by first-class mail to the registered Owner thereof at such registered Owner's address as it appears on the registration books maintained by the Fiscal Agent at the close of business on the Record Date preceding the Interest Payment Date, or by wire transfer made on such Interest Payment Date upon written instructions of any Owner of \$1,000,000 or more in aggregate principal amount of 2019 Bonds delivered to the Fiscal Agent prior to the applicable Record Date, which will continue in effect until revoked in writing, or until such 2019 Bonds are transferred to a new Owner.

The principal of the 2019 Bonds and any interest or premium on the 2019 Bonds are payable in lawful money of the United States of America, and the principal of the Bonds is payable upon surrender of the 2019 Bonds at the Principal Office of the Fiscal Agent.

Redemption*

Optional Redemption. The 2019 Bonds maturing on or before September 1, 20__, are not subject to optional redemption before maturity. The 2019 Bonds maturing on or after September 1, 20__, are subject to optional redemption as directed by the City, from sources of funds other than prepayments of Special Taxes, prior to their stated maturity on any date on or after September 1, 20__, as a whole or in part, at the redemption prices (expressed as a percentage of the principal amount of the 2019 Bonds to be redeemed) set forth below, together with accrued interest thereon to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
September 1, ____ through August 31, ____	103%
September 1, ____ through August 31, ____	102
September 1, ____ through August 31, ____	101
September 1, ____ and any date thereafter	100

Mandatory Sinking Fund Redemption. The 2019 Bonds maturing on September 1, 20__ (the "Term Bonds"), are subject to mandatory redemption in part by lot, from sinking fund payments made by the City from the Bond Fund, at a redemption price equal to the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts all as set forth in the following tables:

20__ Term Bonds

Sinking Fund Redemption Date (September 1)	<u>Sinking Fund Payments</u>
	\$

(maturity)

20__ Term Bonds

Sinking Fund Redemption Date (September 1)	<u>Sinking Fund Payments</u>
	\$

* Preliminary; subject to change.

(maturity)

However, if some but not all of the Term Bonds of a given maturity have been redeemed through optional redemption or mandatory prepayment redemption, the total amount of all future Sinking Fund Payments relating to such maturity will be reduced by the aggregate principal amount of Term Bonds of such maturity so redeemed, to be allocated among such Sinking Fund Payments on a pro rata basis in integral multiples of \$5,000 as determined by the City, notice of which (consisting of a revised sinking fund schedule) will be given by the City to the Fiscal Agent.

Redemption from Special Tax Prepayments. Special Tax Prepayments and any corresponding transfers from the 2019 Reserve Fund will be used to redeem 2019 Bonds on the next Interest Payment Date for which notice of redemption can timely be given under the Fiscal Agent Agreement, among maturities so as to maintain substantially the same debt service profile for the 2019 Bonds as in effect prior to such redemption and by lot within a maturity, at a redemption price (expressed as a percentage of the principal amount of the 2019 Bonds to be redeemed), as set forth below, together with accrued interest to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
Any Interest Payment Date on or before March 1, ____	____%
September 1, ____ and March 1, ____	____%
September 1, ____ and March 1, ____	____%
September 1, ____ and any Interest Payment Date thereafter	____%

Purchase in Lieu of Redemption. In lieu of redemption, moneys in the Bond Fund may be used and withdrawn by the Fiscal Agent for purchase of Outstanding 2019 Bonds upon the filing with the Fiscal Agent of an Officer's Certificate requesting such purchase, at public or private sale as and when, and at such prices (including brokerage and other charges) as such Officer's Certificate may provide, but in no event may 2019 Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase and any premium which would otherwise be due if such 2019 Bonds were to be redeemed in accordance with the Fiscal Agent Agreement. Any 2019 Bonds purchased under this provision of the Fiscal Agent Agreement will be treated as Outstanding Bonds under the Fiscal Agent Agreement, except to the extent otherwise directed by the Finance Director.

Notice of Redemption. The Fiscal Agent will cause notice of any redemption to be mailed by first class mail, postage prepaid, at least 20 days but not more than 60 days prior to the date fixed for redemption, to the Securities Depositories, to the Information Services, and to the respective registered Owners of any 2019 Bonds designated for redemption, at their addresses appearing on the 2019 Bond registration books in the Principal Office of the Fiscal Agent; but such mailing will not be a condition precedent to such redemption and failure to mail or to receive any such notice, or any defect therein, will not affect the validity of the proceedings for the redemption of such 2019 Bonds.

However, while the 2019 Bonds are subject to DTC's book-entry system, the Fiscal Agent will be required to give notice of redemption only to DTC as provided in the letter of representations executed by the City and received and accepted by DTC. DTC and the Participants will have sole responsibility for providing any such notice of redemption to the Beneficial Owners of the 2019 Bonds to be redeemed. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any 2019 Bonds to be redeemed, of a notice of redemption or its content or effect will not affect the validity of the notice of redemption, or alter the effect of redemption set forth in the Fiscal Agent Agreement.

Optional Redemption Notice; Rescission of Redemption. Any notice of an optional redemption may provide that the proposed redemption is conditioned upon receipt of sufficient funds to

accomplish the redemption. The City has the right to rescind any notice of the optional redemption of 2019 Bonds by written notice to the Fiscal Agent on or prior to the date fixed for redemption. Any notice of redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the 2019 Bonds then called for redemption, and such cancellation will not constitute a default under the Fiscal Agent Agreement. The City and the Fiscal Agent have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Fiscal Agent will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under the Fiscal Agent Agreement.

Selection of 2019 Bonds for Partial Redemption. Whenever provision is made in the Fiscal Agent Agreement for the redemption of less than all the 2019 Bonds of any maturity or any given portion thereof, the Fiscal Agent will select the 2019 Bonds to be redeemed from all 2019 Bonds or such given portion thereof not previously called for redemption as directed by the City on a pro rata basis among series and maturities, so as to maintain substantially the same Debt Service profile for the Bonds as in effect prior to such redemption, and by lot within a maturity in any manner which the Fiscal Agent in its sole discretion deems appropriate.

Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the principal of, and interest and any premium on, the 2019 Bonds so called for redemption have been deposited in the Bond Fund, such 2019 Bonds so called will cease to be entitled to any benefit under the Fiscal Agent Agreement other than the right to receive payment of the redemption price, and no interest will accrue thereon on or after the redemption date specified in the notice of redemption. All 2019 Bonds redeemed and purchased by the Fiscal Agent under the Fiscal Agent Agreement will be canceled by the Fiscal Agent.

Issuance of Future Parity Bonds

Parity Bonds. In addition to the 2019 Bonds, the City may issue Parity Bonds in such principal amount as determined by the City, under a Supplemental Agreement entered into by the City and the Fiscal Agent. Any such Parity Bonds will constitute Bonds under the Fiscal Agent Agreement and will be secured by a lien on the Special Tax Revenues and funds pledged for the payment of the Bonds under the Fiscal Agent Agreement on a parity with all other Bonds Outstanding under the Fiscal Agent Agreement. The City may only issue Parity Bonds if they are Refunding Bonds and subject to the specific conditions precedent set forth in the Fiscal Agent Agreement.

“**Refunding Bonds**” are defined as bonds issued by the City for the District, the net proceeds of which are used to refund all or a portion of the then-Outstanding Bonds; provided that (i) the interest cost to maturity of such bonds to be issued plus the principal amount of such bonds to be issued is equal to or less than the interest cost to maturity of the Bonds being refunded plus the principal amount of the Bonds being refunded and (ii) the final maturity of such bonds to be issued is not later than the final maturity of the Bonds being refunded.

See APPENDIX C for additional details regarding the conditions for issuing Parity Bonds.

Subordinate Bonds

Nothing in the Fiscal Agent Agreement prohibits the City from issuing any other bonds or otherwise incurring debt secured by a pledge of the Special Tax Revenues subordinate to the pledge thereof under the Fiscal Agent Agreement, up to the remaining bonded indebtedness amount for the District of \$2,340,000.

Registration, Transfer and Exchange

The following provisions regarding the exchange and transfer of the 2019 Bonds apply only during any period in which the 2019 Bonds are not subject to DTC's book-entry system. While the 2019 Bonds are subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC. See "APPENDIX G – DTC and the Book-Entry Only System."

Registration. The Fiscal Agent will keep, or cause to be kept, at its Principal Office sufficient books for the registration and transfer of the 2019 Bonds (the "**Bond Register**"), which will show the series number, date, amount, rate of interest and last known owner of each 2019 Bond and will at all times be open to inspection by the City during regular business hours upon reasonable notice; and, upon presentation for such purpose, the Fiscal Agent will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, the ownership of the 2019 Bonds as hereinbefore provided. The City and the Fiscal Agent will treat the Owner of any 2019 Bond whose name appears on the Bond Register as the absolute Owner of such 2019 Bond for any and all purposes, and the City and the Fiscal Agent will not be affected by any notice to the contrary. The City and the Fiscal Agent may rely on the address of the Owner as it appears in the Bond Register for any and all purposes.

Registration of Exchange or Transfer. Any 2019 Bond may, in accordance with its terms, be transferred, upon the Bond Register by the person in whose name it is registered, in person or by such person's duly authorized attorney, upon surrender of such 2019 Bond for cancellation, accompanied by delivery of a duly written instrument of transfer in a form acceptable to the Fiscal Agent.

2019 Bonds may be exchanged at the Principal Office of the Fiscal Agent solely for a like aggregate principal amount of 2019 Bonds of authorized denominations and of the same maturity.

The cost for any services rendered or any expenses incurred by the Fiscal Agent in connection with any such transfer or exchange will be paid by the City from the Administrative Expense Fund. The Fiscal Agent will collect from the Owner requesting such transfer or exchange any tax or other governmental charge required to be paid with respect to such transfer or exchange.

Whenever any 2019 Bond or 2019 Bonds are surrendered for transfer or exchange, the City will execute and the Fiscal Agent will authenticate and deliver a new 2019 Bond or 2019 Bonds, for a like aggregate principal amount.

No transfers or exchanges of 2019 Bonds will be required to be made (i) 15 days prior to the date established by the Fiscal Agent for selection of 2019 Bonds for redemption or (ii) with respect to a 2019 Bond after such 2019 Bond has been selected for redemption; or (iii) between a Record Date and the succeeding Interest Payment Date.

DEBT SERVICE SCHEDULE

The following table presents the annual debt service (including mandatory sinking fund payments) on the 2019 Bonds, assuming there are no optional redemptions or special redemptions from Special Tax Prepayments.

Year Ending September 1	Principal	Interest	Total
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
Total:			

SECURITY FOR THE BONDS

This section generally describes the security for the Bonds set forth in the Fiscal Agent Agreement, which is summarized in more detail in APPENDIX C. Capitalized terms used but not defined in the section are defined in APPENDIX C.

General

The Bonds are secured by a first pledge (which will be effected in the manner and to the extent provided in the Fiscal Agent Agreement) of all of the Special Tax Revenues (other than the Special Tax Revenues to be deposited into the Administrative Expense Fund) and all moneys deposited in the Bond Fund, and, until disbursed as provided in the Fiscal Agent Agreement, in the Special Tax Fund. The Special Tax Revenues (other than the Special Tax Revenues to be deposited into the Administrative Expense Fund) and all moneys deposited into such funds (except as otherwise provided in the Fiscal Agent Agreement) are dedicated to the payment of the principal of, and interest and any premium on, the Bonds as provided in the Fiscal Agent Agreement and the Act until all of the Bonds have been paid and retired or until moneys or Federal Securities have been set aside irrevocably for that purpose under the Fiscal Agent Agreement.

“Special Tax Revenues” are defined in the Fiscal Agent Agreement as the proceeds of the Special Taxes received by the City, including any scheduled payments thereof, interest thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and interest thereon, but *do not* include any interest in excess of the interest due on the Bonds or any penalties collected in connection with any such foreclosure.

The 2019 Bonds and all 2019 Related Parity Bonds are secured by a first pledge (which will be effected in the manner and to the extent provided in the Fiscal Agent Agreement) of all moneys deposited in the 2019 Reserve Fund. The moneys in the 2019 Reserve Fund (except as otherwise provided in the Fiscal Agent Agreement) are dedicated to the payment of the principal of, and interest and any premium on, the 2019 Bonds and all 2019 Related Parity Bonds as provided in the Fiscal Agent Agreement and the Act until all of the 2019 Bonds and all 2019 Related Parity Bonds have been paid and retired or until moneys or Federal Securities have been set aside irrevocably for that purpose under the Fiscal Agent Agreement.

Under the Fiscal Agent Agreement, **“2019 Related Parity Bonds”** is defined as any series of Parity Bonds for which (i) the Proceeds are deposited into the 2019 Reserve Fund so that the balance therein is equal to the 2019 Reserve Requirement following issuance of such Parity Bonds and (ii) the related Supplemental Agreement specifies that the 2019 Reserve Fund will act as a reserve for the payment of the principal of, and interest and any premium on, such series of Parity Bonds.

Amounts in the Costs of Issuance Fund, the Administrative Expense Fund and the 2006 Unspent Bond Proceeds Fund are not pledged to the repayment of the Bonds.

Limited Obligation

All obligations of the City under the Fiscal Agent Agreement and the Bonds are not general obligations of the City, but are limited obligations, payable solely from the Special Tax Revenues (other than the Special Tax Revenues to be deposited into the Administrative Expense Fund) and the funds pledged therefore under the Fiscal Agent Agreement. Neither the faith and credit nor the taxing power of the City (except to the limited extent set forth in the Fiscal Agent Agreement) or of the State of California or any political subdivision thereof is pledged to the payment of the Bonds.

Collection of Special Tax Revenues

The City will comply with all requirements of the Act so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of delinquent Special Taxes.

Processing. On or within five Business Days of each June 1, the Fiscal Agent will provide the Finance Director with a notice stating (i) the amount then on deposit in the Bond Fund and the 2019 Reserve Fund and any reserve account for Parity Bonds that are not 2019 Related Parity Bonds that is held by the Fiscal Agent, and (ii) if the amount in the 2019 Reserve Fund is less than the 2019 Reserve Requirement or the amount in such other reserve account held by the Fiscal Agent is less than its required amount, informing the City that replenishment of the 2019 Reserve Fund or reserve account is necessary, informing the City of the amount (if any) that the City needs to provide for replenishment of the 2019 Reserve Fund or such other reserve account so that the balance therein equals the 2019 Reserve Requirement or applicable reserve, as applicable. The receipt of or failure to receive such notice by the Finance Director will in no way affect the obligations of the Finance Director under the following two paragraphs and the Fiscal Agent will not be liable for failure to provide such notices to the Finance Director. Upon receipt of such notice, the Finance Director will communicate with the Auditor to ascertain the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits or combinations during the preceding and then current year.

Levy. The Finance Director will effect the levy of the Special Taxes each Fiscal Year in accordance with the Ordinance by each August 1 that the Bonds are outstanding, or otherwise such that the computation of the levy is complete before the final date on which Auditor will accept the transmission of the Special Tax amounts for the parcels within the District for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the Finance Director will prepare or cause to be prepared, and will transmit to the Auditor, such data as the Auditor requires to include the levy of the Special Taxes on the next real property tax roll.

Computation. The Finance Director will fix and levy the amount of Special Taxes within the District required for the timely payment of principal of and interest on any outstanding Bonds becoming due and payable during the ensuing calendar year, including any necessary replenishment or expenditure of the 2019 Reserve Fund and any reserve account for Parity Bonds that are not 2019 Related Parity Bonds and an amount estimated to be sufficient to pay the Administrative Expenses, including amounts necessary to discharge any rebate obligation, during such year, taking into account the balances in the applicable funds established under the Fiscal Agent Agreement and in the Special Tax Fund. The Special Taxes so levied may not exceed the authorized amounts as provided in the proceedings under the Resolution of Formation.

Collection. Except as set forth in the Ordinance, Special Taxes will be payable and will be collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the ad valorem taxes on real property.

Because the Special Tax levy is limited to the maximum Special Tax rates set forth in the Rate and Method, no assurance can be given that, in the event of Special Tax delinquencies, the receipts of Special Taxes will, in fact, be collected in sufficient amounts in any given year to pay debt service on the Bonds. See "BOND OWNERS' RISKS."

Rate and Method

General. The Special Taxes will be levied and collected according to the Rate and Method, which provides the means by which the City Council may annually levy the Special Taxes within the District, up to the Maximum Special Tax rates, and to determine the amount of the Special Taxes that will need to be collected each fiscal year from the “**Taxable Property**” within the District.

The following is a summary of the provisions of the Rate and Method, which should be read in conjunction with the complete text of the Rate and Method, including its attachments, which is attached as APPENDIX B. Capitalized terms used but not defined in this section have the meanings as set forth in APPENDIX B. *This section provides only a summary of the Rate and Method, and is qualified by more complete and detailed information contained in the entire Rate and Method attached as APPENDIX B.*

Special Tax Requirement. Each Fiscal Year, the City Manager or his or her designee will determine the amount of money to be collected from Taxable Property in the District in an amount necessary to (a) pay debt service on the Bonds; (b) create or replenish reserve funds; (c) cure any delinquencies in the payment of debt service on the Bonds (including any Parity Bonds) which occurred in the prior Fiscal Year or (based on delinquencies in the payment of Special Taxes which have already taken place) are expected to occur in the Fiscal Year in which the Special Tax will be collected, (d) pay administrative expenses, and (e) costs of the Facilities to be funded directly from Special Tax proceeds (collectively, the “**Special Tax Requirement**”).

Assignment to Land Use Categories. For each Fiscal Year, all Taxable Property within the District will be classified as either Developed Property or Undeveloped Property and will be subject to Special Taxes in accordance with the rate and method of apportionment determined pursuant to the Rate and Method.

If a construction building permit has been issued for development of a structure on an Assessor’s Parcel in the District, and additional structures are anticipated to be built on the Parcel as shown on the approved site plan for such Parcel, a portion of the Acreage of the Assessor’s Parcel will be taxed as Undeveloped Property if building permits for all of the structures in the approved site plan for the Assessor’s Parcel were not issued as of July 1 of the Fiscal Year in which the Special Taxes are being levied. If the Acreage assigned to each building anticipated on the Assessor’s Parcel is not clearly delineated on a subdivision map, the Acreage of the portion of the Assessor’s Parcel to be taxed as Developed Property will be equal to the structure’s pro rata share of the total Square Footage anticipated on the Assessor’s Parcel, as determined by the City, multiplied by the total Acreage of the Assessor’s Parcel. The remaining Acreage within the Assessor’s Parcel will be taxed as Undeveloped Property. Determination of the amount of Developed Property and Undeveloped Property on an Assessor’s Parcel will be at the sole discretion of the City.

“**Taxable Property**” is defined as all of the Assessor’s Parcels within the boundaries of the District not exempt from the Special Tax pursuant to law or the Rate and Method. The Rate and Method provides that an Assessor’s Parcel may be categorized and taxed as part Developed and part Undeveloped under certain circumstances and for exemption under certain circumstances for Public Property.

Maximum Special Tax. The Maximum Special Tax is defined in the Rate and Method as the maximum Special Tax that can be levied in any Fiscal Year.

- For Developed Property, the Maximum Special Tax is \$3,958.44 per acre for Fiscal Year 2019-20, and thereafter, the Maximum Special Tax will be increased by 2% of the Maximum Special Tax in effect the previous Fiscal Year.

- For Undeveloped Property, the Maximum Special Tax is \$3,958.44 per acre for Fiscal Year 2019-20, and thereafter, the Maximum Special Tax for Undeveloped Property will be increased by 2% of the Maximum Special Tax in effect the previous Fiscal Year.

Method of Apportionment. Each Fiscal Year, the City Manager or his or her designee will determine the Special Tax Requirement to be collected from Taxable Property in the District in the Fiscal Year. The Special Tax will then be levied as follows:

First: The Special Tax will be levied Proportionately on each Assessor's Parcel of Developed Property that is neither Owner Association Property nor Public Property up to 100% of the Maximum Special Tax for Developed Property.

Second: If additional monies are needed to satisfy the costs of the Special Tax Requirement after the first step has been applied, the Special Tax will be levied Proportionately on each Assessor's Parcel of Undeveloped Property that is neither Owner Association Property nor Public Property up to 100% of the Maximum Special Tax for Undeveloped Property.

Third: If additional monies are needed to satisfy the costs of the Special Tax Requirement after the first two steps have been completed, the Special Tax will be levied Proportionately on each Assessor's Parcel of Owner Association Property, using the Maximum Special Tax rate for Undeveloped Property. "**Owner Association Property**" means any property within the District owned by a homeowner association or property owner association, including any master or sub-association.

Fourth: If additional monies are needed to satisfy the costs of the Special Tax Requirement after the first three steps have been completed, the Special Tax will be levied Proportionately on each Assessor's Parcel of Public Property that is Taxable Property, using the Maximum Special Tax rates for Undeveloped Property. "**Public Property**" mean any property in the District owned by the federal government, the State of California or other local governments or public agencies. As of the date hereof, no property in the District constitutes Public Property. Under the Rate and Method, the first 17.99 acres of property that becomes Public Property in the District is exempt from the Special Tax. Thereafter, if additional property in the District becomes Public Property, such property will be subject to the Special Tax under the Rate and Method and the Act, as described in the Rate and Method.

Manner of Collection. The Special Taxes will be collected in the same manner and at the same time as ordinary ad valorem property taxes; provided that prepayments can be made at the time and in the manner provided in the Rate and Method. Delinquency Levies (as defined in the Rate and Method), if any, will be billed by mail directly to the then-current owners of Taxable Property that are not delinquent on or about March 1 and June 30 and due within 30 days of the date on which the bill was mailed.

Delinquency Levy. In addition to the Special Tax levied as described above, if, in any Fiscal Year, Special Tax payments due from one or more Parcels of Taxable Property are delinquent, the delinquent Special Taxes will be immediately levied on all Parcels of Taxable Property that are not delinquent. Before March 1 (for the Special Tax installment due December 10th) and June 30 (for the Special Tax installment due April 10th) of each Fiscal Year, the City Manager or his or her designee will determine and allocate the Delinquency Levy pursuant to the steps set forth in the Rate and Method. See APPENDIX B.

However, no Delinquency Levy will be levied with respect to a December 10 or an April 10 installment, in any Fiscal Year in which the aggregate Special Tax collected for such December 10 or April 10 installment is sufficient to cover the (i) full debt service due on the Bonds to be paid from amounts levied and collected for such December 10 or April 10 installment, (ii) replenishment of Bond reserves to

the reserve requirement, and (iii) Administrative Expenses to be paid from amounts levied and collected for such December 10 or April 10 installment.

Limitations. Notwithstanding any other provision of the Rate and Method, no Special Taxes will be levied on the first 17.99 Acres of property that becomes Public Property within the District. Parcels or portions of Parcels that become Public Property after a total of 17.99 Acres of Public Property have been designated within the District will be subject to the levy of Special Taxes pursuant to the authority provided the Act. In any event, no Special Taxes will be levied on Public Property or Owner Association Property unless it is necessary to satisfy the Special Tax Requirement pursuant to the Rate and Method.

Prepayment of Special Tax. The Special Tax obligation applicable to each Assessor's Parcel in the District may be prepaid and the obligation of the Assessor's Parcel to pay the Special Tax permanently satisfied as described in the Rate and Method, provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax obligation must provide the City with written notice of intent to prepay. Within 30 days of receipt of such written notice, the City or its designee will notify such owner of the prepayment amount for such Assessor's Parcel. Prepayment must be made not less than 75 days prior to any redemption date for Bonds to be redeemed with the proceeds of such prepaid Special Taxes. The Prepayment Amount shall be calculated as set forth in the Rate and Method. See APPENDIX B.

Covenant to Foreclose

Sale of Property for Nonpayment of Taxes. The Fiscal Agent Agreement provides that the Special Taxes are to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the special covenant for foreclosure described below and in the Act, is to be subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for *ad valorem* property taxes. Under these procedures, if taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

Foreclosure Under the Act. Under Section 53356.1 of the Act, if any delinquency occurs in the payment of the Special Tax, the City may order the institution of a superior court action to foreclose the lien therefor within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at judicial foreclosure sale.

While judicial foreclosure is not mandatory under the Act, the City has covenanted in the Fiscal Agent Agreement that it will order, and cause to be commenced as described below, and thereafter diligently prosecute to judgment (unless such delinquency is theretofore brought current), an action in the superior court to foreclose the lien of any delinquent Special Tax or installment thereof. The Finance Director will notify the City Attorney of any such delinquency of which the Finance Director is aware, and the City Attorney will commence, or cause to be commenced, such proceedings.

On or about June 15 of each Fiscal Year, the Finance Director will compare the amount of Special Taxes theretofore levied in the District and to the amount of Special Tax Revenues theretofore received by the City, and proceed as follows:

Individual Delinquencies. If the Finance Director determines that any single parcel subject to the Special Tax in the District is delinquent in the payment of two or more installments of the Special Taxes, then the Finance Director will send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings shall be commenced by the City within 90 days of such determination.

Notwithstanding the foregoing, in its sole discretion, the Finance Director may defer such action if (1) the Special Taxes are covered by the County's Teeter Plan, or an equivalent procedure, but only to the extent that the City cannot be required to repay the County for amounts apportioned by the County to the City that represent delinquent Special Taxes, (2) the amount in the 2019 Reserve Fund is at least equal to the 2019 Reserve Requirement, and (3) the amount in the reserve account for any Parity Bonds that are not 2019 Related Parity Bonds is at least equal to the required amount.

Aggregate Delinquencies. If the Finance Director determines that the total amount of delinquent Special Tax for the prior Fiscal Year for the entire District (including the total of individual delinquencies determined as described above) exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year, determined by reference to the latest available secured property tax roll of the County, the Finance Director will notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and will commence foreclosure proceedings within 90 days of such determination against each parcel of land in the District with a Special Tax delinquency.

Sufficiency of Foreclosure Sale Proceeds; Foreclosure Limitations and Delays. No assurances can be given that the real property subject to a judicial foreclosure sale will be sold or, if sold, that the proceeds of sale will be sufficient to pay any delinquent Special Tax installment. The Act does not require the City to purchase or otherwise acquire any lot or parcel of property foreclosed upon if there is no other purchaser at such sale.

Section 53356.6 of the Act requires that property sold pursuant to foreclosure under the Act be sold for not less than the amount of judgment in the foreclosure action, plus post-judgment interest and authorized costs, unless the consent of the owners of 75% of the outstanding Bonds is obtained. However, under Section 53356.5 of the Act, the City, as judgment creditor, is entitled to purchase any property sold at foreclosure using a "credit bid," where the City could submit a bid crediting all or part of the amount required to satisfy the judgment for the delinquent amount of the Special Taxes. If the City becomes the purchaser under a credit bid, the City must pay the amount of its credit bid into the redemption fund established for the Bonds, but this payment may be made up to 24 months after the date of the foreclosure sale.

Foreclosure by court action is subject to normal litigation delays, the nature and extent of which are largely dependent on the nature of the defense, if any, put forth by the debtor and the Superior Court calendar. In addition, the ability of the City to foreclose the lien of delinquent unpaid Special Taxes may be limited in certain instances and may require prior consent of the property owner if the property is owned by or in receivership of the Federal Deposit Insurance Corporation (the "FDIC"). See "BOND OWNERS' RISKS – Bankruptcy Delays."

Teeter Plan. In 1949, the California Legislature enacted an alternative method for the distribution of property taxes to local agencies. This method, known as the "Teeter Plan," is found in Sections 4701-4717 of the California Revenue and Taxation Code. Upon adoption and implementation of this method by a county board of supervisors, local agencies for which the county collects property taxes and certain other public agencies and taxing areas located in the county receive annually the full amount of their shares of property taxes and other levies collected on the secured roll, including delinquent property taxes which have yet to be collected. While the county bears the risk of loss on unpaid delinquent taxes, it retains the penalties associated with delinquent taxes when they are paid. In turn, the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk.

Once adopted, a county's Teeter Plan will remain in effect in perpetuity unless the board of supervisors orders its discontinuance or unless, prior to the commencement of a fiscal year, a petition for

discontinuance is received and joined in by resolutions of the governing bodies of not less than two-thirds of the participating districts in the county. An electing county may, however, decide to discontinue the Teeter Plan with respect to any levying agency in the county if the board of supervisors, by action taken not later than July 15 of a fiscal year, elects to discontinue the procedure with respect to such levying agency and the rate of secured tax delinquencies in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll by that agency.

The Board of Supervisors of San Joaquin County adopted the Teeter Plan in Fiscal Year 1994-95. The County has elected to apply its Teeter Plan to the collection of the Special Taxes in the District. To the extent that the County's Teeter Plan continues in existence and is carried out as adopted, and to the extent the County does not discontinue the Teeter Plan with respect to the District, the County's Teeter Plan may help protect owners of the 2019 Bonds from the risk of delinquencies in the payment of Special Tax.

There can be no assurance that the County will not modify or eliminate its Teeter Plan, or choose to remove the District from its Teeter Plan, while the 2019 Bonds are outstanding.

Special Tax Fund

Deposits. Under the Fiscal Agent Agreement, the Special Tax Fund is established as a separate fund to be held by the Fiscal Agent, to the credit of which the Fiscal Agent will deposit amounts received from or on behalf of the City consisting of Special Tax Revenues and amounts transferred from the Administrative Expense Fund and the Bond Fund. The City will promptly remit any Special Tax Revenues received by it to the Fiscal Agent for deposit by the Fiscal Agent to the Special Tax Fund.

Notwithstanding the foregoing,

(i) any Special Tax Revenues constituting payment of the portion of the Special Tax levy for Administrative Expenses will be separately identified by the Finance Director and will be deposited by the Fiscal Agent in the Administrative Expense Fund;

(ii) any Special Tax Revenues constituting the collection of delinquencies in payment of Special Taxes will be separately identified by the Finance Director and will be disposed of by the Fiscal Agent as follows:

- first, for transfer to the Bond Fund to pay any past due debt service on the Bonds;

- second, for transfer to the 2019 Reserve Fund to the extent needed to increase the amount then on deposit in the 2019 Reserve Fund up to the 2019 Reserve Requirement and for transfer to the reserve account for any Parity Bonds that are not 2019 Related Parity Bonds to the extent needed to increase the amount then on deposit in such reserve account up to the amount then required to be deposited therein (and in the event the collection of delinquencies in payment of Special Taxes are not sufficient for the purposes of this clause, such amounts will be applied to the 2019 Reserve Fund and any other reserve accounts ratably based on the then Outstanding principal amount of the Bonds); and

- third, to be held in the Special Tax Fund for disbursement as described below.

(iii) moneys in the Special Tax Fund will be held by the Fiscal Agent for the benefit of the City and Owners of the Bonds, shall be disbursed as provided below and, pending disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

Disbursements. On the fifth Business Day prior to each Interest Payment Date, the Fiscal Agent will withdraw from the Special Tax Fund and transfer the following amounts in the following order of priority:

(i) to the Bond Fund an amount, taking into account any amounts then on deposit in the Bond Fund and any expected transfers from the 2019 Reserve Fund and any reserve account for Parity Bonds that are not 2019 Related Parity Bonds such that the amount in the Bond Fund equals the principal (including any sinking payment), premium, if any, and interest due on the Bonds on such Interest Payment Date and any past due principal or interest on the Bonds not theretofore paid from a transfer described above, and

(ii) without preference or priority (a) to the 2019 Reserve Fund an amount, taking into account amounts then on deposit in the 2019 Reserve Fund, such that the amount in the 2019 Reserve Fund is equal to the 2019 Reserve Requirement and (b) to the reserve account for any Parity Bonds that are not 2019 Related Parity Bonds, taking into account amounts then on deposit in the such reserve account, such that the amount in such reserve account is equal to the amount required to be on deposit therein (and in the event that amounts in the Special Tax Fund are not sufficient for the purposes of this paragraph, such amounts shall be applied to the 2019 Reserve Fund and any other reserve accounts ratably based on the then Outstanding principal amount of the Bonds).

On each September 2, any amounts remaining in the Special Tax Fund will be transferred to the Administrative Expense Fund.

Bond Fund

Deposits. Under the Fiscal Agent Agreement, the Bond Fund is established as a separate fund to be held by the Fiscal Agent to the credit of which deposits will be made as required by the Fiscal Agent Agreement. Moneys in the Bond Fund will be held by the Fiscal Agent for the benefit of the City and the Owners of the Bonds, and will be disbursed for the payment of the principal of, and interest and any premium on, the Bonds as described below.

Disbursements. At least 10 Business Days before each Interest Payment Date, the Fiscal Agent will notify the Finance Director in writing as to the principal and premium, if any, and interest due on the Bonds on the next Interest Payment Date (whether as a result of scheduled principal of and interest on the Bonds, optional redemption of the Bonds or a mandatory sinking fund redemption). On each Interest Payment Date, the Fiscal Agent will withdraw from the Bond Fund and pay to the Owners of the Bonds the principal of, and interest and any premium, due and payable on such Interest Payment Date on the Bonds.

Notwithstanding the foregoing, amounts in the Bond Fund as a result of a transfer of Special Tax Revenues constituting the collection of delinquencies in payment of Special Taxes will be immediately disbursed by the Fiscal Agent to pay past due amounts owing on the Bonds.

At least five Business Days prior to each Interest Payment Date, the Fiscal Agent will determine if the amounts then on deposit in the Bond Fund are sufficient to pay the debt service due on the Bonds on the next Interest Payment Date. If amounts in the Bond Fund are insufficient for such purpose, the

Fiscal Agent promptly will notify the Finance Director by telephone (and confirm in writing) of the amount of the insufficiency.

If amounts in the Bond Fund are insufficient for the purpose set forth in the preceding paragraph with respect to any Interest Payment Date, the Fiscal Agent will do the following:

(i) Withdraw from the 2019 Reserve Fund, in accordance with the Fiscal Agent Agreement, to the extent of any funds or Permitted Investments therein, amounts to cover the amount of such Bond Fund insufficiency related to the 2019 Bonds and any 2019 Related Parity Bonds. Amounts so withdrawn from the 2019 Reserve Fund will be deposited in the Bond Fund.

(ii) Withdraw from the debt service reserve fund, if any, established under a Supplemental Agreement related to Parity Bonds that are not 2019 Related Parity Bonds, to the extent of any funds or Permitted Investments therein, amounts to cover the amount of such Bond Fund insufficiency related to such Parity Bonds. Amounts so withdrawn from any such debt service reserve fund will be deposited in the Bond Fund.

If, after the foregoing transfers and application of such funds for their intended purposes, there are insufficient funds in the Bond Fund to make the payments to the Owners of the Bonds the principal of, and interest and any premium, due and payable on such Interest Payment Date on the Bonds, the Fiscal Agent will apply the available funds first to the payment of interest on the Bonds, then to the payment of principal due on the Bonds other than by reason of sinking payments, if any, and then to payment of principal due on the Bonds by reason of sinking payments. If there are insufficient funds to make the corresponding payment for all of the then-Outstanding Bonds, then each such payment will be made ratably to the Owners of the Bonds based on the then-Outstanding principal amount of the Bonds, without regard to the existence of a funded debt service reserve. Any sinking payment not made as scheduled will be added to the sinking payment to be made on the next sinking payment date.

Deficiency. If at any time the Fiscal Agent has actual knowledge that there is a danger of deficiency in the Bond Fund and that the Fiscal Agent may be unable to pay Debt Service on the Bonds in a timely manner, the Fiscal Agent will report to the Finance Director such fact. The City covenants in the Fiscal Agent Agreement to increase the levy of the Special Taxes in the next Fiscal Year (subject to the maximum amount authorized by the Resolution of Formation) in accordance with the procedures set forth in the Act for the purpose of curing Bond Fund deficiencies.

Excess. Any excess moneys remaining in the Bond Fund, following the payment of Debt Service on the Bonds on any September 1, will be transferred to the Special Tax Fund.

2019 Reserve Fund

General. In order to further secure the payment of principal of and interest on the Bonds and any series of 2019 Related Parity Bonds, certain proceeds of the 2019 Bonds (and of any 2019 Related Parity Bonds) will be deposited into the 2019 Reserve Fund in an amount equal to the “**2019 Reserve Requirement**” (as defined below). See “FINANCING PLAN - Estimated Sources and Uses of Funds.”

See APPENDIX C for a complete description of the timing, purpose and manner of disbursements from the 2019 Reserve Fund.

2019 Reserve Requirement. The “**2019 Reserve Requirement**” is defined in the Fiscal Agent Agreement to mean the sum of:

(i) \$ _____, which is the least of (a) Maximum Annual Debt Service on the 2019 Bonds as of the Closing Date, (b) 125% of average Annual Debt Service on the 2019 Bonds

as of the Closing Date and (c) 10% of the original principal amount of the 2019 Bonds (or, if the 2019 Bonds have more than a de minimis amount of original issue discount or premium, 10% of the issue price of the 2019 Bonds) plus

(ii) with respect to any series of 2019 Related Parity Bonds, an amount equal to the least of (a) Maximum Annual Debt Service on such 2019 Related Parity Bonds as of the date of their issuance, (b) 125% of average Annual Debt Service on such 2019 Related Parity Bonds as of the date of their issuance and (c) 10% of the original principal amount of such 2019 Related Parity Bonds (or, if the 2019 Related Parity Bonds have more than a de minimis amount of original issue discount or premium, 10% of the issue price of the 2019 Related Parity Bonds);

provided that, with respect to the issuance of any 2019 Related Parity Bonds, if the 2019 Reserve Fund would have to be increased by an amount greater than 10% of the stated principal amount of the 2019 Related Parity Bonds (or, if the 2019 Related Parity Bonds have more than a de minimis amount of original issue discount or premium, of the issue price of such 2019 Related Parity Bonds), then the 2019 Reserve Requirement will be such lesser amount as is determined by a deposit of such 10%; and provided that accrued interest on any 2019 Related Parity Bonds deposited with the Fiscal Agent upon delivery of such 2019 Related Parity Bonds will be excluded for purposes of the calculation of the 2019 Reserve Requirement.

Disbursements. Except as otherwise provided in the Fiscal Agent Agreement, all amounts deposited in the 2019 Reserve Fund will be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Bond Fund in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal of, and interest and any premium on, the 2019 Bonds and any 2019 Related Parity Bonds or, in accordance with the provisions of this provision of the Fiscal Agent Agreement, for the purpose of redeeming 2019 Bonds and any 2019 Related Parity Bonds from the Bond Fund. Whenever a transfer is made from the 2019 Reserve Fund to the Bond Fund due to a deficiency in the Bond Fund for payment of the principal of, and interest and any premium on, the 2019 Bonds and any 2019 Related Parity Bonds, the Fiscal Agent will provide written notice thereof to the Finance Director, specifying the amount withdrawn.

Transfer of Excess of Reserve Requirement. Whenever, on or before any Interest Payment Date, or on any other date at the request of the Finance Director, the amount in the 2019 Reserve Fund exceeds the 2019 Reserve Requirement, the Fiscal Agent will transfer an amount equal to the excess from the 2019 Reserve Fund to the Bond Fund, to be used to pay interest on the 2019 Bonds and any 2019 Related Parity Bonds on the next Interest Payment Date.

Transfer Upon Special Tax Prepayment. Whenever Special Taxes are prepaid and 2019 Bonds or any 2019 Related Parity Bonds are to be redeemed with the proceeds of such prepayment pursuant to the Fiscal Agent Agreement or a Supplemental Agreement related to any 2019 Related Parity Bonds, a proportionate amount in the 2019 Reserve Fund (determined on the basis of the principal of 2019 Bonds and 2019 Related Parity Bonds to be redeemed and the then-Outstanding principal of the 2019 Bonds and 2019 Related Parity Bonds, but in any event not in excess of the amount that will leave the balance in the 2019 Reserve Fund following the proposed redemption equal to the 2019 Reserve Requirement) will be transferred on the Business Day prior to the redemption date by the Fiscal Agent to the Bond Fund to be applied to the redemption of the 2019 Bonds pursuant to the Fiscal Agent Agreement or a Supplemental Agreement related to any 2019 Related Parity Bonds. The Finance Director will deliver to the Fiscal Agent an Officer's Certificate specifying any amount to be so transferred, and the Fiscal Agent may rely on any such Officer's Certificate.

Qualified Reserve Fund Credit Instruments. The City will have the right at any time to direct the Fiscal Agent to release funds from the 2019 Reserve Fund, in whole or in part, by tendering to the Fiscal Agent: (i) a Qualified Reserve Account Credit Instrument, and (ii) an opinion of Bond Counsel

stating that neither the release of such funds nor the acceptance of such Qualified Reserve Account Credit Instrument will cause interest on the 2019 Bonds or any 2019 Related Parity Bonds the interest on which is excluded from gross income of the owners thereof for federal income tax purposes to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Fiscal Agent, and upon delivery by the City to the Fiscal Agent of a written calculation of the amount permitted to be released from the 2019 Reserve Fund (upon which the Fiscal Agent may conclusively rely), the Fiscal Agent will transfer such funds from the 2019 Reserve Fund to the Improvement Fund or the Bond Fund to be used for the purposes thereof, as directed in writing by an Authorized Officer.

The City will have no obligation to replace a Qualified Reserve Account Credit Instrument or to fund the 2019 Reserve Fund with cash if, at any time that the 2019 Bonds are Outstanding, the Qualified Reserve Account Credit Instrument (or its provider) is downgraded or the provider becomes insolvent, if there is an unscheduled termination of the Qualified Reserve Account Credit Instrument or if for any reason insufficient amounts are available to be drawn upon under the Qualified Reserve Account Credit Instrument; provided, however, that the City will reimburse the provider, in accordance with the terms of the Qualified Reserve Account Credit Instrument, for any draws made thereon.

Investment of Moneys in Funds

Moneys in any fund or account created or established by the Fiscal Agent Agreement and held by the Fiscal Agent will be invested by the Fiscal Agent in Permitted Investments, which in any event by their terms mature prior to the date on which such moneys are required to be paid out under the Fiscal Agent Agreement. See APPENDIX C for a definition of "Permitted Investments."

THE DISTRICT

Formation and Background

Formation Proceedings. The District was formed and established by the City pursuant to the Act and the Resolution of Formation adopted by the City Council, as legislative body of the District, on February 21, 2006, following a public hearing. On the same date, a landowner election was held at which the qualified electors of the District, by more than a two-thirds vote, authorized the City to incur maximum bonded indebtedness on behalf of the District in the maximum principal amount of \$13,000,000, and approved the levy of the Special Taxes upon the taxable real property in the District for the purpose of financing the public facilities described in the Resolution of Formation, which were as follows:

Street Improvements: Acquisition of land and easements for future roadways and City infrastructure improvements.

Wastewater Facilities: Construction of improvements to the wastewater collection system and acquisition of land and easements for wastewater collection and transmission.

Water Facilities: The construction of a water line and the construction of water facilities in conjunction with the South County Surface Water Supply Project.

Storm Drain Facilities: Construction of improvements to the storm drain system and acquisition of land and easements for the storm drain system.

Other Facilities: To the extent that funds remain after financing the facilities described above, the City will finance other public improvements in accordance with its Local Goals and Policies for Community Facilities Districts.

Description and Location

General. The District is located within a larger district the City has designated the “Northeast Industrial Area,” consisting of approximately 870 acres located along the northeast boundary of the City, generally bounded to the north by I-205, to the south by Southern Pacific Railroad tracks, to the east by Banta Road and to the west by MacArthur Drive. Three interstate highways (I-5, I-205 and I-580) and three major railroad lines transect the Northeast Industrial Area, which is located approximately 30 miles east of the Tri-Valley (San Ramon, Pleasanton and Livermore) employment centers, and approximately 65 miles east of San Francisco.

The District represents the second phase of development in the Northeast Industrial Area and consists of approximately 249 total gross acres, of which 234.25 acres are classified as Taxable Property as of the date hereof. See “– Property Ownership and Development Status” below.

See APPENDIX A for demographic and other information regarding the City and the County.

Boundary Map. The map showing the boundaries of the District is attached as APPENDIX H.

Property Ownership and Development Status

General Information Regarding Assessed Values. Article XIII A of the California Constitution (“**Proposition 13**”) defines “full cash value” to mean “the county assessor’s valuation of real property as shown on the 1975-76 bill under ‘full cash value’, or, thereafter, the appraised value of real property when purchased or newly constructed or when a change in ownership has occurred after the 1975

assessment,” subject to exemptions in certain circumstances of property transfer or reconstruction. The “full cash value” is subject to annual adjustment to reflect increases, not to exceed 2% for any year, or decreases in the consumer price index or comparable local data, or to reflect reductions in property value caused by damage, destruction or other factors.

Because of the general limitation to 2% per year in increases in full cash value of properties that remain in the same ownership, the County tax roll does not reflect values uniformly proportional to actual market values.

In addition, assessed values can be reduced as a result of two basic types of property tax assessment appeals under State law: (a) a base-year assessment appeal, which involves a dispute on the valuation assigned by the assessor immediately subsequent to an instance of a change in ownership or completion of new construction, and (b) a Proposition 8 appeal, which can result (as a result of a property owner’s application) if factors occur causing a decline in the market value of the property to a level below the property’s then-current assessed value.

Accordingly, the gross assessed valuation presented in this Official Statement may not necessarily be representative of the actual market value of certain property in the District.

No assurance can be given that should a parcel with delinquent Special Taxes be foreclosed and sold for the amount of the delinquency, that any bid will be received for such property, or if a bid is received that such bid will be sufficient to pay such delinquent Special Taxes.

Property Ownership Summary. The table below summarizes the property ownership in the District, assessed value, and each parcel's estimated share of the 2019-20 Special Tax Levy.

**Table 1
Assessed Value by Assessor's Parcel**

Owner ⁽¹⁾	Assessor's Parcel Number	Current Occupant/ Land Use	Acreage	FY 2018-19 Land Value	FY 2018-19 Improvement Value	FY 2018-19 Total Assessed Value	FY 2019-20 Maximum Special Tax	Estimated FY 2019-20 Special Tax Levy	Percent of Estimated FY 2019-20 Tax Levy
Developed Property									
<u>Prologis and Affiliates</u>									
Prologis Amazon Tracy LLC	250-020-880-000	Amazon Parking Lot	14.14	\$2,816,742	\$1,885,388	\$4,702,130	\$55,972	\$52,304	7.56%
PAC Corporate Center Tracy ETAL	250-020-900-000	Crate and Barrel Warehouse	36.18	\$5,314,568	\$34,567,211	\$39,881,779	\$143,216	\$133,830	19.33%
Prologis Amazon Tracy LLC	250-020-910-000	Amazon Warehouse	54.25	\$11,235,335	\$39,895,420	\$51,130,755	\$214,745	\$200,671	28.99%
Subtotal			104.57	\$19,366,645	\$76,348,019	\$95,714,664	\$413,934	\$386,805	55.87%
<u>Other Property Owners</u>									
BCI IV Pescadero DC LP	213-070-060-000	Pactra Warehouse and DHL Warehouse	19.46	\$3,536,806	\$22,134,000	\$25,670,806	\$77,031	\$71,983	10.40%
Duke Realty LTD PTP	213-070-730-000	Home Depot Warehouse	44.03	\$12,445,881	\$33,820,331	\$46,266,212	\$174,290	\$162,867	23.53%
Subtotal			63.49	\$15,982,687	\$55,954,331	\$71,937,018	\$251,321	\$234,850	33.92%
Mixed Property ⁽²⁾									
<u>Prologis and Affiliates</u>									
PAC Corporate Center Tracy ETAL	250-020-890-000 (Portion)	Crate and Barrel Warehouse	19.09	--	--	--	\$75,567	\$70,614	10.20%
PAC Corporate Center Tracy ETAL	250-020-890-000 (Portion)	Undeveloped Portion of Parcel	9.31	--	--	--	\$36,853	\$0	0.00%
Subtotal			28.40	\$4,171,710	\$14,018,299	\$18,190,009	\$112,420	\$70,614	10.20%
Undeveloped Property									
<u>Prologis and Affiliates ⁽³⁾</u>									
Prologis Amazon Tracy LLC	250-020-800-000	Temporary Storm Drainage Pond	5.80	\$0	\$0	\$0	\$22,959	\$0	0.00%
PAC Corporate Center Tracy	250-020-810-000	Temporary Storm Drainage Pond	10.08	\$0	\$0	\$0	\$39,901	\$0	0.00%
PAC Corporate Center Tracy	250-020-840-000	Private Cul-de-sac	0.77	\$0	\$0	\$0	\$3,060	\$0	0.00%
PAC Corporate Center Tracy	250-020-860-000	Temporary Storm Drainage Pond	5.00	\$0	\$0	\$0	\$19,792	\$0	0.00%
Subtotal			21.65	\$0	\$0	\$0	\$85,712	\$0	0.00%
<u>Other Property Owners</u>									
Chand Shyani	213-070-740-000	Undeveloped Land	5.35	\$505,373	\$0	\$505,373	\$21,178	\$0	0.00%
ITC Tracy LLC	213-070-830-000	Undeveloped Land	4.73	\$1,004,544	\$0	\$1,004,544	\$18,723	\$0	0.00%
MLP Realty LLC	213-070-840-000	Undeveloped Land	2.94	\$619,484	\$0	\$619,484	\$11,638	\$0	0.00%
Subtotal			13.02	\$2,129,401	\$0	\$2,129,401	\$51,539	\$0	0.00%
TOTAL			231.13	\$41,650,443	\$146,320,649	\$187,971,092	\$914,925	\$692,268	100.00%

(1) Ownership information per the Assessor's Tax Roll, as of the lien date.

(2) Per Section B of the Rate and Method, if a building permit has been issued for development of a structure on an parcel in the District, and additional structures are anticipated to be built on the parcel as shown on the approved site plan, a portion of the acreage of the parcel will be taxed as Undeveloped Property. Approximately 19.09 acres of the 28.4 acre parcel is assigned to the Crate and Barrel Warehouse and per the Rate and Method is taxed as Developed Property. The remaining 9.31 acres is the undeveloped portion of the parcel that is currently planned for a future warehouse and is taxed as Undeveloped Property.

(3) Does not included APN 250-020-950 owned by Prologis Logistics Services Inc, which is currently a private driveway and subject to the special tax. The City expects that in the future this parcel may become a public street, and would subsequently be exempt from special taxes.

Source: San Joaquin County Tax Collector's Office; San Joaquin County Assessor's Office; City of Tracy; Goodwin Consulting Group, Inc.

**Table 2
Top Taxpayers**

Owner ⁽¹⁾	Number of Parcels	FY 2019-20 Maximum Special Tax	Estimated FY 2019-20 Special Tax Levy	Percent of Estimated Special Tax Levy
Prologis and Affiliates				
Prologis Amazon Tracy LLC	3	\$293,676	\$252,975	36.5%
Pac Corporate Center Tracy ETAL	2	\$255,636	\$204,444	29.5%
PAC Corporate Center Tracy	3	\$62,753	\$0	0.0%
Subtotal	8	\$612,065	\$457,419	66.1%
Duke Realty LTD PTP	1	\$174,290	\$162,867	23.5%
BCI IV Pescadero DC LP	1	\$77,031	\$71,983	10.4%
Chand Shyani	1	\$21,178	\$0	0.0%
ITC Tracy LLC	1	\$18,723	\$0	0.0%
MLP Realty LLC	1	\$11,638	\$0	0.0%
TOTAL	13	\$914,925	\$692,268	100.0%

(1) Ownership information per the Assessor's Tax Roll, as of the lien date.

(2) Does not included APN 250-020-950 owned by Prologis Logistics Services Inc, which is currently a private driveway and subject to the special tax. The City expects that in the future this parcel may become a public street, and would subsequently be exempt from special taxes.

Source: San Joaquin County Assessor's Office; San Joaquin County Tax Collector's Office; Goodwin Consulting Group, Inc.

Prologis and Affiliates. Approximately 66% of the estimated Fiscal Year 2019-20 Special Tax levy is payable by affiliates and subsidiaries of Prologis Inc. These entities are further described below.

Prologis Amazon Tracy LLC, a Delaware limited liability company, was formed on February 29, 2016, and is wholly owned by Prologis, L.P., a Delaware limited partnership. The general partner of Prologis, L.P. is Prologis, Inc., a Maryland corporation. Prologis, Inc. is a publicly traded corporation and information regarding the ownership of Prologis, Inc. can be found in public SEC filings. Prologis Amazon Tracy LLC is qualified to transact business in California.

PAC Corporate Center Tracy LLC, a Delaware limited liability company (f/k/a Catellus Corporate Center Tracy, LLC), was formed on April 29, 2005, and is wholly owned by PAC Operating Limited Partnership, a Delaware limited partnership. The general partner of PAC Operating Limited Partnership is Palmtree Acquisition Corporation, a Delaware corporation ("Palmtree"). Prologis, a Maryland real estate investment trust, holds approximately 80% of the issued and outstanding common stock of Palmtree, and approximately 89% of the issued and outstanding preferred stock of Palmtree. Upper Pumpkin LLC, a Delaware limited liability company, is the sole shareholder and sole trustee of Prologis, a Maryland real estate investment trust. Prologis, L.P. is the sole member of Upper Pumpkin LLC. As stated above, Prologis, Inc. is the general partner of Prologis, L.P. PAC Corporate Center Tracy LLC is qualified to transact business in California.

ProLogis Logistics Services Incorporated, a Delaware corporation (f/k/a SCI Logistics Services Incorporated), was formed on April 21, 1997, and is wholly owned by PLD-TRS Holding LLC, a Delaware limited liability company. The members of PLD-TRS Holding LLC are PAC Operating Limited Partnership and Prologis. The ownership structure of both PAC Operating Limited Partnership and Prologis are described above. ProLogis Logistics Services Incorporated is qualified to transact business in California.

Prologis Property Leasing Status. Three parcels in the District owned by affiliates of Prologis are fully leased and occupied, with lease terms ranging from approximately 5 to 10 years.

- PAC Corporate Center Tracy LLC has leased a portion of assessor's parcel number 250-020-890-000 (i.e., the portion that has been developed with a warehouse building) to an operator

of a Crate & Barrel warehouse. The structure was completed in 2009 and contains 398,400 leased square feet.

- PAC Corporate Center Tracy LLC has leased assessor's parcel number 250-020-900-000 to an operator of a Crate & Barrel warehouse. The structure was completed in 2009 and contains 827,280 leased square feet.

- Prologis Amazon Tracy LLC has leased assessor's parcel number 250-020-910-000 to an operator of an Amazon warehouse. The structure was completed in 2014 and contains 1,123,469 leased square feet.

Other Developed Property

BCI IV Pescadero DC LP. Approximately 10% of the estimated Fiscal Year 2019-20 Special Tax levy is payable by BCI Pescadero DC LP ("**Pescadero**"). According to publicly available information believed to be reliable, the City believes Pescadero to be controlled by Black Creek Group, a real estate development and investment firm based in Denver, Colorado. Additional information about Black Creek Group is available at www.blackcreekgroup.com. *The information on this internet site is not incorporated herein by reference. No representation is made by the City or the Underwriter as to the accuracy or completeness of any information available on this internet site.*

According to publicly available information, Pescadero acquired this property in June 2018 for a purchase price of \$45.75 million. According to County Assessor's information, the Pescadero property contains approximately 19.46 acres and has been developed with one building of approximately 381,600 square feet known as the Tracy Pescadero Distribution Center. According to publicly available information, the current occupants are Pactra (an automotive parts supplier, leasing 184,350 square feet) and DHL (third-party logistics operation, leasing 197,250 square feet).

No information is available regarding the plans for continued tenancy by the current occupants of the Pescadero property, or the terms or expiration dates of existing leases.

Duke Realty Ltd PTP. Approximately 24% of the estimated Fiscal Year 2019-20 Special Tax levy is payable by Duke Realty Ltd PTP ("**Duke**"). According to publicly available information believed to be reliable, the City believes Duke to be controlled by Duke Realty Corporation, a publicly-traded corporation that, according to its website, owns and operates approximately 152 million rentable square feet of industrial properties in 20 major U.S. logistics markets. Additional information about Duke Realty Corporation is available at www.dukerealty.com. *The information on this internet site is not incorporated herein by reference. No representation is made by the City or the Underwriter as to the accuracy or completeness of any information available on this internet site.*

According to County Assessor's information, Duke acquired this property in June 2013 and the Duke property contains approximately 44 acres that has been developed with one building of approximately 657,600 square feet. According to publicly available information, the current occupant of the Duke property is a Home Depot Warehouse.

No information is available regarding the plans for continued tenancy by the current occupants of the Duke property, or the terms or expiration dates of existing leases.

Undeveloped Property. One parcel of property currently classified as Undeveloped Property, assessor's parcel number 213-070-840 owned by MLP Realty LLC, was issued a development review permit by the City on September 18, 2018, and applied for a building permit on December 5, 2018.

Three parcels of Undeveloped Property owned by Prologis Amazon Tracy LLC and PAC Corporate Center Tracy are currently used as temporary stormwater detention basins, but could be developed in the future. The parcel of Undeveloped Property owned by PAC Corporate Center Tracy and currently used as a private cul de sac may in the future be transferred to the City for use as a public street, which would exempt the property from the Special Tax levy.

According to publicly available information to the City, Assessor's parcel 213-070-830, owned by ITC Tracy LLC, may in the future be sold to the State of California, which, if it were to occur, would exempt the property from the Special Tax levy.

District Finance and Implementation Plan. On February 21, 2006, the City approved a Finance and Implementation Plan (the "**Finance Plan**") for the development within the District, as subsequently amended on January 15, 2008. The Finance Plan sets forth the capital improvement projects triggered by development in the District and a plan for financing the District's fair-share of such projects, which includes both fee-funded and debt-financed facilities. The Finance Plan provides that it will be necessary for the Finance Plan to be updated annually by the City, if not more frequently, to track rising infrastructure construction costs, and that the City will adjust fees as needed, commencing prior to the first building permit being pulled by a developer in the District.

The remaining infrastructure improvements to be completed consist of street and highway improvements, wastewater improvements and storm drainage improvements, estimated to cost approximately \$39.779 million. The costs of these improvements will be funded through development impact fees and not through the issuance of additional bonds.

Zoning and Land Use Within the District. The zoning for all of the property in the District is Northeast Industrial Specific Plan Zone, which allows development of light industrial, warehouse and manufacturing facilities. According to the Northeast Industrial Specific Plan, the City expects that warehousing and distribution businesses with low employee densities will be the predominant development type. The City also anticipates development in the area for "Flex-Tech" developments which will accommodate research and development businesses, and service commercial businesses with little pedestrian traffic.

Environmental Conditions.

CEQA Status. The development within the District was originally governed by the Environmental Impact Report for the Northeast Industrial Area (the "**EIR**") approved in February 1996. Mitigation measures required by the EIR for development within the District are satisfied by incorporating requirements into the conditions of approval imposed by the City as parcels have developed.

Seismic Conditions. Like other areas of Northern California, property in the Community Facilities District is subject to the risk of major earthquake damage. Maps of the United States Geological Survey indicate that the area within the Community Facilities District is located near the Vernalis Fault to the east and the Midway Fault to the southwest.

Flood Zones. The property in the District is not within the 100-year or 200-year floodplain. Additionally, no Section 404 permits are required for the anticipated development in the District.

Value-to-Lien Estimates

General Information Regarding Value-to-Lien Ratios. The ratio of property values to the burden of the 2019 Bonds will generally vary over the life of the 2019 Bonds as a result of changes in the value of the Taxable Property in the District and the principal amount of the outstanding 2019 Bonds.

In comparing the aggregate assessed value of the Taxable Property within the District and the principal amount of the 2019 Bonds, it should be noted that an individual parcel may only be foreclosed upon to pay delinquent installments of the Special Taxes attributable to that parcel. The principal amount of the outstanding 2019 Bonds is not allocated pro-rata among the parcels within the District; rather, the total Special Taxes have been allocated among the parcels within the District according to the Rate and Method.

Economic and other factors beyond the property owners' control, such as economic recession, deflation of land values, financial difficulty or bankruptcy by one or more property owners, or the complete or partial destruction of taxable property caused by, among other possibilities, wildfire, earthquake, flood, tsunamis, sea level rise or other natural disaster, could cause a reduction in the assessed value within the District. See "SPECIAL RISK FACTORS – Property Values" and "– Bankruptcy and Foreclosure Delays."

Value-to-Lien Ratios by Parcel. The following table sets forth the assessed value-to-lien ratio for each parcel in the District, based on the projected Fiscal Year 2018-19 assessed values and the principal amount the 2019 Bonds.

**Table 3
Assessed Value-To-Lien Ratios by Assessor's Parcel**

Owner ⁽¹⁾	Assessor's Parcel Number	Current Occupant/Land Use	Acreage	FY 2018-19 Total Assessed Value	Estimated FY 2019-20 Special Tax Levy	Percent of Estimated FY 2019-20 Tax Levy	Series 2019 Debt Lien*	Value-to-Lien Ratio*	
Developed Property									
<u>Prologis and Affiliates</u>									
	Prologis Amazon Tracy LLC	250-020-880-000	Amazon Parking Lot	14.14	\$4,702,130	\$52,304	7.56%	\$681,878	6.90
	PAC Corporate Center Tracy ETAL	250-020-900-000	Crate and Barrel Warehouse	36.18	\$39,881,779	\$133,830	19.33%	\$1,744,721	22.86
	Prologis Amazon Tracy LLC	250-020-910-000	Amazon Warehouse	54.25	\$51,130,755	\$200,671	28.99%	\$2,616,117	19.54
	Subtotal			104.57	\$95,714,664	\$386,805	55.87%	\$5,042,716	18.98
<u>Other Property Owners</u>									
	BCI IV Pescadero DC LP ⁽²⁾	213-070-060-000	Pactra Warehouse and DHL Warehouse	19.46	\$25,670,806	\$71,983	10.40%	\$938,426	27.36
	Duke Realty LTD PTP	213-070-730-000	Home Depot Warehouse	44.03	\$46,266,212	\$162,867	23.53%	\$2,123,274	21.79
	Subtotal			63.49	\$71,937,018	\$234,850	33.92%	\$3,061,701	23.50
Mixed Property ⁽³⁾									
<u>Prologis and Affiliates</u>									
	PAC Corporate Center Tracy ETAL	250-020-890-000 (Portion)	Crate and Barrel Warehouse	19.09	--	\$70,614	10.20%	\$920,584	--
	PAC Corporate Center Tracy ETAL	250-020-890-000 (Portion)	Undeveloped Portion of Parcel	9.31	--	\$0	0.00%	\$0	--
	Subtotal			28.40	\$18,190,009	\$70,614	10.20%	\$920,584	19.76
Undeveloped Property ⁽⁴⁾									
<u>Prologis and Affiliates ⁽⁵⁾</u>									
	Prologis Amazon Tracy LLC	250-020-800-000	Temporary Storm Drainage Pond	5.80	\$0 ⁽⁶⁾	\$0	0.00%	\$0	0.00
	PAC Corporate Center Tracy	250-020-810-000	Temporary Storm Drainage Pond	10.08	\$0 ⁽⁶⁾	\$0	0.00%	\$0	0.00
	PAC Corporate Center Tracy	250-020-840-000	Private Cul-de-sac	0.77	\$0 ⁽⁶⁾	\$0	0.00%	\$0	0.00
	PAC Corporate Center Tracy	250-020-860-000	Temporary Storm Drainage Pond	5.00	\$0 ⁽⁶⁾	\$0	0.00%	\$0	0.00
	Subtotal			21.65	\$0	\$0	0.00%	\$0	0.00
<u>Other Property Owners</u>									
	Chand Shyani	213-070-740-000	Undeveloped Land	5.35	\$505,373	\$0	0.00%	\$0	0.00
	ITC Tracy LLC	213-070-830-000	Undeveloped Land	4.73	\$1,004,544	\$0	0.00%	\$0	0.00
	MLP Realty LLC	213-070-840-000	Undeveloped Land	2.94	\$619,484	\$0	0.00%	\$0	0.00
	Subtotal			13.02	\$2,129,401	\$0	0.00%	\$0	0.00
TOTAL				231.13	\$187,971,092	\$692,268	100.00%	\$9,025,000	20.83

* Preliminary, subject to change.

(1) Ownership information per the Assessor's Tax Roll, as of the lien date.

(2) According to filings of the purchaser on the Securities & Exchange Commission's EDGAR website, this property was sold to its current owner in June 2018 for approximately \$45 million.

(3) Per Section B of the Rate and Method, if a building permit has been issued for development of a structure on a parcel in the District, and additional structures are anticipated to be built on the parcel as shown on the approved site plan, a portion of the acreage of the parcel will be taxed as Undeveloped Property. Approximately 19.09 acres of the 28.4 acre parcel is assigned to the Crate and Barrel Warehouse and per the Rate and Method is taxed as Developed Property. The remaining 9.31 acres is the undeveloped portion of the parcel that is currently planned for a future warehouse and is taxed as Undeveloped Property.

(4) Although the Bonds are not being sized based on special tax capacity from Undeveloped Property, special taxes could, per the Rate and Method, be levied on property if such revenues were needed to meet the Special Tax Requirement. Therefore Undeveloped Property is also security for the Bonds and the value is included in the calculation shown above.

(5) Does not include APN 250-020-950 owned by Prologis Logistics Services Inc, which is currently a private driveway and subject to the special tax. The City expects that in the future this parcel may become a public street, and would subsequently be exempt from special taxes.

Source: San Joaquin County Tax Collector's Office; San Joaquin County Assessor's Office; City of Tracy; Goodwin Consulting Group, Inc.

Assessed Valuation History

The table below shows a five-year history of assessed valuations with respect to the Taxable Parcels in the District.

**Table 4
Historical Assessed Value**

Fiscal Year	Number of Parcels	Land Value	Improvement Value	Total Assessed Value	Percentage Change
2014-15	13	\$37,965,023	\$110,543,098	\$148,508,121	--
2015-16	14	38,408,920	122,251,662	160,660,582	8.18%
2016-17	11	39,133,781	119,364,730	158,498,511	(1.35%)
2017-18	11	40,859,628	143,451,619	184,311,247	16.29%
2018-19 (1)	13	42,099,576	146,510,042	188,609,618	2.33%

(1) Does not included APN 250-020-950 owned by Prologis Logistics Services Inc, which is currently a private driveway and subject to the special tax. The City expects that in the future this parcel may become a public street, and would subsequently be exempt from special taxes.

Sources: For Fiscal Years 2014-15 through 2017-18, San Joaquin County Assessor's Office as compiled by Willdan. For Fiscal Year 2018-19, San Joaquin County Assessor's Office as compiled by Goodwin Consulting Group, Inc.

As of June 1, 2019, there were no pending appeals of assessed valuation of the Taxable Parcels in the District.

Direct and Overlapping Governmental Obligations

Overlapping Debt Statement. Contained within the boundaries of the District are certain overlapping local agencies providing public services. Many of these local agencies have outstanding debt. The direct and overlapping debt affecting the Community Facilities District as of January 1, 2019, is shown in the table below, a direct and overlapping debt report (the "**Debt Report**") prepared by California Municipal Statistics, Inc. The Debt Report is included for general information purposes only.

The City has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. These long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies that have outstanding debt as of the date of the Debt Report and whose territory overlaps the District; (2) the second column shows the percentage of the assessed valuation of the overlapping public agency identified in column 1 which is represented by property located within the District; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which is not shown in the table) to property in the District, as determined by multiplying the total outstanding debt of each agency by the percentage of the public agency's assessed valuation represented in column 2.

As shown in the table below, there are currently no property assessed clean energy (PACE) liens affecting the property in the District.

Table 5
Direct and Overlapping Governmental Obligations

2018-19 Assessed Valuation: \$188,609,618 (Land & Improvements)

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 1/1/19</u>
San Joaquin Delta Community College District General Obligation Bonds	0.232%	\$ 461,370
Tracy Unified School District General Obligation Bonds	1.058	385,735
Tracy Unified School District General Obligation Bonds SFID No. 3 General Obligation Bonds	1.964	1,765,968
City of Tracy Community Facilities District No. 2006-1	100.000	<u>9,740,000</u> (1)
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$12,353,073

Ratios to 2018-19 Assessed Valuation:

Direct Debt (\$9,740,000) 5.16%
Total Direct and Overlapping Tax and Assessment Debt 6.55%

(1) Represents the 2006 Bonds; excludes issue to be sold.
Source: California Municipal Statistics, Inc.

Special Tax Delinquency History

The table below summarizes special tax levies, collections and delinquency rates in the District since Fiscal Year 2006-07, based on amounts levied and outstanding delinquencies as of June 30 of each fiscal year and as of May 7, 2019.

The amounts shown in the table below reflect actual collections by the County. Because the Special Taxes are covered under the Teeter Plan, the City received 100% of the levied Special Taxes each year, without regard to delinquencies. It should be noted that the County may discontinue the Teeter Plan at any time. See "SECURITY FOR THE BOND – Covenant to Foreclose – Teeter Plan."

Table 6
Special Tax Delinquency History ⁽¹⁾

Fiscal Year	Special Tax Levy	Number of Parcels	<u>As of the end of the fiscal year</u>			<u>As of May 7, 2019</u>			Special Tax Collected
			Number of Parcels Delinquent	Amount Delinquent	Percentage Delinquent	Number of Parcels Delinquent	Amount Delinquent	Percentage Delinquent	
2006-07	\$731,462	4	1	\$59,548	8.14%	0	\$0	0.00%	\$731,462
2007-08	\$746,092	4	1	\$30,369	4.07%	0	\$0	0.00%	\$746,092
2008-09	\$757,129	5	3	\$86,738	11.46%	0	\$0	0.00%	\$757,129
2009-10	\$769,156	5	1	\$24,939	3.24%	0	\$0	0.00%	\$769,156
2010-11	\$784,535	5	1	\$25,438	3.24%	0	\$0	0.00%	\$784,535
2011-12	\$791,623	13	1	\$65,745	8.31%	0	\$0	0.00%	\$791,623
2012-13	\$807,454	13	2	\$77,054	9.54%	0	\$0	0.00%	\$807,454
2013-14	\$778,608	12	1	\$5,922	0.76%	0	\$0	0.00%	\$778,608
2014-15	\$719,085	9	0	\$0	0.00%	0	\$0	0.00%	\$719,085
2015-16	\$735,052	9	0	\$0	0.00%	0	\$0	0.00%	\$735,052
2016-17	\$739,069	11	1	\$1,860	0.25%	0	\$0	0.00%	\$739,069
2017-18	\$755,385	8	0	\$0	0.00%	0	\$0	0.00%	\$755,385
2018-19	\$770,285	8	0	\$0	0.00%	0	\$0	0.00%	\$770,285

(1) Delinquent amounts do not include penalties, interest, or fees.

Sources: For fiscal years 2006-07 through 2017-18, San Joaquin County Tax Collector's Office as compiled by Willdan; for fiscal years 2018-19 and current delinquent amounts, San Joaquin County Tax Collector's Office as compiled by Goodwin Consulting Group, Inc.

Potential Consequences of Special Tax Delinquencies

General. Delinquencies in the payment of property taxes (including the Special Taxes) with respect to property in the District could result in draws on the 2019 Reserve Fund, and perhaps, ultimately, a default in the payment on the 2019 Bonds. See “BOND OWNERS’ RISKS.”

The Board of Supervisors of San Joaquin County adopted the Teeter Plan in Fiscal Year 1994-95. The County has elected to apply its Teeter Plan to the collection of the Special Taxes in the District. To the extent that the County’s Teeter Plan continues in existence and is carried out as adopted, and to the extent the County does not discontinue the Teeter Plan with respect to the District, the County’s Teeter Plan may help protect owners of the 2019 Bonds from the risk of delinquencies in the payment of Special Tax. *There can be no assurance that the County will not modify or eliminate its Teeter Plan, or choose to remove the District from its Teeter Plan, while the 2019 Bonds are outstanding.* See “SECURITY FOR THE BONDS – Covenant to Foreclose – Special Tax Delinquencies; Teeter Plan” for additional information.

Special Tax Enforcement and Collection Procedures. The City could receive additional funds for the payment of debt service through foreclosures sales of delinquent property, but no assurance can be given as to the amount of foreclosure sale proceeds or when foreclosure sale proceeds would be received. The City has covenanted in the Fiscal Agent Agreement to take certain enforcement actions and commence and pursue foreclosure proceedings against delinquent parcels under the terms and conditions described herein. See “SECURITY FOR THE BONDS — Covenant to Foreclose” and “BOND OWNERS’ RISKS.”

Foreclosure actions would include, among other steps, formal City Council action to authorize commencement of foreclosure proceedings, mailing multiple demand letters to the record owners of the delinquent parcels advising them of the consequences of failing to pay the applicable Special Taxes and contacting secured lenders to obtain payment. If these efforts were unsuccessful, they would be followed (as needed) by the filing of an action to foreclose in superior court against each parcel that remained delinquent.

Limitations on Increases in Special Tax Levy. If owners are delinquent in the payment of Special Taxes, the City may not increase Special Tax levies to make up for delinquencies for prior Fiscal Years above the Maximum Special Tax rates specified for each category of property within the District. However, under the Rate and Method, if Special Tax payments due from one or more Parcels of Taxable Property are delinquent, the delinquent Special Taxes will be immediately levied on all Parcels of Taxable Property that are not delinquent. See “SECURITY FOR THE BONDS –Rate and Method.”

Projected Debt Service Coverage

The Rate and Method is structured to produce annual Special Tax revenues from the Maximum Special Tax which, when applied to the projected debt service on the 2019 Bonds and future Parity Bonds, is anticipated to result in a debt service coverage ratio of at least 110% for the life of the 2019 Bonds and future Parity Bonds, after taking into account estimated Administrative Expenses, as further set forth in the table below.

**Table 7
Projected Debt Service Coverage**

Year Ending	Developed Special Tax Revenues ⁽¹⁾	Undeveloped (to be developed in future) Special Tax Revenues ⁽²⁾	Undeveloped Property (Detention Basins and Streets) Special Tax Revenues ⁽³⁾	2019 Bonds Debt Service	Debt Service Coverage from Developed Property	Debt Service Coverage from Developed and Undeveloped (to be developed in future)	Debt Service Coverage from All Taxable Property
2020	\$740,821	\$88,392	\$85,712	\$ 655,933	113%	126%	139%
2021	755,638	90,160	87,426	668,900	113%	126%	140%
2022	770,751	91,963	89,175	683,300	113%	126%	139%
2023	786,166	93,802	90,958	699,300	112%	126%	139%
2024	801,889	95,678	92,777	719,550	111%	125%	138%
2025	817,927	97,592	94,633	733,900	111%	125%	138%
2026	834,285	99,544	96,526	748,700	111%	125%	138%
2027	850,971	101,534	98,456	767,300	111%	124%	137%
2028	867,990	103,565	100,425	789,500	110%	123%	136%
2029	885,350	105,636	102,434	805,250	110%	123%	136%
2030	903,057	107,749	104,482	824,000	110%	123%	135%
2031	921,118	109,904	106,572	840,500	110%	123%	135%
2032	939,541	112,102	108,704	864,750	109%	122%	134%
2033	958,331	114,344	110,878	881,250	109%	122%	134%
2034	977,498	116,631	113,095	900,250	109%	122%	134%
2035	997,048	118,964	115,357	921,500	108%	121%	134%
2036	1,016,989	121,343	117,664	939,750	108%	121%	134%

- (1) Excludes the maximum tax from the portion of assessor's parcel number 250-020-890-000 (Crate and Barrel warehouse) that is classified as Undeveloped Property. See Table 1 above.
- (2) Includes the maximum tax from all of assessor's parcel number 250-020-890-000 (Crate and Barrel warehouse), which is classified as both Developed Property and Undeveloped Property. See Table 1 above. Excludes assessor's parcel number 213-070-830-000, which may become exempt from the Special Tax in the future if transferred to the State of California.
- (3) Excludes assessor's parcel number 250-020-840-000, which may become exempt from the Special Tax in the future if transferred to the City as a public street.

Source: Piper Jaffray & Co.

BOND OWNERS' RISKS

The purchase of the 2019 Bonds described in this Official Statement involves a degree of risk that may not be appropriate for some investors. The following includes a discussion of some of the risks which should be considered before making an investment decision. This discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the 2019 Bonds.

Limited Obligation of the City to Pay Debt Service

The City has no obligation to pay principal of and interest on the 2019 Bonds if Special Tax collections are delinquent or insufficient, other than from amounts, if any, on deposit in the 2019 Reserve Fund or funds derived from the tax sale or foreclosure and sale of parcels for Special Tax delinquencies. The City is not obligated to advance funds to pay debt service on the 2019 Bonds.

Concentration of Ownership

All of the land within the District is currently owned by three property owners (or their respective affiliates), one of which, Prologis Inc. (together with its affiliates), owns property responsible for approximately 66% of the Fiscal Year 2018-19 Special Taxes. See "THE DISTRICT – Property Ownership and Development Status."

The owners of property in the District are not personally obligated to pay the Special Tax attributable to their property. Rather, the Special Tax is an obligation only against the parcel of property, secured by the amount which could be realized in a foreclosure proceeding against the property, and not by any promise of the owner to pay. If the value of the property is not sufficient, taking into account other obligations also constituting a lien against the property, the City, Fiscal Agent and owners of the 2019 Bonds have no recourse against the owner, such as filing a lawsuit to collect money.

Failure of any current or future owner of significant property subject to the Special Taxes to pay installments of Special Taxes when due could cause the depletion of the 2019 Reserve Fund prior to reimbursement from the sale of foreclosed property or payment of the delinquent Special Tax and, consequently, result in the delinquency rate reaching a level that would cause an insufficiency in collection of the Special Tax for the City to pay debt service with respect to the 2019 Bonds.

Future Property Development

Continuing development of the parcels in the District may be adversely affected by changes in general or local economic conditions, fluctuations in or a deterioration of the real estate market, increased construction costs, development, financing and marketing capabilities of the developer, water or electricity shortages, discovery on the undeveloped property of any plants or animals in their habitat that have been listed as endangered species, changes in laws, and other factors outside the control of the owners of land in the District. Development in the District may also be affected by development in surrounding areas, which may compete with the property in the District.

Levy and Collection of the Special Tax

General. The principal source of payment of principal of and interest on the 2019 Bonds is the proceeds of the annual levy and collection of the Special Tax against property within the District.

Limitation on Maximum Special Tax Rate. The annual levy of the Special Tax is subject to the maximum annual Special Tax rate authorized in the Rate and Method. The levy cannot be made at a higher rate even if the failure to do so means that the estimated proceeds of the levy and collection of

the Special Tax, together with other available funds, will not be sufficient to pay debt service on the 2019 Bonds.

No Relationship Between Property Value and Special Tax Levy. Because the Special Tax formula set forth in the Rate and Method is not based on property value, the levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular parcels of Taxable Property and the amount of the levy of the Special Tax against those parcels. Thus, there will rarely, if ever, be a uniform relationship between the value of the parcels of Taxable Property and their proportionate share of debt service on the 2019 Bonds, and certainly not a direct relationship.

Factors that Could Lead to Special Tax Deficiencies. The following are some of the factors that might cause the levy of the Special Tax on any particular parcel of Taxable Property to vary from the Special Tax that might otherwise be expected:

Transfers to Governmental Entities. The number of parcels of Taxable Property could be reduced through the acquisition of Taxable Property by a governmental entity and failure of the government to pay the Special Tax based upon a claim of exemption or, in the case of the federal government or an agency thereof, immunity from taxation, thereby resulting in an increased tax burden on the remaining taxed parcels. See “–Exempt Properties” below.

Property Tax Delinquencies. Failure of the owners of Taxable Property to pay property taxes (and, consequently, the Special Tax), or delays in the collection of or inability to collect the Special Tax by tax sale or foreclosure and sale of the delinquent parcels, could result in a deficiency in the collection of Special Tax revenues. See “–Property Tax Delinquencies” below.

Delays Following Special Tax Delinquencies and Foreclosure Sales. The Fiscal Agent Agreement generally provides that the Special Tax is to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the special covenant for foreclosure described in “SECURITY FOR THE BONDS – Covenant to Foreclose” and in the Act, is subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for ordinary *ad valorem* property taxes. Under these procedures, if taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the County.

If sales or foreclosures of property are necessary, there could be a delay in payments to owners of the 2019 Bonds pending such sales or the prosecution of foreclosure proceedings and receipt by the City of the proceeds of sale if the 2019 Reserve Fund is depleted. See “SECURITY FOR THE BONDS – Covenant to Foreclose.”

The ability of the City to collect interest and penalties specified by State law and to foreclose against properties having delinquent Special Tax installments may be limited in certain respects with regard to properties in which a federal governmental agency has or obtains an interest. See “– FDIC/Federal Government Interests in Properties” below.

Other laws generally affecting creditors’ rights or relating to judicial foreclosure may affect the ability to enforce payment of Special Taxes or the timing of enforcement of Special Taxes. For example, the Soldiers and Sailors Civil Relief Act of 1940 affords protections such as a stay in enforcement of the foreclosure covenant, a six-month period after termination of such military service to redeem property sold to enforce the collection of a tax or assessment, and a limitation on the interest rate on the delinquent tax or assessment to persons in military service if the court concludes the ability to pay such taxes or assessments is materially affected by reason of such service.

Property Tax Delinquencies

General. Delinquencies in the payment of property taxes and, consequently, the Special Taxes, can occur because the owners of delinquent parcels may not have received property tax bills from the County in a timely manner. Delinquencies can also reflect economic difficulties and duress by the property owner.

Numerous future delinquencies by the owners of Taxable Property in the District in the payment of property taxes (and, consequently, the Special Taxes, which are collected on the ordinary property tax bills) when due could result in a deficiency in Special Tax revenues necessary to pay debt service on the 2019 Bonds, which could in turn result in the depletion of the 2019 Reserve Fund, prior to reimbursement from the resale of foreclosed property or payment of the delinquent Special Tax. In that event, there could be a delay or failure in payments of the principal of and interest on the 2019 Bonds. See "SECURITY FOR THE BONDS – 2019 Reserve Fund," and "THE DISTRICT – Potential Consequences of Special Tax Delinquencies."

Limitations on Increases in Special Tax Levy. If property owners are delinquent in the payment of the Special Tax, the City may not increase Special Tax levies to make up for delinquencies for prior fiscal years above the maximum annual Special Tax rates specified in the Rate and Method. In cases of significant delinquency, these factors may result in defaults in the payment of principal of and interest on the 2019 Bonds.

Payment of Special Tax is not a Personal Obligation of the Property Owners

An owner of Taxable Property is not personally obligated to pay the Special Taxes. Rather, the Special Taxes are an obligation running only against the parcels of Taxable Property. If, after a default in the payment of the Special Tax and a foreclosure sale by the City, the resulting proceeds are insufficient, taking into account other obligations also constituting a lien against the affected parcels of Taxable Property, the City has no recourse against the owner.

Property Values

The value of taxable property within the District is a critical factor in determining the investment quality of the 2019 Bonds. If a property owner defaults in the payment of the Special Tax, the City's only remedy is to foreclose on the delinquent property in an attempt to obtain funds with which to pay the delinquent Special Tax. Land values could be adversely affected by economic and other factors beyond the City's control, such as a general economic downturn, relocation of employers out of the area, shortages of water, electricity, natural gas or other utilities, destruction of property caused by earthquake, flood, landslides, wildfires, or other natural disasters, environmental pollution or contamination, or unfavorable economic conditions.

The following is a discussion of specific risk factors that could affect the value of property in the District.

Natural Disasters. The value of the taxable property in the future can be adversely affected by a variety of natural occurrences, particularly those that may affect infrastructure and other public improvements and private improvements on the taxable property and the continued habitability and enjoyment of such private improvements.

The areas in and surrounding the District, like those in much of California, may be subject to unpredictable seismic activity, including earthquakes and landslides. Other natural disasters could include, without limitation, floods, landslides, wildfires, droughts or tornadoes. One or more natural disasters could occur and could result in damage to improvements of varying seriousness. The damage

may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost, or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances there could be significant delinquencies in the payment of Special Taxes, and the value of the Taxable Property may well depreciate or disappear. See “THE DISTRICT – Property Ownership and Development Status – Environmental Conditions” for additional details on certain environmental matters.

With respect to droughts specifically, California has a history of suffering drought conditions periodically. In response to the most recent drought conditions, on January 17, 2014, the Governor declared a state of drought emergency, calling on Californians to conserve water, and subsequent conservation orders and regulations were imposed by the Governor and the California State Water Resources Control Board. As the result of storms in California in late 2016 and early 2017, the exceptional drought designation was removed. Notwithstanding the improved water conditions, the City cannot predict or make any representations regarding the effects that the recent drought and related conditions had or may have on the value of Taxable Property within the District, or to what extent the effects the recent drought or any future drought may have on the pace of development in the District.

Legal Requirements. Other events that may affect the value of taxable property include changes in the law or application of the law. Such changes may include, without limitation, local growth control initiatives, local utility connection moratoriums and local application of statewide tax and governmental spending limitation measures.

Hazardous Substances. One of the most serious risks in terms of the potential reduction in the value of Taxable Property is a claim with regard to a hazardous substance. In general, the owners and operators of Taxable Property may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the Taxable Property be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

The property values set forth in this Official Statement do not take into account the possible reduction in marketability and value of any of the Taxable Property by reason of the possible liability of the owner or operator for the remedy of a hazardous substance condition of the parcel. Although the City is not aware that the owner or operator of any of the Taxable Property has such a current liability with respect to any of the Taxable Property, it is possible that such liabilities do currently exist and that the City is not aware of them.

Further, it is possible that liabilities may arise in the future with respect to any of the Taxable Property resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but that has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently on the parcel of a substance not presently classified as hazardous but that may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of Taxable Property that is realizable upon a delinquency.

Other Possible Claims Upon the Value of Taxable Property

While the Special Taxes are secured by the taxable property, the security only extends to the value of such Taxable Property that is not subject to priority and parity liens and similar claims.

The table in the section entitled “THE DISTRICT – Direct and Overlapping Governmental Obligations” shows the presently outstanding amount of governmental obligations, the tax or assessment for which is or may become an obligation of one or more of the parcels of Taxable Property. The tables do not specifically identify which of the governmental obligations are secured by liens on one or more of the parcels of Taxable Property.

In addition, other governmental obligations may be authorized and undertaken or issued in the future, the tax, assessment or charge for which may become an obligation of one or more of the parcels of Taxable Property and may be secured by a lien on a parity with the lien of the Special Tax securing the 2019 Bonds.

The principal of and interest on the 2019 Bonds are payable from the Special Tax authorized to be collected within the District, and payment of the Special Tax is secured by a lien on taxable real property within the District. This lien is co-equal to and independent of the lien for general taxes and any other liens imposed under the Act, regardless of when they are imposed on the property in the District. The imposition of additional special taxes, assessments and general property taxes will increase the amount of independent and co-equal liens which must be satisfied in foreclosure if unpaid. The City, the County and certain other public agencies are authorized by the Act to form other community facilities districts and, under other provisions of State law, to form special assessment districts, either or both of which could include all or a portion of the land within the District. Finally, although the Special Taxes will generally have priority over non-governmental liens, regardless of whether the non-governmental liens were in existence at the time of the levy of the Special Tax or not, this result may not apply in the case of bankruptcy. See “BOND OWNERS’ RISKS– Bankruptcy Delays” below.

Exempt Properties

Certain properties are exempt from the Special Tax in accordance with the Rate and Method and the Act, which provides that properties or entities of the state, federal or local government are exempt from the Special Tax; provided, however, that property within the District acquired by a public entity through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Special Tax, will continue to be subject to the Special Tax. See “SECURITY FOR THE BONDS –Rate and Method.”

In addition, although the Act provides that if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment, the constitutionality and operation of these provisions of the Act have not been tested, meaning that such property could become exempt from the Special Tax. The Act further provides that no other properties or entities are exempt from the Special Tax unless the properties or entities are expressly exempted in a resolution of consideration to levy a new special tax or to alter the rate or method of apportionment of an existing special tax.

FDIC/Federal Government Interests in Properties

General. The ability of the City to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the FDIC, the Federal National Mortgage Association, the Drug Enforcement Agency, the Internal Revenue Service, or other federal agency has or obtains an interest.

Federal courts have held that, based on the supremacy clause of the United States Constitution, in the absence of Congressional intent to the contrary, a state or local agency cannot foreclose to collect delinquent taxes or assessments if foreclosure would impair the federal government interest.

The supremacy clause of the United States Constitution reads as follows: "This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the contrary notwithstanding."

This means that, unless Congress has otherwise provided, if a federal governmental entity owns a parcel that is subject to Special Taxes but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the City wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government's mortgage interest. In *Rust v. Johnson* (9th Circuit; 1979) 597 F.2d 174, the United States Court of Appeal, Ninth Circuit held that the Federal National Mortgage Association ("**FNMA**") is a federal instrumentality for purposes of this doctrine, and not a private entity, and that, as a result, an exercise of state power over a mortgage interest held by FNMA constitutes an exercise of state power over property of the United States.

The City has not undertaken to determine whether any federal governmental entity currently has, or is likely to acquire, any interest (including a mortgage interest) in any of the parcels subject to the Special Taxes, and therefore expresses no view concerning the likelihood that the risks described above will materialize while the 2019 Bonds are outstanding.

FDIC. In the event that any financial institution making any loan which is secured by real property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, resulting in ownership of the property by the FDIC, then the ability of the City to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited.

The FDIC's policy statement regarding the payment of state and local real property taxes (the "**Policy Statement**") provides that property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non-ad valorem taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity. The Ninth Circuit has issued a ruling on August 28, 2001 in which it determined that the FDIC, as a federal agency, is exempt from Mello-Roos special taxes.

The City is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within the District in which the FDIC has or obtains an interest, although prohibiting the lien of the Special Taxes to be foreclosed out at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such an outcome could cause a draw on the 2019 Reserve Fund and perhaps, ultimately, if enough property were to become owned by the FDIC, a default in payment on the 2019 Bonds.

Depletion of 2019 Reserve Fund

The 2019 Reserve Fund is to be maintained at an amount equal to the 2019 Reserve Requirement. See "SECURITY FOR THE BONDS – 2019 Reserve Fund." The 2019 Reserve Fund will be used to pay principal of and interest on the 2019 Bonds (and any 2019 Related Parity Bonds) if insufficient funds are available from the proceeds of the levy and collection of the Special Tax against property within the District. If the 2019 Reserve Fund is depleted, it can be replenished from the proceeds of the levy and collection of the Special Taxes that exceed the amounts to be paid to the owners of the 2019 Bonds (and any 2019 Related Parity Bonds) under the Fiscal Agent Agreement. However, because the Special Tax levy is limited to the maximum annual Special Tax rates, it is possible that no replenishment would be possible if the Special Tax proceeds, together with other available funds, remain insufficient to pay all such amounts. Thus, it is possible that the 2019 Reserve Fund will be depleted and not be replenished by the levy and collection of the Special Taxes.

Bankruptcy Delays

The payment of the Special Tax and the ability of the City to foreclose the lien of a delinquent unpaid Special Tax, as discussed in "SECURITY FOR THE BONDS," may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State of California relating to judicial foreclosure. The various legal opinions to be delivered concurrently with the delivery of the 2019 Bonds (including Bond Counsel's approving legal opinion) will be qualified as to the enforceability of the various legal instruments by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Although bankruptcy proceedings would not cause the Special Taxes to become extinguished, bankruptcy of a property owner or any other person claiming an interest in the property could result in a delay in superior court foreclosure proceedings and could result in the possibility of Special Tax installments not being paid in part or in full. Such a delay would increase the likelihood of a delay or default in payment of the principal of and interest on the 2019 Bonds.

In addition, the amount of any lien on property securing the payment of delinquent Special Taxes could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien, and the amount of the delinquent Special Taxes in excess of the reduced lien could then be treated as an unsecured claim by the court. Any such stay of the enforcement of the lien for the Special Tax, or any such delay or non-payment, would increase the likelihood of a delay or

default in payment of the principal of and interest on the 2019 Bonds and the possibility of delinquent Special Taxes not being paid in full.

The chances are increased that the 2019 Reserve Fund could be fully depleted during any such delay in obtaining payment of delinquent Special Taxes. As a result, sufficient moneys would not be available in the 2019 Reserve Fund to make up shortfalls resulting from delinquent payments of the Special Tax and thereby to pay principal of and interest on the 2019 Bonds on a timely basis.

Disclosure to Future Purchasers

The City has recorded a notice of the Special Tax lien in the Office of the County Recorder. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such special tax obligation in the purchase of a parcel of land or a home in the District or the lending of money secured by property in the District. The Act requires the subdivider of a subdivision (or its agent or representative) to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with these requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

No Acceleration Provisions

The 2019 Bonds do not contain a provision allowing for their acceleration in the event of a payment default or other default under the terms of the 2019 Bonds or the Fiscal Agent Agreement. Under the Fiscal Agent Agreement, a Bondholder is given the right for the equal benefit and protection of all Bondowners similarly situated to pursue certain remedies. See "APPENDIX C – Summary of Certain Provisions of the Fiscal Agent Agreement." So long as the 2019 Bonds are in book-entry form, DTC will be the sole bondholder and will be entitled to exercise all rights and remedies of bondholders.

Impact of Certain Events on Tax Exemption

As discussed under the caption "TAX MATTERS," interest on the 2019 Bonds might become includable in gross income for purposes of federal income taxation retroactive to the date the 2019 Bonds were issued as a result of future acts or omissions of the City in violation of its covenants in the Fiscal Agent Agreement. The Fiscal Agent Agreement does not contain a special redemption feature triggered by the occurrence of an event of taxability. As a result, if interest on the 2019 Bonds were to become includable in gross income for purposes of federal income taxation, the 2019 Bonds would continue to remain outstanding until maturity unless earlier redeemed pursuant to optional or mandatory redemption or redemption upon prepayment of the Special Taxes. See "THE 2019 BONDS – Redemption."

Future legislative proposals, if enacted into law, clarification of the Tax Code (defined herein) or court decisions may cause interest on the 2019 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Bondowners from realizing the full current benefit of the tax status of such interest.

IRS Audit of Tax-Exempt Bond Issues

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2019 Bonds

will be selected for audit by the IRS. It is also possible that the market value of such Bonds might be affected as a result of such an audit of such Bonds (or by an audit of similar bonds or securities).

Voter Initiatives

Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. Since 1978, the voters have exercised this power through the adoption of Proposition 13 and similar measures, including Proposition 218, which was approved in the general election held on November 5, 1996, and Proposition 26, which was approved on November 2, 2010.

Any such initiative may affect the collection of fees, taxes and other types of revenue by local agencies such as the City. Subject to overriding federal constitutional principles, such collection may be materially and adversely affected by voter-approved initiatives, possibly to the extent of creating cash-flow problems in the payment of outstanding obligations such as the 2019 Bonds.

Proposition 218—Voter Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment, added Articles XIIC and XIID to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges.

On November 2, 2010, California voters approved Proposition 26, entitled the “Supermajority Vote to Pass New Taxes and Fees Act”. Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as “fees.” Proposition 26 amended Articles XIII A and XIIC of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. Article XIIC requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes require a majority vote and taxes for specific purposes (“special taxes”) require a two-thirds vote.

The Special Taxes and the 2019 Bonds were each authorized by not less than a two-thirds vote of the landowners within the District who constituted the qualified electors at the time of such voted authorization. The City believes, therefore, that issuance of the 2019 Bonds does not require the conduct of further proceedings under the Act, Proposition 218 or Proposition 26.

Like their antecedents, Proposition 218 and Proposition 26 are likely to undergo both judicial and legislative scrutiny before the impact on the City and its obligations can be determined. Certain provisions of Proposition 218 and Proposition 26 may be examined by the courts for their constitutionality under both State and federal constitutional law, the outcome of which cannot be predicted.

For example, in August 2014, in *City of San Diego v. Melvin Shapiro*, an Appellate Court invalidated an election held by the City of San Diego to authorize the levying of special taxes on hotels city-wide pursuant to a city charter ordinance creating a convention center facilities district which specifically defined the electorate to consist solely of (1) the owners of real property in the city on which a hotel is located, and (2) the lessees of real property owned by a governmental entity on which a hotel is located. The court held that such landowners and lessees are neither “qualified electors” of the city for purposes of Article XIII A, Section 4 of the California Constitution, nor a proper “electorate” under Article XIIC, Section 2(d) of the California Constitution. The court specifically noted that the decision did not require the Court to consider the distinct question of whether landowner voting to impose special taxes under Section 53326(b) of the Act (which was the nature of the voter approval through which the District were formed) violates the California Constitution in districts that lack sufficient registered voters to

conduct an election among registered voters. Accordingly, this case should have no effect on the levy of the Special Taxes by the City.

The City cannot predict the ultimate outcome or effect of any such judicial scrutiny, legislative actions, or future initiatives. These initiatives, and any future initiatives, may affect the collection of fees, taxes and other types of revenue by local agencies such as the City. Subject to overriding federal constitutional principles, such collection may be materially and adversely affected by voter-approved initiatives, possibly to the extent of creating cash-flow problems in the payment of outstanding obligations such as the 2019 Bonds.

Secondary Market for 2019 Bonds

There can be no guarantee that there will be a secondary market for the 2019 Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Prices of bond issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

No assurance can be given that the market price for the 2019 Bonds will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Internal Revenue Code), or changes in interpretation of the Internal Revenue Code, or any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the 2019 Bonds for audit examination, or the course or result of any Internal Revenue Service audit or examination of the 2019 Bonds or obligations that present similar tax issues as the 2019 Bonds.

LEGAL MATTERS

Legal Opinions

The legal opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, approving the validity of the 2019 Bonds will be made available to purchasers at the time of original delivery and is attached in substantially final form as APPENDIX D.

Jones Hall, A Professional Law Corporation, San Francisco, California, has served as Bond Counsel and Disclosure Counsel to the City. Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach, California, is serving as counsel to the Underwriter.

No Litigation

At the time of delivery of the 2019 Bonds, the City will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending with respect to which the City has been served with process or threatened, which:

- in any way questions the powers of the City Council, City or District, or
- in any way questions the validity of any proceeding taken by the City Council in connection with the issuance of the 2019 Bonds, or
- wherein an unfavorable decision, ruling or finding could materially adversely affect the transactions contemplated by the purchase contract with respect to the 2019 Bonds, or
- which, in any way, could adversely affect the validity or enforceability of the resolutions of the City Council adopted in connection with the formation of the District or the issuance of the 2019 Bonds, the Fiscal Agent Agreement, the Continuing Disclosure Certificate or the purchase contract with respect to the 2019 Bonds, or
- to the knowledge of the City, which in any way questions the exclusion from gross income of the recipients thereof of the interest on the 2019 Bonds for federal income tax purposes, or
- in any other way questions the status of the 2019 Bonds under State tax laws or regulations.

TAX MATTERS

Federal Tax Status. 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 2019 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.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "**Tax Code**") that must be satisfied subsequent to the issuance of the 2019 Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The City has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the 2019 Bonds.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public at which a 2019 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 at which a 2019 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium are disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2019 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 2019 Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2019 Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2019 Bonds who purchase the 2019 Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2019 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2019 Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering to the public at the first price at which a substantial amount of such 2019 Bonds is sold to the public.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the 2019 Bond (said term being the shorter of the 2019 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 2019 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a 2019 Bond is amortized each year over the term to maturity of the 2019 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 2019 Bond premium is not deductible for federal income tax purposes. Owners of premium 2019 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 2019 Bonds.

California Tax Status. In the further opinion of Bond Counsel, interest on the 2019 Bonds is exempt from California personal income taxes.

Other Tax Considerations. Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the 2019 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the 2019 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to bonds issued prior to enactment.

The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of such opinion, and Bond Counsel has expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest on the 2019 Bonds, or as to the consequences of owning or receiving interest on the 2019 Bonds, as of any future date. Prospective purchasers of the 2019 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Owners of the 2019 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2019 Bonds may have federal or state tax consequences other than as described above. Other than as expressly described above, Bond Counsel expresses no opinion regarding other federal or state tax consequences arising with respect to the 2019 Bonds, the ownership, sale or disposition of the 2019 Bonds, or the amount, accrual or receipt of interest on the 2019 Bonds.

CONTINUING DISCLOSURE

City Continuing Disclosure. The City will covenant for the benefit of owners of the 2019 Bonds to provide certain financial information and operating data relating to the District and the 2019 Bonds by not later than nine months after the end of the City’s fiscal year (currently March 31 based on the City’s fiscal year end of June 30) (the “**Annual Report**”) and to provide notices of the occurrence of certain listed events.

These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the “**Rule**”). The specific nature of the information to be contained in the Annual Report or the notices of listed events is set forth in APPENDIX E.

The City, on its own behalf and on behalf of related entities, has entered into a number of prior continuing disclosure undertakings under the Rule in connection with the issuance of long-term obligations, and has provided annual financial information and event notices in accordance with those undertakings. During the past five years, the City or its related entities have failed to comply with prior undertakings as follows:

- The audited financial statements for Fiscal Years 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18 were filed up to approximately 9 months late; and
- Certain operating and financial data for Fiscal Years 2013-14, 2014-15 and 2016-17 were filed up to 633 days late.
- Certain information was omitted from the operating and financial data for filed Fiscal Years 2013-14, 2014-15, 2016-17 and 2017-18 because it was unavailable at the time the filing was due, but that information was subsequently filed when it became available.

Developer Continuing Disclosure. _____ will covenant in a continuing disclosure certificate, the form of which is set forth in APPENDIX F (the “**Property Owner Continuing Disclosure Certificate**”), for the benefit of holders and beneficial owners of the 2019 Bonds, to provide certain information relating to itself and the status of its property within the District on a semi-annual basis, beginning on September 30, 2019, and to provide notices of the occurrence of certain enumerated events. _____ is not an obligated person as defined under the Rule.

The obligations of _____ under its Property Owner Continuing Disclosure Certificate will terminate as follows:

- (i) _____, and
- (ii) _____.

[PRIOR COMPLIANCE HISTORY]

NO RATING

The City has not obtained a credit rating on the 2019 Bonds. Nothing should be assumed from any credit rating that the City may obtain for other purposes. Prospective purchasers of the 2019 Bonds are required to make independent determinations as to the credit quality of the 2019 Bonds and their appropriateness as an investment.

UNDERWRITING

The 2019 Bonds are being purchased by Piper Jaffray & Co. (the "**Underwriter**"), at a purchase price of \$_____ (which represents the aggregate principal amount of the 2019 Bonds (\$_____), plus an original issue premium/less an original issue discount of \$_____, less an Underwriter's discount of \$_____).

The purchase agreement relating to the 2019 Bonds provides that the Underwriter will purchase all of the 2019 Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase agreement.

The Underwriter may offer and sell the 2019 Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

PROFESSIONAL FEES

In connection with the issuance of the 2019 Bonds, fees or compensation payable to certain professionals are contingent upon the issuance and delivery of the 2019 Bonds. Those professionals include:

- the Underwriter;
- Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel;
- Stradling Yocca Carlson & Rauth, A Professional Corporation, as Underwriter's Counsel;
- A portion of the fees of CSG Advisors Incorporated, as municipal advisor;
- A portion of the fees of Goodwin Consulting Group, Inc., as special tax consultant; and
- U.S. Bank National Association, as Fiscal Agent.

EXECUTION

The execution and delivery of the Official Statement have been duly authorized by the City Council, acting as the legislative body of the District.

CITY OF TRACY

By: _____
Finance Director

APPENDIX A

**GENERAL INFORMATION ABOUT THE CITY OF TRACY
AND SAN JOAQUIN COUNTY**

The following information concerning the City of Tracy (the "City") and San Joaquin County (the "County") are included only for the purpose of supplying general information regarding the community. The 2019 Bonds are not a debt of the City, the County, the State of California (the "State") or any of its political subdivisions, and neither the City, the County, the State nor any of its political subdivisions is liable therefor.

Population

Population figures for the City, the County and the State for the last six years are shown in the following table.

**CITY OF TRACY, SAN JOAQUIN COUNTY AND THE STATE OF CALIFORNIA
Population Estimates
Calendar Years 2014 through 2019 as of January 1**

<u>Calendar Year</u>	<u>City of Tracy</u>	<u>San Joaquin County</u>	<u>State of California</u>
2014	86,495	712,134	38,568,628
2015	88,074	723,856	39,912,464
2016	89,591	735,319	39,179,627
2017	91,051	747,263	39,500,973
2018	90,832	757,279	39,740,508
2019	92,800	770,385	39,927,315

Source: State Department of Finance estimates.

Employment and Industry

The District is included in the Stockton Metropolitan Statistical Area (“**MSA**”), which includes all of San Joaquin County. The unemployment rate in the County was 6.0% in April 2019, down from a revised 7.2% in March 2019, and below the year-ago estimate of 6.1%. This compares with an unadjusted unemployment rate of 3.9% for the State and 3.3% for the nation during the same period.

Set forth below is data from calendar years 2014 to 2018 reflecting the County’s civilian labor force, employment and unemployment. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the District.

**STOCKTON-LODI MSA
(San Joaquin County)
Annual Average Labor Force and Employment by Industry
Calendar Years 2014 through 2018
(March 2018 Benchmark)**

	2014	2015	2016	2017	2018
Civilian Labor Force ⁽¹⁾	312,000	314,600	318,500	323,600	326,400
Employment	279,200	286,600	292,600	301,100	306,800
Unemployment	32,900	28,000	25,900	22,600	19,600
Unemployment Rate	10.5%	8.9%	8.1%	7.0%	6.0%
<u>Wage and Salary Employment:</u> ⁽²⁾					
Agriculture	15,700	16,700	16,600	16,300	16,100
Mining and Logging	100	100	100	100	100
Construction	8,900	10,100	11,100	11,700	12,700
Manufacturing	18,600	18,700	18,900	19,400	19,700
Wholesale Trade	11,000	11,300	11,600	12,000	12,600
Retail Trade	25,700	26,000	26,500	26,800	26,600
Transportation, Warehousing and Utilities	18,300	20,400	23,600	26,700	28,400
Information	2,100	1,900	2,000	1,800	1,800
Financial Activities	7,500	7,400	7,500	7,800	8,100
Professional and Business Services	18,300	19,400	19,600	19,200	19,600
Educational and Health Services	35,900	36,500	36,400	38,200	38,500
Leisure and Hospitality	19,100	19,700	20,500	21,500	22,000
Other Services	6,900	7,200	7,500	7,600	7,600
Federal Government	3,100	3,000	3,000	3,100	3,100
State Government	5,800	6,200	6,400	6,600	6,700
Local Government	29,600	30,400	31,400	32,800	33,700
Total All Industries ⁽³⁾	226,700	234,900	242,600	251,600	257,300

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

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

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

The following table lists the major employers within the County, listed in alphabetical order without regard to the number of employees, as of June 2019.

**SAN JOAQUIN COUNTY
Major Employers
As of June 2019**

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
A Sambado & Sons Inc	Linden	Nuts-Edible
Amazon Corpnet	Tracy	Internet & Catalog Shopping
Amazon Fulfillment Ctr	Stockton	Mail Order Fulfillment Service
Blue Shield of California	Lodi	Insurance
Dameron Hospital Assn	Stockton	Hospitals
Deuel Vocational Institution	Tracy	City Govt-Correctional Institutions
Foster Care Svc	Stockton	Government Offices-County
Leprino Foods Co	Tracy	Cheese Processors (mfrs)
Lodi Health Home Health Agency	Lodi	Home Health Service
Lodi Memorial Hospital	Lodi	Hospitals
Morada Produce	Stockton	Fruits & Vegetables-Growers & Shippers
NA Chaderjian Youth	Stockton	State Govt-Correctional Institutions
O-G Packing & Cold Storage Co	Stockton	Fruits & Vegetables-Growers & Shippers
Pacific Coast Producers	Lodi	Canning (mfrs)
Prima Frutta Packing Inc	Linden	Fruit & Produce Packers
Safeway Distribution Ctr	Tracy	Distribution Centers (whls)
San Joaquin County Human Svc	Stockton	Government Offices-County
San Joaquin County Sch	Stockton	Schools
San Joaquin General Hospital	French Camp	Hospitals
San Joaquin Sheriff's Office	French Camp	Government Offices-County
Sjgov	Stockton	Government Offices-County
St Joseph's Cancer Ctr	Stockton	Cancer Treatment Centers
Stockton Unified School Dist	Stockton	School Districts
University of the Pacific	Stockton	Schools-Universities & Colleges Academic
Walmart Supercenter	Stockton	Department Stores

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2019 2nd Edition.

The following table lists the twenty principal employers within the City, by number of employees, as of June 30, 2018.

**CITY OF TRACY
Principal Employers
As of June 30, 2018**

<u>Employer Name</u>	<u>Number of Employees</u>
Golden State FC LLC (Amazon)	4,589
Golden State FC LLC (Amazon)	997
Taylor Farms Pacific Inc.	996
Barbosa Cabinets Inc.	718
Medline Industries Inc.	505
Restoration Hardware	481
Fedex Ground Package System	374
The Home Depot #5641	350
Leprino Foods	303
Orchard Supply Hardware	264
Wal-Mart Stores Inc. #2025	250
Pacific Medical Inc.	240
Costco Wholesale	208
Best Buy	205
YRC	193
MC Lane Foodservice	191
International Paper	190
Best Buy Stores LP #391	186
GlassFab Tempering	186
Texas Roadhouse	182

Source: City of Tracy Comprehensive Financial Report for fiscal year ended June 30, 2018.

Commercial Activity

Summaries of historic taxable sales within the City and the County during the past five years in which data is available are shown in the following tables. Figures are yet not available for calendar year 2018.

Total taxable sales during the first quarter of calendar year 2018 in the City were \$520,182,175, a 12.49% increase over the total taxable sales of \$462,441,930 reported during the first quarter of calendar year 2017.

CITY OF TRACY
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	<u>Retail Stores</u>		<u>Total All Outlets</u>	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2013	972	\$1,139,346	1,382	\$1,339,394
2014	1,010	1,188,945	1,441	1,387,154
2015 ⁽¹⁾	1,057	1,233,481	1,641	1,421,064
2016	1,088	1,280,961	1,715	1,536,172
2017	1,150	1,371,679	1,803	2,042,411

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

Source: State Board of Equalization. Taxable Sales in California (Sales & Use Tax) for years 2013-2016. State Department of Tax and Fee Administration for year 2017.

Total taxable sales during the first quarter of calendar year 2018 in the County were \$3,019,083,970, a 10.74% increase over the total taxable sales of \$2,726,400,144 reported during the first quarter of calendar year 2017.

SAN JOAQUIN COUNTY
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	<u>Retail Stores</u>		<u>Total All Outlets</u>	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2013	8,754	\$6,519,537	12,752	\$9,466,015
2014	8,900	6,780,160	12,865	10,031,845
2015 ⁽¹⁾	4,958	6,986,878	14,255	10,467,214
2016	9,480	7,380,226	14,682	10,922,271
2017	9,506	7,994,473	14,758	12,153,268

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

Source: State Board of Equalization. Taxable Sales in California (Sales & Use Tax) for years 2013-2016. State Department of Tax and Fee Administration for year 2017.

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the median household effective buying income for the City, the County, the State and the United States for the period 2015 through 2019.

CITY OF TRACY AND SAN JOAQUIN COUNTY Median Household Effective Buying Income 2015 through 2019

	2015	2016	2017	2018	2019
City of Tracy	\$60,154	\$64,225	\$65,371	\$68,295	\$73,172
San Joaquin County	44,235	46,491	48,149	49,883	55,534
California	50,072	53,589	55,681	59,646	62,637
United States	45,448	46,738	48,043	50,735	52,841

Source: *The Nielsen Company (US), Inc* for years 2015 through 2018; *Claritas, LLC* for 2019.

Building Activity

The tables below summarize building activity in the City and the County for the past five available years.

CITY OF TRACY Building Permit Activity For Calendar Years 2013 through 2017 (Dollars in Thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>Permit Valuation</u>					
New Single-family	\$20,057.9	\$44,538.3	\$62,319.4	\$87,820.2	\$98,767.2
New Multi-family	0.0	0.0	0.0	34,038.7	9,686.4
Res. Alterations/Additions	<u>1,402.9</u>	<u>44,884.6</u>	<u>5,381.8</u>	<u>2,281.9</u>	<u>2,982.3</u>
Total Residential	<u>\$21,460.8</u>	<u>\$89,422.9</u>	<u>\$67,701.2</u>	<u>\$124,140.8</u>	<u>\$111,435.9</u>
New Commercial	\$2,378.8	\$1,481.9	\$113,546.0	\$92,124.7	\$184,438.3
New Industrial	0.0	809.6	49,162.0	57,441.7	38,978.1
New Other	4,395.6	2,426.4	12,340.6	11,375.8	4,769.2
Com. Alterations/Additions	<u>18,458.5</u>	<u>18,846.3</u>	<u>127,941.0</u>	<u>138,604.1</u>	<u>93,059.7</u>
Total Nonresidential	<u>\$25,232.9</u>	<u>\$23,564.2</u>	<u>\$302,989.6</u>	<u>\$299,546.3</u>	<u>\$321,245.3</u>
<u>New Dwelling Units</u>					
Single Family	67	135	183	216	236
Multiple Family	<u>0</u>	<u>0</u>	<u>0</u>	<u>432</u>	<u>65</u>
TOTAL	67	135	183	648	301

Source: Construction Industry Research Board, Building Permit Summary.

SAN JOAQUIN COUNTY Building Permit Activity For Calendar Years 2013 through 2017 (Dollars in Thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<u>Permit Valuation</u>					
New Single-family	\$264,761.1	\$318,760.2	\$455,877.1	\$467,494.7	\$652,308.1
New Multi-family	7,601.9	4,726.9	48,792.9	66,794.5	62,635.8
Res. Alterations/Additions	<u>28,764.8</u>	<u>78,511.0</u>	<u>42,764.8</u>	<u>99,049.9</u>	<u>86,516.1</u>
Total Residential	<u>\$301,127.8</u>	<u>\$401,998.1</u>	<u>\$547,434.8</u>	<u>\$633,339.1</u>	<u>\$801,460.0</u>
New Commercial	\$158,299.3	\$42,976.5	\$177,272.0	\$205,510.1	\$357,856.9
New Industrial	1,141.9	29,357.4	85,322.6	61,687.0	179,728.4
New Other	21,462.7	41,819.6	44,373.1	42,074.7	27,794.7
Com. Alterations/Additions	<u>79,145.2</u>	<u>89,630.8</u>	<u>193,659.3</u>	<u>298,721.9</u>	<u>269,172.8</u>
Total Nonresidential	<u>\$260,049.1</u>	<u>\$203,784.3</u>	<u>\$500,627.0</u>	<u>\$607,993.7</u>	<u>\$834,552.8</u>
<u>New Dwelling Units</u>					
Single Family	1,062	1,214	1,698	1,754	2,078
Multiple Family	<u>74</u>	<u>19</u>	<u>387</u>	<u>550</u>	<u>516</u>
TOTAL	1,136	1,233	2,085	2,304	2,594

Source: Construction Industry Research Board, Building Permit Summary.

APPENDIX B

**CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2006-01 (NEI PHASE II)
RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX)**

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE FISCAL AGENT AGREEMENT

APPENDIX D
FORM OF OPINION OF BOND COUNSEL

APPENDIX E

FORM OF ISSUER CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

\$ _____
CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2006-01
(NEI Phase II)
SPECIAL TAX REFUNDING BONDS, SERIES 2019

This Continuing Disclosure Certificate (this “**Disclosure Certificate**”) is executed and delivered by the City of Tracy (the “**City**”) in connection with the issuance of the bonds captioned above (the “**Bonds**”). The Bonds are being issued pursuant to a Fiscal Agent Agreement dated as of _____ 1, 2019 (the “**Fiscal Agent Agreement**”), by and between the City and U.S. Bank National Association, as fiscal agent (the “**Fiscal Agent**”). The City hereby covenants and agrees as follows:

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

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

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

“*Annual Report Date*” means the date that is nine months after the end of the City’s fiscal year (currently March 31 based on the City’s fiscal year end of June 30).

“*Dissemination Agent*” means Goodwin Consulting Group, Inc., or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

“*District*” means the City of Tracy Community Facilities District No. 2006-01 (NEI Phase II).

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

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

“*Official Statement*” means the final official statement dated _____, 2019, executed by the City in connection with the issuance of the Bonds.

“*Participating Underwriter*” means Piper Jaffray & Co., the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2020, with the report for the 2018-19 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

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

(c) The Dissemination Agent shall:

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

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

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

(a) The City's audited financial statements for the most recently completed fiscal year, prepared in accordance with Generally Accepted Accounting Principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board, together with the following statement:

THE CITY'S ANNUAL FINANCIAL STATEMENT IS PROVIDED SOLELY TO COMPLY WITH THE SECURITIES EXCHANGE COMMISSION STAFF'S INTERPRETATION OF RULE 15c2-12. NO FUNDS OR ASSETS OF THE CITY, OTHER THAN SPECIAL TAX REVENUES, ARE REQUIRED TO BE USED TO PAY DEBT SERVICE ON THE BONDS, AND THE CITY IS NOT OBLIGATED TO ADVANCE AVAILABLE FUNDS TO COVER ANY DELINQUENCIES. INVESTORS SHOULD NOT RELY ON THE FINANCIAL CONDITION OF THE CITY IN EVALUATING WHETHER TO BUY, HOLD OR SELL THE BONDS.

If the City's audited financial statements are not available by the time the Annual Report is required to be filed, the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited financial statements, the following information:

(i) For each parcel, total assessed value (per the San Joaquin County Assessor's records) of all parcels currently subject to the Special Tax within the District, showing the total assessed valuation for all land and the total assessed valuation for all improvements within the District and distinguishing between the assessed value of improved and unimproved parcels. Parcels are considered improved if there is an assessed value for the improvements in the Assessor's records.

(ii) The total dollar amount of delinquencies in the District for the prior Fiscal Year and, in the event that the total delinquencies within the District for the prior Fiscal Year exceed 5% of the Special Tax levy for the prior Fiscal Year, delinquency information for each parcel, including the amounts of delinquencies, length of delinquency and status of any foreclosure of each such parcel.

(iii) The amount of prepayments of the Special Tax with respect to the District for the prior Fiscal Year.

(iv) A land ownership summary listing property owners responsible for more than 5% of the annual Special Tax levy, as shown on the San Joaquin County Assessor's last equalized tax roll prior to the September next preceding the Annual Report Date.

(v) The principal amount of the Bonds outstanding and the balance in the 2019 Reserve Fund (along with a statement of the 2019 Reserve Requirement) as of the September 30 next preceding the Annual Report Date.

(vi) An updated table in substantially the form of the Table 3 in the Official Statement entitled "Assessed Value-to-Lien Ratios by Assessor's Parcel" based upon the most recent information available, but excluding current occupant and land use information, and based on the most recent actual Special Tax levy.

(vii) Any changes to the Rate and Method of Apportionment for the District set forth in Appendix B to the Official Statement.

(viii) Any changes to the County's Teeter Plan as it applies to the Special Taxes.

(ix) A copy of the annual information required to be filed by the City with the California Debt and Investment Advisory Commission pursuant to the Act and relating generally to outstanding bond amounts, fund balances, assessed values, special tax delinquencies and foreclosure information.

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

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

Section 5. Reporting of Listed Events.

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

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the City.
- (13) The consummation of a merger, consolidation, or acquisition involving the City, or the sale of all or substantially all of the assets of the City (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional Fiscal Agent or the change of name of the Fiscal Agent, if material.
- (15) Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material.

- (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties.

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

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

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

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

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

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

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

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

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

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

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

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

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(c).

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

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

Fiscal Agent Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

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

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

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

Date: _____, 2019

CITY OF TRACY

By: _____
Karin Schnaider,
Finance Director

AGREED AND ACCEPTED:
Goodwin Consulting Group, Inc.,
as Dissemination Agent

By: _____
Name: _____
Title: _____

APPENDIX F

FORM OF PROPERTY OWNER DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE
(Property Owner)

\$ _____
CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2006-01
(NEI Phase II)
REFUNDING SPECIAL TAX BONDS, SERIES 2019

Dated: [closing date], 2019

This Continuing Disclosure Certificate (Property Owner) (this "Disclosure Certificate") is executed and delivered by _____, a _____ (the "Property Owner"), in connection with the issuance by the City of Tracy (the "City") of the bonds captioned above (the "Bonds"). The Bonds are being issued under a Fiscal Agent Agreement dated as of _____ 1, 2019 (the "Fiscal Agent Agreement"), by and between the City and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent"). The Property Owner covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Property Owner for the benefit of the holders and beneficial owners of the Bonds.

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

"*Affiliate*" of another Person means (a) a Person directly or indirectly owning, controlling, or holding with power to vote, 5% or more of the outstanding voting securities of such other Person, (b) any Person, 5% or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by such other Person, and (c) any Person directly or indirectly controlling, controlled by, or under common control with, such other Person. For purposes hereof, control means the power to exercise a controlling influence over the management or policies of a Person, unless such power is solely the result of an official position with such Person.

"*Assumption Agreement*" means an undertaking of a Major Owner or an Affiliate thereof, for the benefit of the holders and beneficial owners of the Bonds, containing terms substantially similar to this Disclosure Certificate (as modified for such Major Owner's development and financing plans with respect to the District), whereby such Major Owner agrees to provide periodic reports and notices of significant events, setting forth the information described in sections 4 and 5 hereof, respectively, with respect to the portion of the property in the District owned by such Major Owner or its Affiliates and agrees to indemnify the Dissemination Agent (if any) pursuant to a provision substantially in the form of Section 12 hereof.

"*Dissemination Agent*" means Goodwin Consulting Group, Inc., or any successor Dissemination Agent designated in writing by the Property Owner, with the written consent of the City, and which has filed with the Property Owner and the City a written acceptance of such designation, and which is experienced in providing dissemination agent services such as those required under this Disclosure Certificate.

“*District*” means the City of Tracy Community Facilities District No. 2006-01 (NEI Phase II).

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

“*Major Owner*” means, as of any Report Date, an owner of land in the District responsible in the aggregate for 10% or more of the Special Taxes in the District anticipated to be levied at any time during the then-current fiscal year.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information.

“*Official Statement*” means the final Official Statement dated _____, 2019, executed by the City, for and on behalf of the District, in connection with the issuance of the Bonds.

“*Participating Underwriter*” means Piper Jaffray & Co., the original underwriter of the Bonds.

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

“*Person*” means an individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

“*Property*” means (i) the property owned by the Property Owner in the District as of the Report Date, and (ii) the property in the District that the Property Owner sold to a Major Owner who has not assumed the undertakings of this Disclosure Certificate under Section 7(b) that is owned by such Major Owner.

“*Report Date*” means March 31 and September 30 of any fiscal year; provided, however, that the Report Date shall be only March 31 at such time as the Property Owner has completed construction of all buildings expected to be constructed within property it owns in the District and each such building constructed by the Property Owner and intended for lease by the Property Owner has been, since completion of construction, at least 80% occupied at one time or another.

“*Special Taxes*” means the special taxes levied by the City on the Property.

Section 3. Provision of Periodic Reports.

(a) The Property Owner shall, or upon written direction of the Property Owner the Dissemination Agent shall, not later than the Report Date, commencing September 30, 2019, provide to the MSRB, in an electronic format as prescribed by the MSRB, a Periodic Report which is consistent with the requirements of Section 4 of this Disclosure Certificate with a copy to the Participating Underwriter and the City. Not later than 15 calendar days prior to the Report Date, the Property Owner shall provide the Periodic Report to the Dissemination Agent (if different from the Property Owner). The Property Owner shall provide a written certification with (or included as a part of) each Periodic Report furnished to the Dissemination Agent (if different from the Property Owner), Participating Underwriter and the City to the effect that such Periodic Report constitutes the Periodic Report required to be furnished by it under this Disclosure Certificate. The Dissemination Agent, the Participating Underwriter and the City may conclusively rely upon such certification of the Property Owner and shall have no duty or obligation to review the Periodic Report. The Periodic Report may be submitted as a single document or as separate

documents comprising a package, and may incorporate by reference other information as provided in Section 4 of this Disclosure Certificate.

(b) If the Dissemination Agent does not receive a Periodic Report by 15 calendar days prior to the Report Date, the Dissemination Agent shall send a reminder notice to the Property Owner that the Periodic Report has not been provided as required under Section 3(a) above. The reminder notice shall instruct the Property Owner to determine whether its obligations under this Disclosure Certificate have terminated (pursuant to Section 7 below) and, if so, to provide the Dissemination Agent with a notice of such termination in the same manner as for a Listed Event (pursuant to Section 5 below). If the Property Owner does not provide, or cause the Dissemination Agent to provide, a Periodic Report to the MSRB by the Report Date as required in subsection (a) above, the Dissemination Agent shall provide notice to the MSRB, in an electronic format as prescribed by the MSRB.

(c) The Dissemination Agent shall:

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

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

Section 4. Content of Periodic Reports. The Property Owner's Periodic Report shall contain or incorporate by reference the information set forth in Exhibit A, any or all of which may be included by specific reference to other documents, including official statements of debt issues of the Property Owner or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The Property Owner shall clearly identify each such other document so included by reference.

In addition to any of the information expressly required to be provided in Exhibit A, each Periodic Report shall include such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Significant Events.

(a) So long as the Property Owner's obligations under this Disclosure Certificate have not been terminated pursuant to Section 7 herein, the Property Owner shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to itself or the Property, if material:

(i) bankruptcy or insolvency proceedings commenced by or against the Property Owner and, if known, any bankruptcy or insolvency proceedings commenced by or against any Affiliate of the Property Owner which is reasonably likely to have a material impact on the Property Owner's ability to pay Special Taxes or to sell or develop the Property;

(ii) failure to pay any taxes, special taxes (including the Special Taxes) or assessments due with respect to the Property prior to the delinquency date;

(iii) filing of a lawsuit against the Property Owner or an Affiliate of the Property Owner seeking damages which, if successful, could have a material and adverse impact on the Property

Owner's ability to pay Special Taxes prior to delinquency, or to develop, lease or sell the Property;
and

(iv) material damage to or destruction of any of the improvements on the Property.

(b) Whenever the Property Owner obtains knowledge of the occurrence of a Listed Event, the Property Owner shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the Property Owner determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Property Owner shall, or shall cause the Dissemination Agent to, promptly file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, with a copy to the City and the Participating Underwriter.

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

Section 7. Duration of Reporting Obligation.

(a) All of the Property Owner's obligations hereunder shall commence on the date hereof and shall terminate (except as provided in Section 12) on the earliest to occur of the following:

(i) upon the legal defeasance, prior redemption or payment in full of all the Bonds,
or

(ii) at such time as the Property is no longer responsible for payment of 10% or more of the Special Taxes, or

(iii) the date on which the Property Owner prepays in full all of the Special Taxes attributable to the Property, or

(iv) the date on which (A) the Property is responsible for between 10% and 25% of the annual Special Tax levy, (B) the Property Owner has completed construction of all buildings expected to be constructed on the Property, and (C) each such building constructed by the Property Owner and intended for lease by the Property Owner has been, since completion of construction, at least 80% occupied at one time or another.

The Property Owner shall give notice of the termination of its obligations under this Disclosure Certificate in the same manner as for a Listed Event under Section 5.

(b) If a portion of the Property is conveyed to a person or entity that, upon such conveyance, will be a Major Owner, the obligations of the Property Owner hereunder with respect to the property conveyed to such Major Owner may be assumed by such Major Owner and the Property Owner's obligations hereunder with respect to the property conveyed will be terminated. In order to effect such assumption, such Major Owner shall enter into an Assumption Agreement in form and substance equivalent to this Disclosure Certificate or as otherwise satisfactory to the City and the Participating Underwriter. However, a Major Owner shall not be required to enter into an Assumption Agreement if such Major Owner is already a party to a continuing disclosure certificate in form and substance similar to this Disclosure Certificate with respect to the Bonds,

and under which the property conveyed to such Major Owner will become subject to future Reports.

Section 8. Dissemination Agent. The Property Owner may, from time to time, with the written consent of the City, appoint or engage a Dissemination Agent to assist the Property Owner in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with the written consent of the City, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing 30 days' written notice to the City and the Property Owner.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Property Owner may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied (provided, however, that the Dissemination Agent shall not be obligated under any such amendment that modifies or increases its duties or obligations hereunder without its written consent thereto):

(a) if the amendment or waiver relates to the provisions of sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, or change in law;

(b) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Fiscal Agent Agreement with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

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

Section 11. Default. In the event of a failure of the Property Owner to comply with any provision of this Disclosure Certificate, the Fiscal Agent shall (upon written direction and only to the extent indemnified to its satisfaction from any liability, cost or expense, including fees and expenses of its attorneys), and the Participating Underwriter and any holder or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Property Owner to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the Property Owner to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Property Owner agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the reasonable costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding (i) losses, expenses and liabilities due to the Dissemination Agent's, and its officers, directors, employees, and

agents' negligence or willful misconduct, or failure to perform its duties hereunder, and (ii) losses, expenses and liabilities due to the failure of the Community Facilities District to pay the fees and expenses of the Dissemination Agent. The Dissemination Agent shall be paid compensation for its services provided hereunder from the Administrative Expense Fund established under the Fiscal Agent Agreement in accordance with the Dissemination Agent's schedule of fees as amended from time to time, which schedule, as amended, shall be reasonably acceptable, and all reasonable expenses, reasonable legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Property Owner, the Fiscal Agent, the Bond owners, or any other party. The obligations of the Property Owner under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds, but shall be assumed by a Major Owner from and after the date of such assumption when property is sold to a Major Owner and such Major Owner enters into an assumption agreement.

Section 13. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

To the Issuer: City of Tracy
333 Civic Plaza
Tracy, CA 95376
email: _____

To the Dissemination Agent: Goodwin Consulting Group, Inc.
333 University Avenue, Suite 160
Sacramento, California 95825
email: _____

To the Participating Underwriter: Piper Jaffray & Co.
2321 Rosecrans Avenue
El Segundo, California 90245
email: _____

To the Property Owner: _____

_____, CA 9_____
email: _____

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Property Owner (its successors and assigns), the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity. All obligations of the Property Owner hereunder shall be assumed by any legal successor to the obligations of the Property Owner as a result of a sale, merger, consolidation or other reorganization.

Section 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

[_____],
a _____

By: _____

Name: _____

Title: _____

AGREED AND ACCEPTED:
Goodwin Consulting Group, Inc.,
as Dissemination Agent

By: _____

Name: _____

Title: _____

EXHIBIT A

PERIODIC REPORT

[MARCH 31, ____ / SEPTEMBER 30, ____]

\$_____

CITY OF TRACY

COMMUNITY FACILITIES DISTRICT NO. 2006-01

(NEI Phase II)

SPECIAL TAX REFUNDING BONDS, SERIES 2019

This Periodic Report is hereby submitted under Section 4 of the Continuing Disclosure Certificate (Property Owner) (the "Disclosure Certificate") dated as of _____, 2019, executed by the undersigned (the "Property Owner") in connection with the issuance by the City of Tracy (the "City") of the bonds captioned above (the "Bonds") for the City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) (the "District").

Capitalized terms used in this Periodic Report but not otherwise defined have the meanings given to them in the Disclosure Certificate.

A. Relating to all property within the District owned by Property Owner and its Affiliates (the "Property"), a summary of the activity on the Property during the last year, including, but not limited to (as applicable): (A) number of acres/lots owned by the Property Owner and its Affiliates, (B) progress of construction activities on the Property, (C) status of building permits and land use entitlements, (D) number of acres/lots sold by Property Owner and its Affiliates to end users or builders.

B. For developed Property, (A) the number of square feet leased to tenants and (B) the list of tenants in each building, substantially in the form of Table __ in the Official Statement.

C. A description of the status of any land purchase contracts with regard to the Property, whether acquisition of land by the Property Owner or its Affiliates, or sales of land to other property owners.

D. A description of any change in the legal structure of the Property Owner or the financial condition and financing plan of the Property Owner or its Affiliates that would interfere with their ability to complete the development plan for the Property, or pay the Special Taxes levied on the Property.

E. In addition to any of the information expressly required above, provide such further information, if any, with respect to the Property, the Property Owner and its Affiliates as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Certification

On behalf of the Property Owner, the undersigned Authorized Representative, based on actual knowledge after reasonable inquiry of employees of Property Owner and its Affiliates, hereby certifies that this Periodic Report constitutes the Periodic Report required to be furnished by the Property Owner under the Disclosure Certificate.

ANY OTHER STATEMENTS REGARDING THE PROPERTY OWNER, THE DEVELOPMENT OF THE PROPERTY, THE PROPERTY OWNER'S FINANCING PLAN OR FINANCIAL CONDITION, OR THE BONDS, OTHER THAN STATEMENTS MADE BY THE PROPERTY OWNER IN AN OFFICIAL RELEASE, OR FILED WITH THE MUNICIPAL SECURITIES RULEMAKING BOARD, ARE NOT AUTHORIZED BY THE PROPERTY OWNER. THE PROPERTY OWNER IS NOT RESPONSIBLE FOR THE ACCURACY, COMPLETENESS OR FAIRNESS OF ANY SUCH UNAUTHORIZED STATEMENTS.

THE PROPERTY OWNER HAS NO OBLIGATION TO UPDATE THIS PERIODIC REPORT OTHER THAN AS EXPRESSLY PROVIDED IN THE DISCLOSURE CERTIFICATE.

Dated: _____

By: _____

By: _____

Its: _____

APPENDIX G

DTC AND THE BOOK-ENTRY ONLY SYSTEM

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

Neither the issuer of the Securities (the “Issuer”) nor the trustee, fiscal agent or paying agent appointed with respect to the Securities (the “Agent”) takes any responsibility for the information contained in this Appendix.

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

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

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

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

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

APPENDIX H
COMMUNITY FACILITIES DISTRICT BOUNDARY MAP

JH Draft 6-10-19

FISCAL AGENT AGREEMENT

by and between the

CITY OF TRACY

and

**U.S. BANK NATIONAL ASSOCIATION
as Fiscal Agent**

Dated as of _____ 1, 2019

Relating to:

\$ _____
City of Tracy
Community Facilities District No. 2006-01
(NEI Phase II)
Special Tax Refunding Bonds, Series 2019

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FISCAL AGENT AGREEMENT

THIS FISCAL AGENT AGREEMENT (the "Agreement") is made and entered into as of _____ 1, 2019, by and between the CITY OF TRACY, a municipal corporation and general law city organized and existing under and by virtue of the Constitution and laws of the State of California (the "City"), for and on behalf of the "City of Tracy Community Facilities District No. 2006-01 (NEI Phase II)" (the "CFD"), and U.S. BANK NATIONAL ASSOCIATION., a national banking association duly organized and existing under the laws of the United States of America with a corporate trust office located in San Francisco, California, as fiscal agent (the "Fiscal Agent").

WITNESSETH:

WHEREAS, the City Council of the City has formed the CFD under the provisions of the Mello-Roos Community Facilities Act of 1982, as amended (section 53311 *et seq.* of the California Government Code) (the "Act"); and

WHEREAS, under the provisions of the Act, the City, on behalf of the CFD, previously issued its \$10,660,000 City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) Special Tax Bonds, Series 2006 (the "Prior Bonds"), pursuant to a Fiscal Agent Agreement, dated as of July 1, 2006 (the "Prior Bonds Fiscal Agent Agreement"), between the City and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the "Prior Bonds Fiscal Agent"); and

WHEREAS, the outstanding Prior Bonds are subject to redemption on any day, at a redemption price equal to the principal amount of the outstanding Prior Bonds to be redeemed, plus accrued interest to the redemption date, without a premium; and

WHEREAS, the City wishes to defease, pay and redeem the outstanding Prior Bonds in accordance with the provisions of the Prior Bonds Fiscal Agent Agreement and the Irrevocable Refunding Instructions (as defined below), and is therefore issuing its City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) Special Tax Refunding Bonds, Series 2019 (the "2019 Bonds"); and

WHEREAS, on July 2, 2019, the City Council adopted Resolution No. _____ (the "Resolution") authorizing the issuance of the 2019 Bonds on behalf of the CFD; and

WHEREAS, it is in the public interest and for the benefit of the City, the CFD and the persons responsible for the payment of special taxes that the City enter into this Agreement to provide for the issuance of the Bonds (as defined below) hereunder to refinance the outstanding Prior Bonds and to provide for the disbursement of proceeds of the Bonds, the disposition of the special taxes securing the Bonds and the administration and payment of the Bonds; and

WHEREAS, the City has determined that all things necessary to cause the Bonds, when authenticated by the Fiscal Agent and issued as provided in the Act, the Resolution and this Agreement, to be legal, valid, binding and limited obligations in accordance with their terms, and all things necessary to cause the creation, authorization, execution and delivery of this Agreement and the creation, authorization, execution and issuance of the Bonds, subject to the terms hereof, have in all respects been duly authorized.

NOW, THEREFORE, in consideration of the covenants and provisions herein set forth and for other valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties hereto do hereby agree as follows:

ARTICLE I

AUTHORITY AND DEFINITIONS

Section 1.01. Authority for this Agreement. This Agreement is entered into pursuant to the Act (as herein defined) and the Resolution.

Section 1.02. Agreement for Benefit of Owners of the Bonds. The provisions, covenants and agreements herein set forth to be performed by or on behalf of the City shall be for the equal benefit, protection and security of the Owners of the Bonds. All of the Bonds, without regard to the time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof, except as expressly provided in or permitted by this Agreement.

Section 1.03. Definitions. Unless the context otherwise requires, the terms defined in this Section 1.03 shall, for all purposes of this Agreement, of any Supplemental Agreement, and of any certificate, opinion or other document herein mentioned, have the meanings herein specified. All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Agreement, and the words "herein," "hereof," "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or subdivision hereof.

"Act" means the Mello-Roos Community Facilities Act of 1982, as amended, being sections 53311 *et seq.* of the California Government Code.

"Administrative Expenses" means costs directly related to the administration of the CFD consisting of: the actual costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by a City employee or consultant or both) and the actual costs of collecting the Special Taxes (whether by the County or otherwise); the actual costs of remitting the Special Taxes to the Fiscal Agent; fees, expenses and actual costs of the Fiscal Agent (including its legal counsel) in the discharge of its duties under this Agreement; the actual costs of the City or its designee of complying with the disclosure provisions of the Act and this Agreement, including those related to public inquiries regarding the Special Tax and disclosures to Owners of the Bonds and the Original Purchaser; the actual costs of the City or its designee related to an appeal of the Special Tax; any amounts required to be rebated to the federal government; an allocable share of the salaries of the City staff directly related to the foregoing and a proportionate amount of City general administrative overhead related thereto. Administrative Expenses shall also include amounts advanced by the City for any administrative purpose of the CFD, including costs related to prepayments of Special Taxes, recordings related to such prepayments and satisfaction of Special Taxes, amounts advanced to ensure maintenance of tax exemption, and the costs of prosecuting foreclosure of delinquent Special Taxes, which amounts advanced are subject to reimbursement from other sources, including proceeds of foreclosure.

"Administrative Expense Fund" means the fund designated the "City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) Administrative Expense Fund" established and administered under Section 4.06.

“Agreement” means this Fiscal Agent Agreement, as it may be amended or supplemented from time to time by any Supplemental Agreement adopted pursuant to the provisions hereof.

“Annual Debt Service” means, for each Bond Year, the sum of (i) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled, and (ii) the principal amount of the Outstanding Bonds due in such Bond Year (including any mandatory sinking payment due in such Bond Year).

“Assessor’s Parcel” means a lot or parcel shown in an Assessor’s Parcel Map with an assigned Assessor’s Parcel number.

“Assessor’s Parcel Map” means an official map of the Assessor of the County designating parcels by an Assessor’s Parcel number.

“Auditor” means the auditor/controller of the County, or such other official at the County who is responsible for preparing property tax bills.

“Authorized Officer” means the City Manager, the Finance Director, the City Clerk or any other officer or employee authorized by the City Council of the City or by an Authorized Officer to undertake the action referenced in this Agreement as required to be undertaken by an Authorized Officer

“Bond Counsel” means Jones Hall, A Professional Law Corporation or any other attorney or firm of attorneys acceptable to the City and nationally recognized for expertise in rendering opinions as to the legality and tax-exempt status of securities issued by public entities.

“Bond” or “Bonds” means the 2019 Bonds and, if the context requires, any Parity Bonds, at any time Outstanding under this Agreement or any Supplemental Agreement.

“Bond Fund” means the fund designated the “City of Tracy, Community Facilities District No. 2006-01 (NEI Phase II) Special Tax Refunding Bonds Bond Fund” established and administered under Section 4.04.

“Bond Proceeds Fund” means the fund by that name established and held by the Fiscal Agent in accordance with Section 4.01.

“Bond Year” means the one-year period beginning on September 2nd in each year and ending on September 1 in the following year, except that the first Bond Year shall begin on the Closing Date and shall end on September 1, 2019.

“Business Day” means any day other than (i) a Saturday or a Sunday or (ii) a day on which banking institutions in the state in which the Fiscal Agent has its principal corporate trust office are authorized or obligated by law or executive order to be closed.

“CDIAC” means the California Debt and Investment Advisory Commission of the Office of the State Treasurer, or any successor agency, board or commission.

“CFD” means the “City of Tracy Community Facilities District No. 2006-01 (NEI Phase II)” formed under the Resolution of Formation.

“City” means the City of Tracy, and any successor thereto.

“City Attorney” means any attorney or firm of attorneys employed by the City in the capacity of city attorney.

“Closing Date” means the date upon which there is a physical delivery of the 2019 Bonds in exchange for the amount representing the purchase price of the 2019 Bonds by the Original Purchaser.

“Continuing Disclosure Certificate” shall mean that certain Continuing Disclosure Certificate executed by the City and dated the date of issuance and delivery of the 2019 Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means items of expense payable or reimbursable directly or indirectly by the City and related to the authorization, sale, delivery and issuance of the Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing and binding documents, closing costs, appraisal costs, filing and recording fees, fees and expenses of counsel to the City, fees and expenses of the Prior Bonds Fiscal Agent (including its legal fees and charges), initial fees and charges of the Fiscal Agent including its first annual administration fees and its legal fees and charges, including the allocated costs of in-house attorneys, expenses incurred by the City in connection with the issuance of the Bonds, Bond (underwriter’s) discount, legal fees and charges, including bond counsel, and counsel to any financial consultant, financial consultant’s fees, charges for execution, authentication, transportation and safekeeping of the Bonds, fees of rating agencies, and other costs, charges and fees in connection with the foregoing.

“Costs of Issuance Fund” means the fund designated the “City of Tracy, Community Facilities District No. 2006-1 (NEI Phase II) Special Tax Refunding Bonds, Costs of Issuance Fund” established and administered under Section 4.02.

“Council” means the City Council of the City as the legislative body.

“County” means the County of San Joaquin, California.

“Dated Date” means the dated date of the 2019 Bonds, which is the Closing Date.

“Debt Service” means the scheduled amount of interest and amortization of principal payable on the 2019 Bonds under Sections 2.02 and 2.03 and the scheduled amount of interest and amortization of principal payable on any Parity Bonds during the period of computation, in each case excluding amounts scheduled during such period which relate to principal which has been retired before the beginning of such period.

“Depository” means (a) initially, DTC, and (b) any other Securities Depository acting as Depository for book-entry under Section 2.10.

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

“Exempt Property” means all Assessor’s Parcels that are exempt from the Special Tax pursuant to the Rate and Method.

“Facilities” means the facilities that are authorized to be financed by the CFD under the Resolution of Formation.

“Fair Market Value” means with respect to Permitted Investments the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Tax Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, (iii) the investment is a United States Treasury Security—State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the City and related parties do not own more than a ten percent (10%) beneficial interest if the return paid by such fund is without regard to the source of the investment.

“Federal Securities” means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), the timely payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America; and (b) any obligations the timely payment of principal of and interest on which are fully unconditionally guaranteed by the United States of America.

“Finance Director” means the official of the City, or such official’s designee, who acts in the capacity as the chief financial officer of the City, including the controller or other financial officer.

“Fiscal Agent” means The U.S. Bank National Association, the Fiscal Agent appointed by the City and acting as an independent fiscal agent with the duties and powers herein provided, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in Section 7.01.

“Fiscal Year” means the twelve-month period extending from July 1 in a calendar year to June 30 of the succeeding year, both dates inclusive.

“Improvement Fund” means the fund designated “City of Tracy, Community Facilities District No. 2006-01 (NEI Phase II), Improvement Fund,” established under Section 4.08.

“Independent Financial Consultant” means any consultant or firm of such consultants appointed by the City or the Finance Director, and who, or each of whom: (i) is judged by the Finance Director to have experience in matters relating to the issuance and/or administration of bonds under the Act; (ii) is in fact independent and not under the domination of the City; (iii) does not have any substantial interest, direct or indirect, with or in the City, or any owner of real property in the CFD, or any real property in the CFD; and (iv) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make reports to the City.

“Information Services” means (i) the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (“EMMA”) system and (ii) in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such services providing information with respect to called bonds as the City may designate in an Officer’s Certificate delivered to the Fiscal Agent.

“Interest Payment Date” means each September 1 and March 1 of every calendar year, commencing with March 1, 2020.

“Irrevocable Refunding Instructions” means those certain Irrevocable Refunding Instructions, dated as of _____ 1, 2019, by the City to The Bank of New York Mellon Trust Company, N.A., in its capacity as the Prior Bonds Fiscal Agent.

“Maximum Annual Debt Service” means the largest Annual Debt Service for any Bond Year after the calculation is made through the final maturity date of any Outstanding Bonds.

“Moody’s” means Moody’s Investors Service, Inc., and its successors.

“Officer’s Certificate” means a written certificate of the City signed by an Authorized Officer of the City.

“Ordinance” means any ordinance of the Council of the City levying the Special Taxes, including but not limited to such Ordinance introduced by the Council on February 2, 2006 and adopted by the Council on March 7, 2006.

“Original Purchaser” means Piper Jaffray & Co., Incorporated, the first purchaser of the 2019 Bonds from the City.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 8.04) all Bonds except (i) Bonds theretofore canceled by the Fiscal Agent or surrendered to the Fiscal Agent for cancellation; (ii) Bonds paid or deemed to have been paid within the meaning of Section 9.03; and (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the City under this Agreement or any Supplemental Agreement.

“Owner” or “Bondowner” means any person who shall be the registered owner of any Outstanding Bond.

“Parity Bonds” means Bonds issued and payable on a parity basis with the Bonds under Section 3.05.

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

“Permitted Investments” means the following, but only to the extent that the same are acquired at Fair Market Value:

- (a) Federal Securities.

(b) any of the following direct or indirect obligations of the following agencies of the United States of America: (i) direct obligations of the Export-Import Bank; (ii) certificates of beneficial ownership issued by the Farmers Home Administration; (iii) participation certificates issued by the General Services Administration; (iv) mortgage-backed bonds or pass-through obligations issued and guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Federal Housing Administration; (v) project notes issued by the United States Department of Housing and Urban Development; and (vi) public housing notes and bonds guaranteed by the United States of America;

(c) interest-bearing demand or time deposits (including certificates of deposit including those placed by a third party pursuant to a separate agreement between the City and the Fiscal Agent), other deposit products, trust funds, trust accounts, interest bearing deposits, overnight bank deposits, interest bearing money market accounts or deposit accounts in federal or state chartered savings and loan associations or in federal or State of California banks (including the Fiscal Agent, its parent, if any, and affiliates), provided that (i) the unsecured short-term obligations of such commercial bank or savings and loan association shall be rated in the highest short-term rating category by any rating agency, or (ii) such demand or time deposits shall be fully insured by the Federal Deposit Insurance Corporation;

(d) commercial paper rated in the highest short-term rating category by any rating agency, issued by corporations which are organized and operating within the United States of America, and which matures not more than 180 days following the date of investment therein;

(e) bankers acceptances (including those of the Fiscal Agent or any of its affiliates), consisting of bills of exchange or time drafts drawn on and accepted by a commercial bank, including its parent (if any), affiliates and subsidiaries, whose short-term obligations are rated in the highest short-term rating category by any rating agency, or whose long-term obligations are rated A or better by any rating agency, which mature not more than 270 days following the date of investment therein;

(f) obligations the interest on which is excludable from gross income pursuant to Section 103 of the Tax Code and which are either (a) rated A or better by any rating agency, or (b) fully secured as to the payment of principal and interest by Federal Securities;

(g) obligations issued by any corporation organized and operating within the United States of America having assets in excess of Five Hundred Million (\$500,000,000), which obligations are rated A or better by any rating agency;

(h) money market mutual funds (including money market funds for which the Fiscal Agent, its affiliates or subsidiaries provide investment advisory or other management services) which invest in Federal Securities or which are rated in the highest short-term rating category by any rating agency, including those funds for which the Fiscal Agent or an affiliate receives and retains a fee for

services provided to the fund, whether as a custodian, transfer agent, investment advisor or otherwise, excluding funds with a floating net asset value; and

(i) any investment agreement representing general unsecured obligations of a financial institution rated A or better by any rating agency, by the terms of which the Fiscal Agent is permitted to withdraw all amounts invested therein in the event any such rating falls below A.

(j) the Local Agency Investment Fund established pursuant to Section 16429.1 of the Government Code of the State of California, *provided, however*, that the Fiscal Agent shall be permitted to make investments and withdrawals in its own name and the Fiscal Agent may restrict investments in the such fund if necessary to keep moneys available for the purposes of this Fiscal Agent Agreement.

(k) the California Asset Management Program.

“Principal Office” means such corporate trust office of the Fiscal Agent as may be designated from time to time by written notice from the Fiscal Agent to the City, initially being at the address set forth in Section 9.06, or such other office designated by the Fiscal Agent from time to time; except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Fiscal Agent at which, at any particular time, its corporate trust agency business shall be conducted.

“Prior Bonds” means the City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) Special Tax Bonds, Series 2006.

“Prior Bonds Fiscal Agent” means The Bank of New York Mellon Trust Company, N.A., as successor to The Bank of New York Trust Company, N.A.

“Prior Bonds Fiscal Agent Agreement” means the Fiscal Agent Agreement by and between the City of Tracy, for and on behalf of the CFD, and The Bank of New York Trust Company, N.A. as fiscal agent dated as of July 1, 2006.

“Proceeds” when used with reference to the Bonds, means the face amount of the Bonds, plus any accrued interest and premium, less any original issue and/or underwriter's discount.

“Project” means those items described as the “Facilities” in the Resolution of Formation.

“Qualified Reserve Account Credit Instrument” means an irrevocable standby or direct-pay letter of credit, insurance policy, or surety bond issued by a commercial bank or insurance company and deposited with the Fiscal Agent, provided that all of the following requirements are met at the time of acceptance thereof by the Fiscal Agent: (a) in the case of a commercial bank, the long-term credit rating of such bank at the time of delivery of the irrevocable standby or direct-pay letter of credit is at least "A" from S&P or "A" from Moody's and, in the case of an insurance company, the claims paying ability of such insurance company at the time of delivery of the insurance policy or surety bond is at least "A" from S&P, or "A" from Moody's or, if not rated by S&P or Moody's but rated by A.M. Best & Company, is rated at the time of delivery in the highest rating category by A.M. Best & Company; (b) such letter of credit, insurance policy or surety bond has a term of at least 12 months; (c) such letter of credit or surety bond has a

stated amount at least equal to the portion of the 2019 Reserve Requirement with respect to which funds are proposed to be released; and (d) the Fiscal Agent is authorized pursuant to the terms of such letter of credit, insurance policy or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Bond Fund for the purpose of making payments with respect to the 2019 Bonds and any 2019 Related Parity Bonds.

“Rate and Method” means the rate and method of apportionment of special taxes for the CFD, as approved by the Council pursuant to the Resolution of Formation and the qualified electors of the CFD.

“Record Date” means the fifteenth day of the calendar month next preceding the applicable Interest Payment Date, whether or not such day is a Business Day.

“Refunding Bonds” means bonds issued by the City for the CFD, the net proceeds of which are used to refund all or a portion of the then-Outstanding Bonds; provided that (i) the interest cost to maturity of such bonds to be issued plus the principal amount of such bonds to be issued is equal to or less than the interest cost to maturity of the Bonds being refunded plus the principal amount of the Bonds being refunded and (ii) the final maturity of such bonds to be issued is not later than the final maturity of the Bonds being refunded.

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

“Resolution” or “Resolution of Issuance” means Resolution No. _____ adopted by the Council on _____, 2019, authorizing the issuance of the Bonds.

“Resolution of Formation” means Resolution No. 2006-065 adopted by the Council on February 21, 2006, forming the CFD.

“S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, and its successors and assigns.

“Securities Depositories” means DTC and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the City may designate in an Officer’s Certificate delivered to the Fiscal Agent.

“Special Tax Fund” means the special fund designated “City of Tracy, Community Facilities District No. 2006-01 (NEI Phase II), Special Tax Fund” established and administered under Section 4.05.

“Special Tax Revenues” means the proceeds of the Special Taxes received by the City, including any scheduled payments thereof, interest thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and interest thereon, but shall not include any interest in excess of the interest due on the Bonds or any penalties collected in connection with any such foreclosure.

“Special Taxes” means the special taxes levied by the Council within the CFD under the Act, the Ordinance and this Agreement

“State” means the State of California.

“Supplemental Agreement” means an agreement the execution of which is authorized by a resolution which has been duly adopted by the City under the Act and which agreement is amendatory of or supplemental to this Agreement, but only if and to the extent that such agreement is specifically authorized hereunder.

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

“Taxable Property” means all of the Assessor’s Parcels within the boundaries of the CFD that are not exempt from the Special Tax pursuant to law or classified in the Rate and Method as exempt.

“Term Bonds” means (A) the 2019 Bonds maturing on September 1, 20__ and September 1, 20__ and (B) with respect to any Parity Bonds, the Bonds described as term bonds in a Supplemental Agreement.

“2006 Unspent Bond Proceeds Fund” means the fund by that name established and held by the Fiscal Agent pursuant to Section 4.07.

“2019 Bonds” means the Bonds so designated and authorized to be issued under Section 2.01 hereof.

“2019 Related Parity Bonds” means any series of Parity Bonds for which (i) the Proceeds are deposited into the 2019 Reserve Fund so that the balance therein is equal to the 2019 Reserve Requirement following issuance of such Parity Bonds and (ii) the related Supplemental Agreement specifies that the 2019 Reserve Fund shall act as a reserve for the payment of the principal of, and interest and any premium on, such series of Parity Bonds.

“2019 Reserve Fund” means the fund designated the “City of Tracy, Community Facilities District No. 2006-01 (NEI Phase II), Special Tax Refunding Bonds, Series 2019, 2019 Reserve Fund” established and administered under Section 4.03.

2019 Reserve Requirement” means the sum of:

(i) \$ _____, which is the least of (a) Maximum Annual Debt Service on the 2019 Bonds as of the Closing Date, (b) 125% of average Annual Debt Service on the 2019 Bonds as of the Closing Date and (c) 10% of the original principal amount of the 2019 Bonds (or, if the 2019 Bonds have more than a de minimis amount of original issue discount or premium, 10% of the issue price of the 2019 Bonds) plus

(ii) with respect to any series of 2019 Related Parity Bonds the principal of and interest on which is payable from amounts in the 2019 Reserve Fund, an amount equal to the least of (x) Maximum Annual Debt Service on such 2019 Related Parity Bonds as of the date of their issuance, (y) 125% of average Annual Debt Service on such 2019 Related Parity Bonds as of the date of their issuance and (z) 10% of the original principal amount of such 2019 Related Parity Bonds (or, if the 2019 Related Parity Bonds have more than a de minimis amount of original issue discount or premium, 10% of the issue price of the 2019 Related Parity Bonds);

provided that, with respect to the issuance of any 2019 Related Parity Bonds, if the 2019 Reserve Fund would have to be increased by an amount greater than ten percent (10%) of the stated principal amount of the 2019 Related Parity Bonds (or, if the 2019 Related Parity Bonds have more than a de minimis amount of original issue discount or premium, of the issue price of such 2019 Related Parity Bonds), then the 2019 Reserve Requirement shall be such lesser amount as is determined by a deposit of such ten percent (10%); and provided that accrued interest on any 2019 Related Parity Bonds deposited with the Fiscal Agent upon delivery of such 2019 Related Parity Bonds shall be excluded for purposes of the calculation of the 2019 Reserve Requirement.

ARTICLE II
THE BONDS

Section 2.01. Principal Amount; Designation. The 2019 Bonds in the aggregate principal amount of _____ Dollars (\$_____) are hereby authorized to be issued by the City for the CFD under and subject to the terms of the Act, the Resolution, this Agreement and other applicable laws of the State of California. The 2019 Bonds shall be designated as the “City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) Special Tax Refunding Bonds, Series 2019”.

Section 2.02. Terms of the 2019 Bonds.

(A) Form; Denominations. The 2019 Bonds shall be issued as fully registered Bonds without coupons. The 2019 Bonds shall be lettered and numbered in a customary manner as determined by the City. The 2019 Bonds shall be issued in the denominations of \$5,000 or any integral multiple of \$5,000.

(B) Date of 2019 Bonds. The 2019 Bonds shall be dated the Closing Date.

(C) CUSIP Identification Numbers. “CUSIP” identification numbers may, at the election of the Original Purchaser of the Bonds, be imprinted on the Bonds, but such numbers shall not constitute a part of the contract evidenced by the Bonds and any error or omission with respect thereto shall not constitute cause for refusal of any purchaser to accept delivery of and pay for the Bonds. In addition, failure on the part of the City or the Fiscal Agent to use such CUSIP numbers in any notice to Owners shall not constitute an event of default or any violation of the City’s contract with such Owners and shall not impair the effectiveness of any such notice.

(D) *Maturities; Interest Rates.* The 2019 Bonds shall mature and become payable on each September 1, and shall bear interest at the rates per annum indicated in the below table.

Serial Bonds

Maturity (September 1)	Principal Amount	Interest Rate
2020	\$	%

Term Bonds

Maturity (September 1)	Principal Amount	Interest Rate
	\$	%

(E) *Interest.* The 2019 Bonds shall bear interest at the rates set forth above payable on the Interest Payment Dates in each year. Interest on all Bonds shall be calculated on the basis of a 360-day year composed of twelve 30-day months. Each Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (i) it is authenticated on an Interest Payment Date, in which event it shall bear interest from such date of authentication, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the Record Date preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) it is authenticated on or before the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from the Dated Date; provided, however, that if at the time of authentication of a Bond, interest is in default thereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

(F) *Method of Payment.* Interest on the Bonds (including the final interest payment upon maturity or earlier redemption), is payable on the applicable Interest Payment Date by check of the Fiscal Agent mailed by first class mail to the registered Owner thereof at such registered Owner's address as it appears on the registration books maintained by the Fiscal Agent at the close of business on the Record Date preceding the Interest Payment Date, or by

wire transfer to an account in the United States of America made on such Interest Payment Date upon written instructions of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds delivered to the Fiscal Agent prior to the applicable Record Date, which instructions shall continue in effect until revoked in writing, or until such Bonds are transferred to a new Owner. The principal of the Bonds and any interest or premium on the Bonds are payable in lawful money of the United States of America, and the principal of the Bonds is payable upon surrender of the Bonds at the Principal Office of the Fiscal Agent. All Bonds paid by the Fiscal Agent pursuant to this Section and any other Bonds surrendered to the Fiscal Agent for cancellation shall be canceled by the Fiscal Agent. The Fiscal Agent shall destroy the canceled Bonds and, upon request, issue a certificate of destruction of such Bonds to the City.

Section 2.03. Redemption.

(A) *Redemption Provisions.*

(i) Optional Redemption. The 2019 Bonds maturing on or after September 1, 20__, are subject to optional redemption as directed by the City, from sources of funds other than prepayments of Special Taxes, prior to their stated maturity on any date on or after September 1, 20__, as a whole or in part, at the redemption prices (expressed as a percentage of the principal amount of the 2019 Bonds to be redeemed) set forth below, together with accrued interest thereon to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
September 1, 20__ through August 31, 20__	103%
September 1, 20__ through August 31, 20__	—
September 1, 20__ through August 31, 20__	—
September 1, 20__ through any date thereafter	100

(ii) Mandatory Sinking Fund Redemption. The Term Bonds are subject to mandatory redemption in part by lot, from sinking fund payments made by the City from the Bond Fund, at a redemption price equal to the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts all as set forth in the following tables:

Term Bond maturing September 1, 20__

Sinking Fund Redemption Date <u>(September 1)</u>	Principal Amount <u>Subject to Redemption</u>
20__	\$
20__ (maturity)	

Term Bond maturing September 1, 20__

Sinking Fund Redemption Date <u>(September 1)</u>	Principal Amount <u>Subject to Redemption</u>
20__	\$
20__ (maturity)	

Provided, however, if some but not all of the Term Bonds of a given maturity have been redeemed under subsection (i) above or subsection (iii) below, the total amount of all future Sinking Fund Payments relating to such maturity shall be reduced by the aggregate principal amount of Term Bonds of such maturity so redeemed, to be allocated among such Sinking Fund Payments on a pro rata basis in integral multiples of \$5,000 as determined by the City, notice of which determination (which shall consist of a revised sinking fund schedule) shall be given by the City to the Fiscal Agent.

(iii) **Mandatory Prepayment Redemption.** Special Tax Prepayments and any corresponding transfers from the 2019 Reserve Fund shall be used to redeem 2019 Bonds on the next Interest Payment Date for which notice of redemption can timely be given, among maturities so as to maintain substantially the same debt service profile for the 2019 Bonds as in effect prior to such redemption and by lot within a maturity, at a redemption price (expressed as a percentage of the principal amount of the 2019 Bonds to be redeemed), as set forth below, together with accrued interest to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
Any Interest Payment Date on or before March 1, 20__	__%
September 1, 20__ and March 1, 20__	__
September 1, 20__ and March 1, 20__	__
September 1, 20__ and any Interest Payment Date thereafter	100

(B) Notice to Fiscal Agent. The City shall give the Fiscal Agent written notice of its intention to redeem Bonds under subsection (A)(i) and (A)(iii) not less than thirty (30) days prior to the applicable redemption date or such lesser number of days as shall be authorized by the Fiscal Agent.

(C) Purchase of Bonds in Lieu of Redemption. In lieu of redemption under Section 2.03(A), moneys in the Bond Fund or other funds provided by the City may be used and withdrawn by the Fiscal Agent for purchase of Outstanding 2019 Bonds, upon the filing with the Fiscal Agent of an Officer's Certificate requesting such purchase, at public or private sale as and when, and at such prices (including brokerage and other charges) as such Officer's Certificate may provide, but in no event may 2019 Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase and any premium which would otherwise be due if such 2019 Bonds were to be redeemed in accordance with this Agreement. Any Bonds purchased pursuant to this Section 2.03(C) shall be treated as Outstanding Bonds under this Fiscal Agent Agreement, except to the extent otherwise directed by the Finance Director.

(D) Redemption Procedure by Fiscal Agent.

(i) **Notices.** The Fiscal Agent shall cause notice of any redemption to be mailed by first class mail, postage prepaid, at least twenty (20) days but not more than sixty (60) days prior to the date fixed for redemption, to the Securities Depositories, to the Information Services, and to the respective registered Owners of any Bonds designated for redemption, at their addresses appearing on the Bond registration books in the Principal Office of the Fiscal Agent; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice, or any

defect therein, shall not affect the validity of the proceedings for the redemption of such Bonds.

The sole remedy for failure to file such notices through EMMA shall be an action by the holders of the Bonds in mandamus for specific performance or a similar remedy to compel performance.

Any notice of an optional redemption may provide that the proposed redemption is conditioned upon receipt of sufficient funds to accomplish the redemption. The City has the right to rescind any notice of the optional redemption of Bonds by written notice to the Fiscal Agent on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute a default under this Agreement. The City and the Fiscal Agent have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Fiscal Agent shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under this Section.

(ii) Contents of Notices. Such notice shall state the redemption date and the redemption price and, if less than all of the then-Outstanding Bonds are to be called for redemption shall state as to any Bond called in part the principal amount thereof to be redeemed, and shall require that such Bonds be then surrendered at the Principal Office of the Fiscal Agent for redemption at the said redemption price, and shall state that further interest on such Bonds will not accrue from and after the redemption date. The cost of mailing any such redemption notice and any expenses incurred by the Fiscal Agent in connection therewith shall be paid by the City.

(iii) Partial Redemption. Whenever provision is made in this Agreement for the redemption of less than all of the Bonds of any maturity or any given portion thereof, the Fiscal Agent shall select the Bonds to be redeemed, from all Bonds or such given portion thereof not previously called for redemption as directed by the City, or in the absence of direction by the City, on a pro rata basis among series and maturities, so as to maintain substantially the same Debt Service profile for the Bonds as in effect prior to such redemption, and by lot within a maturity in any manner which the Fiscal Agent in its sole discretion shall deem appropriate.

(iv) New Bonds. Upon surrender of Bonds redeemed in part only, the City shall execute and the Fiscal Agent shall authenticate and deliver to the registered Owner, at the expense of the City, a new Bond or Bonds, of the same series and maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds of such registered Owner.

(E) *Effect of Redemption.* From and after the date fixed for redemption, if funds available for the payment of the principal of, and interest and any premium on, the Bonds so called for redemption shall have been deposited in the Bond Fund, such Bonds so called shall cease to be entitled to any benefit under this Agreement other than the right to receive payment of the redemption price, and no interest shall accrue thereon on or after the redemption date specified in the notice of redemption. All Bonds redeemed and purchased by the Fiscal Agent under this Section 2.03 shall be canceled by the Fiscal Agent. The Fiscal Agent shall destroy the canceled Bonds in accordance with the Fiscal Agent's retention policy then in effect.

Section 2.04. Form of Bonds. The 2019 Bonds, the Fiscal Agent's certificate of authentication and the assignment, to appear thereon, shall be substantially in the forms, respectively, set forth in Exhibit A attached hereto and by this reference incorporated herein, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Agreement, the Resolution and the Act.

Section 2.05. Execution and Authentication of Bonds.

(A) Execution. The Bonds shall be executed on behalf of the City by the manual or facsimile signatures of its Mayor and its City Clerk who are in office on the date of execution of this Agreement or at any time thereafter. If any officer whose signature appears on any Bond ceases to be such officer before delivery of the Bonds to the Owner, such signature shall nevertheless be as effective as if the officer had remained in office until the delivery of the Bonds to the Owner. Any Bond may be signed and attested on behalf of the City by such persons as at the actual date of the execution of such Bond shall be the proper officers of the City although at the nominal date of such Bond any such person shall not have been such officer of the City.

(B) Authentication. Only such Bonds as shall bear thereon a certificate of authentication in substantially the form set forth in Exhibit A, executed and dated by the Fiscal Agent, shall be valid or obligatory for any purpose or entitled to the benefits of this Agreement, and such certificate of authentication of the Fiscal Agent shall be conclusive evidence that the Bonds registered hereunder have been duly authenticated, registered and delivered hereunder and are entitled to the benefits of this Agreement.

Section 2.06. Transfer or Exchange of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept under the provisions of Section 2.07 by the person in whose name it is registered, in person or by such person's duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a duly written instrument of transfer in a form acceptable to the Fiscal Agent. Bonds may be exchanged at the Principal Office of the Fiscal Agent solely for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity. The cost for any services rendered or any expenses incurred by the Fiscal Agent in connection with any such transfer or exchange shall be paid by the City from the Administrative Expense Fund. The Fiscal Agent shall collect from the Owner requesting such transfer or exchange any tax or other governmental charge required to be paid with respect to such transfer or exchange. Whenever any Bond or Bonds shall be surrendered for transfer or exchange, the City shall execute and the Fiscal Agent shall authenticate and deliver a new Bond or Bonds, for a like aggregate principal amount. No transfers or exchanges of Bonds shall be required to be made (i) fifteen days prior to the date established by the Fiscal Agent for selection of Bonds for redemption or (ii) with respect to a Bond after such Bond has been selected for redemption; or (iii) between a Record Date and the succeeding Interest Payment Date.

Section 2.07. Bond Register. The Fiscal Agent will keep, or cause to be kept, at its Principal Office sufficient books for the registration and transfer of the Bonds which books shall show the series number, date, amount, rate of interest and last known owner of each Bond and shall at all times be open to inspection by the City during regular business hours upon reasonable notice; and, upon presentation for such purpose, the Fiscal Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, the ownership of the Bonds as hereinbefore provided. The City and

the Fiscal Agent will treat the Owner of any Bond whose name appears on the Bond register as the absolute Owner of such Bond for any and all purposes, and the City and the Fiscal Agent shall not be affected by any notice to the contrary. The City and the Fiscal Agent may rely on the address of the Owner as it appears in the Bond register for any and all purposes.

Section 2.08. Temporary Bonds. The Bonds may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such authorized denominations as may be determined by the City, and may contain such reference to any of the provisions of this Agreement as may be appropriate. Every temporary Bond shall be executed by the City upon the same conditions and in substantially the same manner as the definitive Bonds. If the City issues temporary Bonds, it will execute and furnish definitive Bonds without delay and thereupon the temporary Bonds shall be surrendered, for cancellation, in exchange for the definitive Bonds at the Principal Office of the Fiscal Agent or at such other location as the Fiscal Agent shall designate, and the Fiscal Agent shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Agreement as definitive Bonds authenticated and delivered hereunder.

Section 2.09. Bonds Mutilated, Lost, Destroyed or Stolen.

(A) Mutilated. If any Bond shall become mutilated, at the expense of the Owner of such Bond, the City shall execute and the Fiscal Agent shall authenticate and deliver a replacement Bond of like tenor and principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated and provision of satisfactory indemnity to the Fiscal Agent. Every mutilated Bond so surrendered to the Fiscal Agent shall be canceled by it and destroyed by the Fiscal Agent, in accordance with the Fiscal Agent's retention policy then in effect.

(B) Destroyed or Stolen. If any Bond shall be lost, destroyed or stolen, the City shall execute and the Fiscal Agent shall authenticate and deliver a replacement Bond of like tenor and principal amount in lieu of and in substitution for the Bond so lost, destroyed or stolen, at the expense of the Owner, but only following provision by the Owner to the Fiscal Agent of indemnity for the City and the Fiscal Agent satisfactory to the Fiscal Agent. The City may require payment of a sum not exceeding the actual cost of preparing each a replacement Bond delivered under this Section and the City and the Fiscal Agent may require payment of the expenses which may be incurred by the City and the Fiscal Agent for the preparation, execution, authentication and delivery thereof. Any Bond delivered under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the City whether or not the Bond so alleged to be lost, destroyed or stolen is at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Agreement with all other Bonds issued under this Agreement.

(C) Additional Stock. If the Fiscal Agent has an insufficient stock of unauthenticated printed Bonds for such purpose, it shall communicate with the Finance Director with respect to the printing of an additional stock of Bonds, in such quantities and as otherwise approved in writing by the Finance Director.

Section 2.10. Book-Entry Only System. DTC shall act as the initial Depository for the Bonds. One Bond for each maturity of the Bonds shall be initially executed, authenticated, and

delivered as set forth herein with a separate fully registered certificate (in print or typewritten form). Upon initial execution, authentication, and delivery, the ownership of the Bonds shall be registered in the Bond register kept by the Fiscal Agent for the Bonds in the name of Cede & Co., as nominee of DTC or such nominee as DTC shall appoint in writing.

The Authorized Officers of the City and the Fiscal Agent are hereby authorized to take any and all actions as may be necessary and not inconsistent with this Agreement to qualify the Bonds for the Depository's book-entry system, including the execution of the Depository's required representation letter.

With respect to Bonds registered in the Bond register in the name of Cede & Co., as nominee of DTC, neither the City nor the Fiscal Agent shall have any responsibility or obligation to any broker-dealer, bank, or other financial institution for which DTC holds Bonds as Depository from time to time (the "DTC Participants") or to any person for which a DTC Participant acquires an interest in the Bonds (the "Beneficial Owners"). Without limiting the immediately preceding sentence, neither the City nor the Fiscal Agent shall have any responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co., or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant, any Beneficial Owner, or any other person, other than DTC, of any notice with respect to the Bonds, including any Bonds to be redeemed in the event the City elects to redeem the Bonds, in part, (iii) the selection by the Depository of the beneficial interests in the Bonds to be redeemed in the event the City elects to redeem the Bonds in part, (iv) the payments to any DTC Participant, any Beneficial Owner, or any person, other than DTC, of any amount with respect to the principal of or interest or premium on the Bonds, or (v) any consent given or other action taken by the Depository as Owner of the Bonds.

Except as set forth above, the City and the Fiscal Agent may treat as and deem DTC to be the absolute Owner of each Bond, for which DTC is acting as Depository for the purpose of payment of the principal of and premium and interest on such Bonds, for the purpose of giving notices of redemption and other matters with respect to such Bonds, for the purpose of registering transfers with respect to such Bonds, and for all purposes whatsoever. The Fiscal Agent on behalf of the City shall pay all principal of and premium and interest on the Bonds only to or upon the order of the Owners as shown on the Bond register, and all such payments shall be valid and effective to fully satisfy and discharge all obligations with respect to the principal of and premium and interest on the Bonds to the extent of the sums or sums so paid.

No person other than an Owner, as shown on the Bond register, shall receive a physical Bond. Upon delivery by DTC to the City and the Fiscal Agent of written notice to the effect the DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the transfer provisions in Section 2.06 hereof, references to "Cede & Co." in this Section 2.10 shall refer to such new nominee of DTC.

DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving written notice to the City and to the Fiscal Agent during any time that the Bonds are Outstanding, and discharging its responsibilities with respect thereto under applicable law. The City may terminate the services of DTC with respect to the Bonds if it determines that DTC is unable to discharge its responsibilities with respect to the Bonds or that continuation of the system of book-entry transfer through DTC is not in the best interest of the Beneficial Owners, and the City shall mail notice of such termination to the Fiscal Agent.

Upon termination of the services of DTC as provided in the previous paragraph, and if no substitute Depository willing to undertake the functions hereunder can be found which is willing to undertake such functions upon reasonable or customary terms, or if the City determines that it is in the best interest of the Beneficial Owners of the Bonds that they be able to obtain certified Bonds, the Bonds shall no longer be restricted to being registered in the Bond register of the Fiscal Agent in the name of Cede & Co., as nominee of DTC, but may be registered in whatever name or names the Owners shall designate at that time, in accordance with Section 2.06.

To the extent that the Beneficial Owners are designated as the transferee by the Owners, in accordance with Section 2.06, the Bonds will be delivered to such Beneficial Owners.

ARTICLE III

ISSUANCE OF 2019 BONDS

Section 3.01. Issuance and Delivery of 2019 Bonds. At any time after the execution of this Agreement, the City may issue the 2019 Bonds for the CFD in the aggregate principal amount set forth in Section 2.01 and deliver the 2019 Bonds to the Fiscal Agent for authentication and delivery to the Original Purchaser. The Authorized Officers of the City are hereby authorized and directed to execute and deliver any and all documents and instruments necessary to cause the issuance of the 2019 Bonds in accordance with the provisions of the Act, the Resolution and this Agreement; to authorize the payment of Costs of Issuance and Administrative Expenses; to pay, defease and redeem the Prior Bonds and do and cause to be done any and all acts and things necessary or convenient for the timely delivery of the 2019 Bonds to the Original Purchaser. The Fiscal Agent is hereby authorized and directed to authenticate the 2019 Bonds and deliver them to the Original Purchaser, upon receipt of the purchase price for the 2019 Bonds.

Section 3.02. Pledge of Special Tax Revenues. The Bonds shall be secured by a first pledge (which pledge shall be effected in the manner and to the extent herein provided) of all of the Special Tax Revenues (other than the Special Tax Revenues to be deposited into the Administrative Expense Fund pursuant to Section 4.05(A)(i)) and all moneys deposited in the Bond Fund, and, until disbursed as provided herein, in the Special Tax Fund. The Special Tax Revenues (other than the Special Tax Revenues to be deposited into the Administrative Expense Fund pursuant to Section 4.05(A)(i)) and all moneys deposited into such funds (except as otherwise provided herein) are hereby dedicated to the payment of the principal of, and interest and any premium on, the Bonds as provided herein and in the Act until all of the Bonds have been paid and retired or until moneys or Federal Securities have been set aside irrevocably for that purpose under Section 9.03.

The 2019 Bonds and all 2019 Related Parity Bonds shall be secured by a first pledge (which pledge shall be effected in the manner and to the extent herein provided) of all moneys deposited in the 2019 Reserve Fund. The moneys in the 2019 Reserve Fund (except as otherwise provided herein) are hereby dedicated to the payment of the principal of, and interest and any premium on, the 2019 Bonds and all 2019 Related Parity Bonds as provided herein and in the Act until all of the 2019 Bonds and all 2019 Related Parity Bonds have been paid and retired or until moneys or Federal Securities have been set aside irrevocably for that purpose under Section 9.03.

Amounts in the Costs of Issuance Fund, the Administrative Expense Fund and the 2006 Unspent Bond Proceeds Fund are not pledged to the repayment of the Bonds.

Section 3.03. Limited Obligation. All obligations of the City under this Agreement and the Bonds shall not be general obligations of the City, but shall be limited obligations, payable solely from the Special Tax Revenues (other than the Special Tax Revenues to be deposited into the Administrative Expense Fund pursuant to Section 4.05(A)(i)) and the funds pledged therefore hereunder. Neither the faith and credit nor the taxing power of the City (except to the limited extent set forth herein) or of the State of California or any political subdivision thereof is pledged to the payment of the Bonds.

Section 3.04. No Acceleration. The principal of the Bonds shall not be subject to acceleration hereunder. Nothing in this Section shall in any way prohibit the redemption of Bonds under Section 2.03, or the defeasance of the Bonds and discharge of this Agreement under Section 9.03.

Section 3.05. Parity Bonds. In addition to the 2019 Bonds, the City may issue Parity Bonds in such principal amount as shall be determined by the City, under a Supplemental Agreement entered into by the City and the Fiscal Agent. Any such Parity Bonds shall constitute Bonds hereunder and shall be secured by a lien on the Special Tax Revenues and funds pledged for the payment of the Bonds hereunder on a parity with all other Bonds Outstanding hereunder. The City may only issue Parity Bonds if they are Refunding Bonds and subject to the following specific conditions precedent:

(A) Compliance. The City shall be in compliance with all covenants set forth in this Agreement and all Supplemental Agreements.

(B) Same Payment Dates. The Supplemental Agreement providing for the issuance of such Parity Bonds shall provide that interest thereon shall be payable on the Interest Payment Dates, and principal thereof shall be payable on the same date in any year in which principal is payable on the 2019 Bonds (provided that there shall be no requirement that any Parity Bonds pay interest on a current basis).

(C) Separate Funds; Reserve Fund Deposit. The Supplemental Agreement providing for the issuance of such Parity Bonds may provide for the establishment of separate funds and accounts.

The Supplemental Agreement providing for issuance of the Parity Bonds shall provide for one of the following: (i) a deposit to the 2019 Reserve Fund in an amount necessary such that the amount deposited therein shall equal the 2019 Reserve Requirement following issuance of the Parity Bonds, (ii) a deposit to a reserve account for the Parity Bonds (and such other series of Parity Bonds identified by the City) in an amount defined in such Supplemental Agreement, as long as such Supplemental Agreement expressly declares that the Owners of such Parity Bonds will have no interest in or claim to the 2019 Reserve Fund and that the Owners of the Bonds covered by the 2019 Reserve Fund will have no interest in or claim to such other reserve account or (iii) no deposit to either the 2019 Reserve Fund or another reserve account as long as such Supplemental Agreement expressly declares that the Owners of such Parity Bonds will have no interest in or claim to the 2019 Reserve Fund or any other reserve account.

(D) Certificates. The City shall deliver to the Fiscal Agent an Officer's Certificate certifying that the conditions precedent to the issuance of such Parity Bonds set forth in subsections (A), (B) and (C) of this Section 3.05 have been satisfied.

Nothing in this Section 3.05 shall prohibit the City from issuing any other bonds or otherwise incurring debt secured by a pledge of the Special Tax Revenues subordinate to the pledge thereof under Section 3.02 of this Agreement.

ARTICLE IV

PROCEEDS, FUNDS AND ACCOUNTS

Section 4.01. Application of 2019 Bond Proceeds. On the Closing Date, the Original Purchaser will wire (i) the amount of \$_____ to The Bank of New York Mellon Trust Company, N.A., in its capacity as Prior Bonds Fiscal Agent, for application as set forth in the Irrevocable Refunding Instructions for the purpose of defeasing, paying and redeeming the outstanding Prior Bonds and (ii) the amount of \$_____ to the Fiscal Agent, representing the purchase price of the 2019 Bonds of \$_____ (calculated as the initial principal amount of the 2019 Bonds, plus an original issue premium (\$_____), less an underwriter's discount (\$_____)) and less the amount identified in clause (i) of this sentence). Upon receipt of the amount identified in clause (ii) of the previous sentence, the Fiscal Agent shall deposit such Proceeds into the "Bond Proceeds Fund", which fund is hereby established as a separate fund to be held by the Fiscal Agent. Immediately thereafter on the Closing Date the Fiscal Agent shall deposit or transfer the Proceeds from the Bond Proceeds Fund as follows:

- (i) deposit \$_____ into the Costs of Issuance Fund, and
- (ii) deposit \$_____ into the 2019 Reserve Fund, which amount is equal to the 2019 Reserve Requirement.

Following the above transfers, the Fiscal Agent shall close the Bond Proceeds Fund.

Section 4.02. Costs of Issuance Fund.

(A) Establishment of Costs of Issuance Fund. The Costs of Issuance Fund is hereby established as a separate fund to be held by the Fiscal Agent, to the credit of which a deposit shall be made as required by Section 4.01. Moneys in the Costs of Issuance Fund shall be held by the Fiscal Agent for the benefit of the City and shall be disbursed as provided in subsection (B) of this Section for the payment or reimbursement of Costs of Issuance.

(B) Disbursement. Amounts in the Costs of Issuance Fund shall be disbursed from time to time to pay Costs of Issuance, as set forth in a requisition substantially in the form of Exhibit B hereto, executed by the Finance Director, containing respective amounts to be paid to the designated payees and delivered to the Fiscal Agent. Each such requisition shall be sufficient evidence to the Fiscal Agent of the facts stated therein and the Fiscal Agent shall have no duty to confirm the accuracy of such facts.

(C) Investment. Moneys in the Costs of Issuance Fund shall be invested and deposited by the Fiscal Agent under Section 6.01. Investment earnings and profits resulting from such investment shall be retained by the Fiscal Agent in the Costs of Issuance Fund to be used for the purposes of such fund.

(D) Closing of Fund. The Fiscal Agent shall maintain the Costs of Issuance Fund for a period of 90 days from the Closing Date and then the Fiscal Agent shall transfer any moneys remaining therein, including any investment earnings thereon, to the City for deposit in the Bond Fund to pay interest on the 2019 Bonds on the next Interest Payment Date.

Section 4.03. 2019 Reserve Fund.

(A) Establishment of Fund. The 2019 Reserve Fund is hereby established as a separate fund to be held by the Fiscal Agent to the credit of which the Fiscal Agent shall deposit the amount specified in Section 4.01(ii), which deposit, as of the Closing Date, is equal to the initial 2019 Reserve Requirement.

(B) Use of 2019 Reserve Fund. Except as otherwise provided in this Section, all amounts deposited in the 2019 Reserve Fund shall be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Bond Fund in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal of, and interest and any premium on, the 2019 Bonds and any 2019 Related Parity Bonds or, in accordance with the provisions of this Section, for the purpose of redeeming 2019 Bonds and any 2019 Related Parity Bonds from the Bond Fund. Whenever a transfer is made from the 2019 Reserve Fund to the Bond Fund due to a deficiency in the Bond Fund for payment of the principal of, and interest and any premium on, the 2019 Bonds and any 2019 Related Parity Bonds, the Fiscal Agent shall provide written notice thereof to the Finance Director, specifying the amount withdrawn.

(C) Transfer of Excess of Reserve Requirement. Whenever, on or before any Interest Payment Date, or on any other date at the request of the Finance Director, the amount in the 2019 Reserve Fund exceeds the 2019 Reserve Requirement, the Fiscal Agent shall transfer an amount equal to the excess from the 2019 Reserve Fund to the Bond Fund, to be used to pay interest on the 2019 Bonds and any 2019 Related Parity Bonds on the next Interest Payment Date.

(D) Transfer for Rebate Purposes. Amounts in the 2019 Reserve Fund shall be withdrawn for purposes of making payment to the federal government to comply with Section 5.11, upon receipt by the Fiscal Agent of an Officer's Certificate specifying the amount to be withdrawn and to the effect that such amount is needed for rebate purposes; *provided, however*, that no amounts in the 2019 Reserve Fund shall be used for rebate unless the amount in the 2019 Reserve Fund following such withdrawal equals the 2019 Reserve Requirement.

(E) Transfer When Balance Exceeds Outstanding Bonds. Whenever the balance in the 2019 Reserve Fund exceeds the amount required to redeem or pay the Outstanding 2019 Bonds and all Outstanding 2019 Related Parity Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent shall, upon the written request of the Finance Director, transfer any cash or Permitted Investments in the 2019 Reserve Fund to the Bond Fund to be applied, on the redemption date to the payment and redemption, in accordance with Section 2.03 and the provisions of the Supplemental Agreement related to the 2019 Related Parity Bonds, as applicable, of all of the Outstanding 2019 Bonds and Outstanding 2019 Related Parity Bonds. In the event that the amount so transferred from the 2019 Reserve Fund to the Bond Fund exceeds the amount required to pay and redeem the Outstanding 2019 Bonds and Outstanding 2019 Related Parity Bonds, the balance in the 2019 Reserve Fund shall be transferred to the Finance Director to be used by the City for any lawful purpose.

Notwithstanding the provisions of the first paragraph of this Section 4.03(E), no amounts shall be transferred from the 2019 Reserve Fund under this Section 4.03(E) until after: (i) the calculation of any amounts due to the federal government under Section 5.11 and withdrawal of

any such amount under Section 4.03(D) for purposes of making such payment to the federal government; and (ii) payment of any fees and expenses due to the Fiscal Agent.

(F) Transfer Upon Special Tax Prepayment. Whenever Special Taxes are prepaid and 2019 Bonds or any 2019 Related Parity Bonds are to be redeemed with the proceeds of such prepayment pursuant to Section 2.03(A)(iii) or a Supplemental Agreement related to any 2019 Related Parity Bonds, a proportionate amount in the 2019 Reserve Fund (determined on the basis of the principal of 2019 Bonds and 2019 Related Parity Bonds to be redeemed and the then-Outstanding principal of the 2019 Bonds and 2019 Related Parity Bonds, but in any event not in excess of the amount that will leave the balance in the 2019 Reserve Fund following the proposed redemption equal to the 2019 Reserve Requirement) shall be transferred on the Business Day prior to the redemption date by the Fiscal Agent to the Bond Fund to be applied to the redemption of the 2019 Bonds pursuant to Section 2.03(A)(iii) or a Supplemental Agreement related to any 2019 Related Parity Bonds. The Finance Director shall deliver to the Fiscal Agent an Officer's Certificate specifying any amount to be so transferred, and the Fiscal Agent may rely on any such Officer's Certificate.

(G) Investment. Moneys in the 2019 Reserve Fund shall be invested by the Fiscal Agent under Section 6.01.

(H) Qualified Reserve Account Credit Instruments. The City shall have the right at any time to direct the Fiscal Agent to release funds from the 2019 Reserve Fund, in whole or in part, by tendering to the Fiscal Agent: (i) a Qualified Reserve Account Credit Instrument, and (ii) an opinion of Bond Counsel stating that neither the release of such funds nor the acceptance of such Qualified Reserve Account Credit Instrument will cause interest on the 2019 Bonds or any 2019 Related Parity Bonds the interest on which is excluded from gross income of the owners thereof for federal income tax purposes to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Fiscal Agent, and upon delivery by the City to the Fiscal Agent of a written calculation of the amount permitted to be released from the 2019 Reserve Fund (upon which calculation the Fiscal Agent may conclusively rely), the Fiscal Agent shall transfer such funds from the 2019 Reserve Fund to the Improvement Fund or the Bond Fund to be used for the purposes thereof, as directed in writing by an Authorized Officer. The Fiscal Agent shall comply with all documentation relating to a Qualified Reserve Account Credit Instrument as shall be required to maintain such Qualified Reserve Account Credit Instrument in full force and effect and as shall be required to receive payments thereunder in the event and to the extent required to make any payment when and as required under this Section. Upon the scheduled expiration of any Qualified Reserve Account Credit Instrument, the City shall either (i) replace such Qualified Reserve Account Credit Instrument with a new Qualified Reserve Account Credit Instrument, or (ii) deposit or cause to be deposited with the Fiscal Agent an amount of funds equal to the 2019 Reserve Requirement, to be derived from the first available Special Tax Revenues. If the 2019 Reserve Requirement is being maintained partially in cash and partially with a Qualified Reserve Account Credit Instrument, the cash shall be first used to meet any deficiency which may exist from time to time in the Bond Fund with respect to the 2019 Bonds and any 2019 Related Parity Bonds. If the 2019 Reserve Requirement is being maintained with two or more Qualified Reserve Account Credit Instruments, any draw to meet a deficiency which may exist from time to time in the Bond Fund with respect to the 2019 Bonds and any 2019 Related Parity Bonds shall be pro-rata with respect to each such instrument.

In the event that a Qualified Reserve Account Credit Instrument is available to be drawn upon for only one or more particular series of Bonds, a separate subaccount in the 2019

Reserve Fund may be established for such series, and the calculation of the Reserve Requirement with respect to any 2019 Related Parity Bonds shall exclude the debt service on such issue of 2019 Related Parity Bonds.

The City will have no obligation to replace a Qualified Reserve Account Credit Instrument or to fund the 2019 Reserve Fund with cash if, at any time that the 2019 Bonds are Outstanding, the Qualified Reserve Account Credit Instrument (or its provider) is downgraded or the provider becomes insolvent, if there is an unscheduled termination of the Qualified Reserve Account Credit Instrument or if for any reason insufficient amounts are available to be drawn upon under the Qualified Reserve Account Credit Instrument; provided, however, that the City shall reimburse the provider, in accordance with the terms of the Qualified Reserve Account Credit Instrument, for any draws made thereon.

The City and the Fiscal Agent shall comply with the terms of the Qualified Reserve Account Credit Instrument as shall be required to receive payments thereunder in the event and to the extent required under this Section.

Section 4.04. Bond Fund.

(A) Establishment of Bond Fund. The Bond Fund is hereby established as a separate fund to be held by the Fiscal Agent to the credit of which deposits shall be made as required by Section 4.02, Section 4.03 and Section 4.05 and as otherwise set forth in this Agreement. Moneys in the Bond Fund shall be held by the Fiscal Agent for the benefit of the City and the Owners of the Bonds, and shall be disbursed for the payment of the principal of, and interest and any premium on, the Bonds as provided below.

(B) Disbursements. At least ten (10) Business Days before each Interest Payment Date, the Fiscal Agent shall notify the Finance Director in writing as to the principal and premium, if any, and interest due on the Bonds on the next Interest Payment Date (whether as a result of scheduled principal of and interest on the Bonds, optional redemption of the Bonds or a mandatory sinking fund redemption). On each Interest Payment Date, the Fiscal Agent shall withdraw from the Bond Fund and pay to the Owners of the Bonds the principal of, and interest and any premium, due and payable on such Interest Payment Date on the Bonds. Notwithstanding the foregoing, amounts in the Bond Fund as a result of a transfer pursuant to clause (ii) of Section 4.05(A) shall be immediately disbursed by the Fiscal Agent to pay past due amounts owing on the Bonds.

At least five (5) Business Days prior to each Interest Payment Date, the Fiscal Agent shall determine if the amounts then on deposit in the Bond Fund are sufficient to pay the debt service due on the Bonds on the next Interest Payment Date. In the event that amounts in the Bond Fund are insufficient for such purpose, the Fiscal Agent promptly shall notify the Finance Director by telephone (and confirm in writing) of the amount of the insufficiency.

In the event that amounts in the Bond Fund are insufficient for the purpose set forth in the preceding paragraph with respect to any Interest Payment Date, the Fiscal Agent shall do the following:

- (i) Withdraw from the 2019 Reserve Fund, in accordance with the provisions of Section 4.03, to the extent of any funds or Permitted Investments therein, amounts to cover the amount of such Bond Fund insufficiency related to

the 2019 Bonds and any 2019 Related Parity Bonds. Amounts so withdrawn from the 2019 Reserve Fund shall be deposited in the Bond Fund.

(ii) Withdraw from the debt service reserve fund, if any, established under a Supplemental Agreement related to Parity Bonds that are not 2019 Related Parity Bonds, to the extent of any funds or Permitted Investments therein, amounts to cover the amount of such Bond Fund insufficiency related to such Parity Bonds. Amounts so withdrawn from any such debt service reserve fund shall be deposited in the Bond Fund.

If, after the foregoing transfers and application of such funds for their intended purposes, there are insufficient funds in the Bond Fund to make the payments provided for in the second sentence of the first paragraph of this Section 4.04(B), the Fiscal Agent shall apply the available funds first to the payment of interest on the Bonds, then to the payment of principal due on the Bonds other than by reason of sinking payments, if any, and then to payment of principal due on the Bonds by reason of sinking payments. If there are insufficient funds to make the corresponding payment for all of the then-Outstanding Bonds, then each such payment shall be made ratably to the Owners of the Bonds based on the then-Outstanding principal amount of the Bonds, without regard to the existence of a funded debt service reserve. Any sinking payment not made as scheduled shall be added to the sinking payment to be made on the next sinking payment date.

(C) *Investment.* Moneys in the Bond Fund shall be invested under Section 6.01. Investment earnings and profits resulting from such investment shall be retained in the Bond Fund.

(D) *Deficiency.* If at any time the Fiscal Agent has actual knowledge that there is a danger of deficiency in the Bond Fund and that the Fiscal Agent may be unable to pay Debt Service on the Bonds in a timely manner, the Fiscal Agent shall report to the Finance Director such fact. The City covenants to increase the levy of the Special Taxes in the next Fiscal Year (subject to the maximum amount authorized by the Resolution of Formation) in accordance with the procedures set forth in the Act for the purpose of curing Bond Fund deficiencies.

(E) *Excess.* Any excess moneys remaining in the Bond Fund, following the payment of Debt Service on the Bonds on any September 1, shall be transferred to the Special Tax Fund.

Section 4.05. Special Tax Fund.

(A) *Establishment of Special Tax Fund.* The Special Tax Fund is hereby established as a separate fund to be held by the Fiscal Agent, to the credit of which the Fiscal Agent shall deposit amounts received from or on behalf of the City consisting of Special Tax Revenues and amounts transferred from the Administrative Expense Fund and the Bond Fund. The City shall promptly remit any Special Tax Revenues received by it to the Fiscal Agent for deposit by the Fiscal Agent to the Special Tax Fund.

Notwithstanding the foregoing,

(i) any Special Tax Revenues constituting payment of the portion of the Special Tax levy for Administrative Expenses shall be separately identified by the Finance Director and shall be deposited by the Fiscal Agent in the Administrative Expense Fund;

(ii) any Special Tax Revenues constituting the collection of delinquencies in payment of Special Taxes shall be separately identified by the Finance Director and shall be disposed of by the Fiscal Agent first, for transfer to the Bond Fund to pay any past due debt service on the Bonds; second, for transfer to the 2019 Reserve Fund to the extent needed to increase the amount then on deposit in the 2019 Reserve Fund up to the 2019 Reserve Requirement and for transfer to the reserve account for any Parity Bonds that are not 2019 Related Parity Bonds to the extent needed to increase the amount then on deposit in such reserve account up to the amount then required to be deposited therein (and in the event the collection of delinquencies in payment of Special Taxes are not sufficient for the purposes of this clause, such amounts shall be applied to the 2019 Reserve Fund and any other reserve accounts ratably based on the then-Outstanding principal amount of the Bonds); and third, to be held in the Special Tax Fund for use as described in Section 4.05(B) below. Moneys in the Special Tax Fund shall be held by the Fiscal Agent for the benefit of the City and Owners of the Bonds, shall be disbursed as provided below and, pending disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

(B) Disbursements. On the fifth Business Day prior to each Interest Payment Date, the Fiscal Agent shall withdraw from the Special Tax Fund and transfer the following amounts in the following order of priority:

(i) to the Bond Fund an amount, taking into account any amounts then on deposit in the Bond Fund and any expected transfers from the 2019 Reserve Fund and any reserve account for Parity Bonds that are not 2019 Related Parity Bonds such that the amount in the Bond Fund equals the principal (including any sinking payment), premium, if any, and interest due on the Bonds on such Interest Payment Date and any past due principal or interest on the Bonds not theretofore paid from a transfer described in subparagraph (ii) of the second paragraph of Section 4.05(A), and

(ii) without preference or priority (a) to the 2019 Reserve Fund an amount, taking into account amounts then on deposit in the 2019 Reserve Fund, such that the amount in the 2019 Reserve Fund is equal to the 2019 Reserve Requirement and (b) to the reserve account for any Parity Bonds that are not 2019 Related Parity Bonds, taking into account amounts then on deposit in the such reserve account, such that the amount in such reserve account is equal to the amount required to be on deposit therein (and in the event that amounts in the Special Tax Fund are not sufficient for the purposes of this paragraph, such amounts shall be applied to the 2019 Reserve Fund and any other reserve accounts ratably based on the then-Outstanding principal amount of the Bonds).

On each September 2, any amounts remaining in the Special Tax Fund shall be transferred to the Administrative Expense Fund.

(C) Investment. Moneys in the Special Tax Fund shall be invested and deposited by the Fiscal Agent under Section 6.01. Investment earnings and profits resulting from such investment and deposit shall be retained in the Special Tax Fund to be used for the purposes thereof.

Section 4.06. Administrative Expense Fund.

(A) Establishment of Administrative Expense Fund. The Administrative Expense Fund is hereby established as a separate fund to be held by the Fiscal Agent, to the credit of which deposits shall be made as required by Section 4.05(A) and (B). Moneys in the Administrative Expense Fund shall be held by the Fiscal Agent for the benefit of the City, and shall be disbursed as provided below.

(B) Disbursement. Amounts in the Administrative Expense Fund shall be withdrawn by the Fiscal Agent and paid to the City or its order upon receipt by the Fiscal Agent of an Officer's Certificate, in substantially the form of Exhibit C hereto, stating the amount to be withdrawn, that such amount is to be used to pay an Administrative Expense or a Cost of Issuance and the nature of such Administrative Expense or such Cost of Issuance. Amounts deposited to the Administrative Expense Fund shall be separately identified at all times, and shall be expended for purposes of the Administrative Expense Fund prior to the use of amounts transferred to the Administrative Expense Fund from the Special Tax Fund pursuant to Sections 4.05(A) and (B).

Annually, on the last day of each Fiscal Year, the Fiscal Agent shall withdraw from the Administrative Expense Fund and transfer to the Special Tax Fund any amount in excess of that which is needed to pay any Administrative Expenses incurred but not yet paid, and which are not otherwise encumbered, as identified by the Finance Director in an Officer's Certificate.

(C) Investment. Moneys in the Administrative Expense Fund shall be invested by the Fiscal Agent under Section 6.01. Interest earnings and profits resulting from such investment shall be retained by the Fiscal Agent in the Administrative Expense Fund to be used for the purposes of such fund.

Section 4.07. 2006 Unspent Bond Proceeds Fund.

(A) Establishment of 2006 Unspent Bond Proceeds Fund. The 2006 Unspent Bond Proceeds Fund is hereby established as a separate fund to be held by the Fiscal Agent, to the credit of which \$[3,196,373], constituting all of the proceeds of the Prior Bonds in the Improvement Fund held by the Prior Fiscal Agent, shall be transferred from the Prior Fiscal Agent to the Fiscal Agent and deposited in the 2006 Unspent Bond Proceeds Fund. Moneys in the 2006 Unspent Bond Proceeds Fund shall be held by the Fiscal Agent for the benefit of the City, and shall be disbursed as provided below.

(B) Disbursement. Amounts in the 2006 Unspent Bond Proceeds Fund shall be disbursed by the Fiscal Agent to the City or its order upon receipt by the Fiscal Agent of, and in accordance with, a Written Request of the City, in substantially the form of Exhibit D hereto, and shall be expended by the City in a manner consistent with the uses and purposes set forth in the Resolution of Formation. The City shall comply with the covenants set forth in this Section with respect to its use of the moneys in the 2006 Unspent Bond Proceeds Fund.

(C) Closure. Moneys in the 2006 Unspent Bond Proceeds Fund shall be expended by _____, 20__ [6 months after closing]. On _____, 20__ [6 months after closing], the Trustee shall transfer the remaining moneys in the 2006 Unspent Bond Proceeds Fund to the Bond Fund and the 2006 Unspent Bond Proceeds Fund shall be closed.

Section 4.08. Improvement Fund.

(A) Establishment of Improvement Fund. The Improvement Fund shall be established as a separate fund to be held by the Fiscal Agent at such time as a transfer to such fund is required under Section 4.03(H).

Moneys in the Improvement Fund shall be disbursed, except as otherwise provided in subsection (D) of this Section, for the payment or reimbursement of costs of the Project.

(B) Procedure for Disbursement. Disbursements from the Improvement Fund shall be made by the Fiscal Agent upon receipt of an Officer's Certificate substantially in the form of Exhibit E attached hereto which shall:

(i) set forth the amount required to be disbursed, the purpose for which the disbursement is to be made (which shall be for payment of a Project cost or to reimburse expenditures of the City or any other party for Project costs previously paid), and the person to which the disbursement is to be paid; and

(ii) certify that no portion of the amount then being requested to be disbursed was set forth in any Officer's Certificate previously filed requesting disbursement.

Each such requisition shall be sufficient evidence to the Fiscal Agent of the facts stated therein and the Fiscal Agent shall have no duty to confirm the accuracy of such facts.

(C) Investment. Moneys in the Improvement Fund shall be invested in accordance with Section 6.01. Interest earnings and profits from such investment shall be retained in the Improvement Fund to be used for the purpose of such fund.

(D) Closing of Fund. When the City believes that the Project has been completed, the City may file an Officer's Certificate directing the Fiscal Agent to close the Improvement Fund. Upon the filing of an Officer's Certificate stating that the Project has been completed and that all costs of the Project have been paid or are not required to be paid from the Improvement Fund, the Fiscal Agent shall transfer the amount, if any, remaining in the Improvement Fund to the Bond Fund and the Improvement Fund shall be closed. Moneys transferred from the Improvement Fund to the Bond Fund shall be used to pay Debt Service on the 2019 Bonds in the manner specified by the City in an Officer's Certificate.

ARTICLE V

COVENANTS

Section 5.01. Collection of Special Tax Revenues. The City shall comply with all requirements of the Act so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of delinquent Special Taxes.

(A) Processing. On or within five (5) Business Days of each June 1, the Fiscal Agent shall provide the Finance Director with a notice stating (i) the amount then on deposit in the Bond Fund and the 2019 Reserve Fund and any reserve account for Parity Bonds that are

not 2019 Related Parity Bonds that is held by the Fiscal Agent, and (ii) if the amount in the 2019 Reserve Fund is less than the 2019 Reserve Requirement or the amount in such other reserve account held by the Fiscal Agent is less than its required amount, informing the City that replenishment of the 2019 Reserve Fund or reserve account is necessary, informing the City of the amount (if any) that the City needs to provide for replenishment of the 2019 Reserve Fund or such other reserve account so that the balance therein equals the 2019 Reserve Requirement or applicable reserve, as applicable. The receipt of or failure to receive such notice by the Finance Director shall in no way affect the obligations of the Finance Director under the following two paragraphs and the Fiscal Agent shall not be liable for failure to provide such notices to the Finance Director. Upon receipt of such notice, the Finance Director shall communicate with the Auditor to ascertain the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits or combinations during the preceding and then current year.

(B) Levy. The Finance Director shall effect the levy of the Special Taxes each Fiscal Year in accordance with the Ordinance by each August 1 that the Bonds are outstanding, or otherwise such that the computation of the levy is complete before the final date on which Auditor will accept the transmission of the Special Tax amounts for the parcels within the CFD for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the Finance Director shall prepare or cause to be prepared, and shall transmit to the Auditor, such data as the Auditor requires to include the levy of the Special Taxes on the next real property tax roll.

(C) Computation. The Finance Director shall fix and levy the amount of Special Taxes within the CFD required for the timely payment of principal of and interest on any outstanding Bonds of the CFD becoming due and payable during the ensuing calendar year, including any necessary replenishment or expenditure of the 2019 Reserve Fund and any reserve account for Parity Bonds that are not 2019 Related Parity Bonds and an amount estimated to be sufficient to pay the Administrative Expenses, including amounts necessary to discharge any rebate obligation, during such year, taking into account the balances in the applicable funds established under this Agreement and in the Special Tax Fund. The Special Taxes so levied shall not exceed the authorized amounts as provided in the proceedings under the Resolution of Formation.

(D) Collection. Except as set forth in the Ordinance, Special Taxes shall be payable and be collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the ad valorem taxes on real property.

(E) Employment of Consultants. The Finance Director is hereby authorized to employ consultants to assist in computing the levy of the Special Taxes hereunder and any reconciliation of amounts levied to amounts received. The fees and expenses of such consultants and the costs and expenses of the Finance Director (including a charge for City staff time) in conducting its duties hereunder shall be an Administrative Expense hereunder.

Section 5.02. Covenant to Foreclose. Under the Act, the City hereby covenants with and for the benefit of the Owners of the Bonds that it will order, and cause to be commenced as hereinafter provided, and thereafter diligently prosecute to judgment (unless such delinquency is theretofore brought current), an action in the superior court to foreclose the lien of any delinquent Special Tax or installment thereof. The Finance Director shall notify the City

Attorney of any such delinquency of which the Finance Director is aware, and the City Attorney shall commence, or cause to be commenced, such proceedings.

On or about June 15 of each Fiscal Year, the Finance Director shall compare the amount of Special Taxes theretofore levied in the CFD and to the amount of Special Tax Revenues theretofore received by the City, and:

(A) Individual Delinquencies. If the Finance Director determines that any single parcel subject to the Special Tax in the CFD is delinquent in the payment of two or more installments of Special Taxes, then the Finance Director shall send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings shall be commenced by the City within 90 days of such determination. Notwithstanding the foregoing, in its sole discretion, the Finance Director may defer such action if (1) the Special Taxes are covered by the County's Teeter Plan, or an equivalent procedure, but only to the extent that the City cannot be required to repay the County for amounts apportioned by the County to the City that represent delinquent Special Taxes, (2) the amount in the 2019 Reserve Fund is at least equal to the 2019 Reserve Requirement, and (3) the amount in the reserve account for any Parity Bonds that are not 2019 Related Parity Bonds is at least equal to the required amount.

(B) Aggregate Delinquencies. If the Finance Director determines that the total amount of delinquent Special Tax for the prior Fiscal Year for the entire CFD, (including the total of delinquencies under subsection (A) above), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year, determined by reference to the latest available secured property tax roll of the County, the Finance Director shall notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and shall commence foreclosure proceedings within 90 days of such determination against each parcel of land in the CFD with a Special Tax delinquency.

The Finance Director and the City Attorney, as applicable, are hereby authorized to employ counsel to conduct any such foreclosure proceedings. The fees and expenses of any such counsel (including a charge for City staff time) in conducting foreclosure proceedings shall be an Administrative Expense hereunder.

Section 5.03. Punctual Payment. The City will punctually pay or cause to be paid the principal of, and interest and any premium on, the Bonds when and as due in strict conformity with the terms of this Agreement and any Supplemental Agreement, and it will faithfully observe and perform all of the conditions covenants and requirements of this Agreement and all Supplemental Agreements and of the Bonds.

Section 5.04. Extension of Time for Payment. In order to prevent any accumulation of claims for interest after maturity, the City shall not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any of the Bonds and shall not, directly or indirectly, be a party to the approval of any such arrangement by purchasing or funding said claims for interest or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the City, such claim for interest so extended or funded shall not be entitled, in case of default hereunder, to the benefits of this

Agreement, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

Section 5.05. Against Encumbrances. The City will not encumber, pledge or place any charge or lien upon any of the Special Tax Revenues or other amounts pledged to the Bonds superior to or on a parity with the pledge and lien herein created for the benefit of the Bonds, or their Owners, except as permitted by this Agreement.

Section 5.06. Books and Records.

(A) City. The City will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the City, in which complete and correct entries shall be made of all transactions relating to the Special Tax Revenues. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Fiscal Agent and the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

(B) Fiscal Agent. The Fiscal Agent will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Fiscal Agent, in which complete and correct entries shall be made of all transactions made by it relating to the expenditure of amounts disbursed from the funds, and, if any, accounts in such funds held by the Fiscal Agent hereunder. Such books of record and accounts shall at all times during the Fiscal Agent's business hours be subject to the inspection of the City and the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing upon reasonable prior notice.

Section 5.07. Protection of Security and Rights of Owners. The City will preserve and protect the security of the Bonds and the rights of the Owners, and will warrant and defend their rights against all claims and demands of all persons. From and after the delivery of any of the Bonds by the City, the Bonds shall be incontestable by the City.

Section 5.08. Further Assurances. The City will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Agreement, and for the better assuring and confirming unto the Owners of the rights and benefits provided in this Agreement.

Section 5.09. Private Activity Bond Limitations. The City shall assure that the proceeds of the 2019 Bonds are not so used as to cause the 2019 Bonds to satisfy the private business tests of section 141(b) of the Tax Code or the private loan financing test of section 141(c) of the Code.

Section 5.10. Federal Guarantee Prohibition. The City shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the 2019 Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Tax Code.

Section 5.11. Rebate Requirement. The City shall take any and all actions necessary to assure compliance with section 148(f) of the Tax Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the 2019 Bonds. The Finance Director shall take note of any investment of monies hereunder in excess of the yield on the 2019 Bonds, and shall take such actions as are

necessary to ensure compliance with this Section 5.11, such as increasing the portion of the Special Tax levy for Administrative Expenses as appropriate to have funds available in the Administrative Expense Fund to satisfy any rebate liability under this Section. If necessary to satisfy its obligations under this Section 5.11, the City may use:

(A) Earnings on the 2019 Reserve Fund if the amount on deposit in the 2019 Reserve Fund, following the proposed transfer, is equal to the 2019 Reserve Requirement, and earnings on amounts in any other reserve account for Parity Bonds that are not 2019 Related Parity Bonds to the extent permitted by the Supplemental Agreement;

(B) Amounts on deposit in the Administrative Expense Fund; and

(C) Any other funds available to the CFD, including amounts advanced by the City, in its sole discretion, to be repaid by the CFD as soon as practicable from amounts described in the preceding clauses (A) and (B).

Section 5.12. No Arbitrage. The City shall not take, or permit or suffer to be taken by the Fiscal Agent or otherwise, any action with respect to the proceeds of the 2019 Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the 2019 Bonds would have caused the 2019 Bonds to be “arbitrage bonds” within the meaning of section 148 of the Tax Code.

Section 5.13. Yield of the 2019 Bonds. In determining the yield of the 2019 Bonds to comply with Sections 5.11 and 5.12, the City will take into account redemption (including premium, if any) in advance of maturity based on the reasonable expectations of the City, as of the Closing Date, regarding prepayments of Special Taxes and use of prepayments for redemption of the 2019 Bonds, without regard to whether or not prepayments are received or 2019 Bonds redeemed.

Section 5.14. Maintenance of Tax-Exemption. The City shall take all actions necessary to assure the exclusion of interest on the 2019 Bonds from the gross income of the Owners of the 2019 Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the date of issuance of the 2019 Bonds.

Section 5.15. Continuing Disclosure. The City hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Agreement, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an event of default for the purposes of this Agreement. However, any Owner or Beneficial Owner of the 2019 Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Section 5.16. Limits on Special Tax Waivers and Bond Tenders. The City covenants not to exercise its rights under the Act to waive delinquency and redemption penalties related to the Special Taxes or to declare a Special Tax penalties amnesty program if to do so would materially and adversely affect the interests of the Owners of the Bonds and further covenants not to permit the tender of Bonds in payment of any Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the City having insufficient Special Tax Revenues to pay the principal of and interest on the Bonds and any Parity Bonds remaining Outstanding following such tender.

Section 5.17. City Bid at Foreclosure Sale. The City will not bid at a foreclosure sale of property in respect of delinquent Special Taxes, unless it expressly agrees to take the property subject to the lien for Special Taxes and that the Special Taxes levied on the property are payable while the City owns the property.

Section 5.18. Reserved.

Section 5.19. Amendment of Rate and Method. The City shall not initiate proceedings under the Act to modify the Rate and Method if such modification would adversely affect the security for the Bonds. If an initiative is adopted that purports to modify the Rate and Method in a manner that would adversely affect the security for the Bonds, the City shall, to the extent permitted by law, commence and pursue reasonable legal actions to prevent the modification of the Rate and Method in a manner that would adversely affect the security for the Bonds.

ARTICLE VI

INVESTMENTS; LIABILITY OF THE CITY

Section 6.01. Deposit and Investment of Moneys in Funds.

(A) **General.** Moneys in any fund or account created or established by this Agreement and held by the Fiscal Agent shall be invested by the Fiscal Agent in Permitted Investments, which in any event by their terms mature prior to the date on which such moneys are required to be paid out hereunder, as directed pursuant to an Officer's Certificate filed with the Fiscal Agent at least two (2) Business Days in advance of the making of such investments. In the absence of any such Officer's Certificate, the Fiscal Agent shall hold such funds uninvested. The Finance Director shall make note of any investment of funds hereunder in excess of the yield on the Bonds so that appropriate actions can be taken to assure compliance with Section 5.11.

(B) **Moneys in Funds.** Moneys in any fund or account created or established by this Agreement and held by the Finance Director shall be invested by the Finance Director in any Permitted Investment or in any other lawful investment for City funds, which in any event by its terms matures prior to the date on which such moneys are required to be paid out hereunder. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account, subject, however, to the requirements of this Agreement for transfer of investment earnings and profits resulting from investment of amounts in funds and accounts. Whenever in this Agreement any moneys are required to be transferred by the City to the Fiscal Agent, such transfer may be accomplished by transferring a like amount of Permitted Investments.

(C) **Actions of Officials.** The Fiscal Agent and its affiliates or the Finance Director may act as sponsor, advisor, depository, principal or agent in the acquisition or disposition of any investment. Neither the Fiscal Agent nor the Finance Director shall incur any liability for losses arising from any investments made pursuant to this Section. The Fiscal Agent shall not be required to determine the legality of any investments.

(D) **Valuation of Investments.** Except as otherwise provided in the next sentence, all investments of amounts deposited in any fund or account created by or pursuant to this Agreement, or otherwise containing gross proceeds of the Bonds (within the meaning of section 148 of the Tax Code) shall be acquired, disposed of, and valued (as of the date that valuation is required by this Agreement or the Tax Code) at Fair Market Value. Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under the applicable provisions of the Tax Code and (unless valuation is undertaken at least annually) investments in the subaccounts within the 2019 Reserve Fund and any reserve account established for Parity Bonds shall be valued at their present value (within the meaning of section 148 of the Tax Code). The Fiscal Agent shall not be liable for verification of the application of such sections of the Tax Code or for any determination of Fair Market Value or present value and may conclusively rely upon an Officer's Certificate as to such valuations.

(E) **Commingled Money.** Investments in any and all funds and accounts may be commingled in a separate fund or funds for purposes of making, holding and disposing of investments, notwithstanding provisions herein for transfer to or holding in or to the credit of

particular funds or accounts of amounts received or held by the Fiscal Agent or the Finance Director hereunder, provided that the Fiscal Agent or the Finance Director, as applicable, shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in this Agreement.

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

(G) Sale of Investments. The Fiscal Agent or the Finance Director, as applicable, shall sell at Fair Market Value, or present for redemption, any investment security whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such investment security is credited and neither the Fiscal Agent nor the Finance Director shall be liable or responsible for any loss resulting from the acquisition or disposition of such investment security in accordance herewith.

Section 6.02. Liability of City.

(A) General. The City shall not incur any responsibility in respect of the Bonds or this Agreement other than in connection with the duties or obligations explicitly herein or in the Bonds assigned to or imposed upon it. The City shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful default. The City shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements of the Fiscal Agent herein or of any of the documents executed by the Fiscal Agent in connection with the Bonds, or as to the existence of a default or event of default thereunder.

(B) Reliance. In the absence of bad faith, the City, including the Finance Director, may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the City by the Fiscal Agent or an Independent Financial Consultant and conforming to the requirements of this Agreement on their face. The City, including the Finance Director, shall not be liable for any error of judgment made in good faith unless it shall be proved that it was negligent in ascertaining the pertinent facts. The City may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, warrant, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The City may consult with counsel, who may be the City Attorney, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

(C) No General Liability. No provision of this Agreement shall require the City to expend or risk its own general funds or otherwise incur any financial liability (other than with respect to the Special Tax Revenues) in the performance of any of its obligations hereunder, or

in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(D) **Owner of Bonds.** The City shall not be bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Section 6.03. Employment of Agents by City. In order to perform its duties and obligations hereunder, the City may employ such persons or entities as it deems necessary or advisable. The City shall not be liable for any of the acts or omissions of such persons or entities employed by it in good faith hereunder, and shall be entitled to rely, and shall be fully protected in doing so, upon the opinions, calculations, determinations and directions of such persons or entities.

ARTICLE VII

THE FISCAL AGENT

Section 7.01. The Fiscal Agent.

(A) **Appointment.** The Fiscal Agent is hereby appointed as the fiscal, authentication, paying and transfer agent hereunder for the Bonds. The Fiscal Agent undertakes to perform such duties, and only such duties, as are specifically set forth in this Agreement, and no implied duties, covenants or obligations shall be read into this Agreement against the Fiscal Agent.

(B) **Merger.** Any company into which the Fiscal Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Fiscal Agent may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under the following paragraph of this Section 7.01 shall be the successor to such Fiscal Agent without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding. The Fiscal Agent shall give the Finance Director written notice of any such succession hereunder.

(C) **Removal.** Upon 30 days written notice, the City may remove the Fiscal Agent initially appointed, and any successor thereto, and may appoint a successor or successors thereto, but any such successor shall be a bank, national banking association or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. If such bank, national banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section 7.01, combined capital and surplus of such bank, national banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(D) **Resignation.** The Fiscal Agent may at any time resign by giving written notice to the City by certified mail return receipt requested, and by giving to the Owners notice by mail of such resignation. Upon receiving notice of such resignation, the City shall promptly appoint a successor Fiscal Agent by an instrument in writing. Any resignation or removal of the Fiscal Agent shall become effective upon acceptance of appointment by the successor Fiscal Agent.

(E) **No Successor.** If no appointment of a successor Fiscal Agent shall be made pursuant to the foregoing provisions of this Section 7.01 within forty-five (45) days after the Fiscal Agent shall have given to the City written notice or after a vacancy in the office of the Fiscal Agent shall have occurred by reason of its inability to act, the Fiscal Agent, at the expense of the City, or any Owner may apply to any court of competent jurisdiction to appoint a successor Fiscal Agent. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Fiscal Agent.

(F) **Court Order.** If, by reason of the judgment of any court, the Fiscal Agent is rendered unable to perform its duties hereunder, all such duties and all of the rights and powers of the Fiscal Agent hereunder shall be assumed by and vest in the Finance Director of the City in trust for the benefit of the Owners. The City covenants for the direct benefit of the Owners

that its Finance Director in such case shall be vested with all of the rights and powers of the Fiscal Agent hereunder, and shall assume all of the responsibilities and perform all of the duties of the Fiscal Agent hereunder, in trust for the benefit of the Owners of the Bonds.

Section 7.02. Liability of Fiscal Agent.

(A) General. The recitals of facts, covenants and agreements herein and in the Bonds contained shall be taken as statements, covenants and agreements of the City, and the Fiscal Agent assumes no responsibility for the correctness of the same, nor makes any representations as to the validity or sufficiency of this Agreement or of the Bonds, nor shall the Fiscal Agent incur any responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Bonds assigned to or imposed upon it. The Fiscal Agent shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Fiscal Agent assumes no responsibility or liability for any information, statement or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Bonds. All indemnifications and releases from liability granted to the Fiscal Agent hereunder shall extend to the directors, officers and employees of the Fiscal Agent.

The Fiscal Agent shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay (“unavoidable delay”) in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Fiscal Agent.

(B) Reliance. The Fiscal Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates, documents, written instructions or opinions furnished to the Fiscal Agent and conforming to the requirements of this Agreement; but in the case of any such certificates, documents, written instructions or opinions by which any provision hereof are specifically required to be furnished to the Fiscal Agent, the Fiscal Agent shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Agreement on their face. Except as provided above in this paragraph, the Fiscal Agent shall be protected and shall incur no liability in acting or proceeding, or in not acting or not proceeding, in accordance with the terms of this Agreement, upon any resolution, order, notice, request, consent or waiver, certificate, statement, affidavit, facsimile transmission, electronic mail, or other paper or document which it shall reasonably believe to be genuine and to have been adopted or signed by the proper person or to have been prepared and furnished pursuant to any provision of this Agreement, and the Fiscal Agent shall not be under any duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument.

(C) No Duty to Inquire. The Fiscal Agent shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements

of the City or the CFD herein or of any of the documents executed by the City or the CFD in connection with the Bonds, or as to the existence of a default or event of default thereunder.

(D) Errors in Judgment. The Fiscal Agent shall not be liable for any error of judgment made in good faith by a responsible officer of the Fiscal Agent unless it shall be proved that the Fiscal Agent was negligent in ascertaining the pertinent facts.

(E) No Expenditures. No provision of this Agreement shall require the Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

(F) No Action. The Fiscal Agent shall be under no obligation to exercise any of the rights or powers vested in it by this Agreement at the request or direction of any of the Owners under this Agreement unless such Owners shall have offered to the Fiscal Agent reasonable security or indemnity satisfactory to the Fiscal Agent against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

(G) Owner of Bonds. The Fiscal Agent may become the owner of the Bonds with the same rights it would have if it were not the Fiscal Agent.

Section 7.03. Information; Books and Accounts. The Fiscal Agent shall provide to the City such information relating to the Bonds and the funds and accounts maintained by the Fiscal Agent hereunder as the City shall reasonably request, including but not limited to monthly statements reporting funds held and transactions by the Fiscal Agent, including the value of any investments held by the Fiscal Agent. The Fiscal Agent will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Fiscal Agent, in which complete and correct entries shall be made of all transactions relating to the expenditure of amounts disbursed from the Bond Fund, the Special Tax Fund, the 2019 Reserve Fund, the reserve account established for any Parity Bonds that are not 2019 Related Parity Bonds and the Cost of Issuance Fund. Such books of record and accounts shall, upon reasonable notice, during business hours be subject to the inspection of the City and the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

Section 7.04. Notice to Fiscal Agent. The Fiscal Agent may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, facsimile transmission, electronic mail, written instructions, report, warrant, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The Fiscal Agent may consult with counsel, who may be counsel to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in accordance therewith.

The Fiscal Agent shall not be bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Whenever in the administration of its duties under this Agreement the Fiscal Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of willful misconduct on the part of the Fiscal Agent,

be deemed to be conclusively proved and established by an Officer's Certificate of the City, and such certificate shall be full warrant to the Fiscal Agent for any action taken or suffered under the provisions of this Agreement or any Supplemental Agreement upon the faith thereof, but in its discretion the Fiscal Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable.

The Fiscal Agent shall have the right to accept and act upon instructions, including funds transfer instructions ("Instructions") given pursuant to this Agreement and delivered using Electronic Means ("Electronic Means" shall mean the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Fiscal Agent, or another method or system specified by the Fiscal Agent as available for use in connection with its services hereunder); provided, however, that the City shall provide to the Fiscal Agent an incumbency certificate listing officers with the authority to provide such Instructions ("Authorized Officers") and containing specimen signatures of such Authorized Officers, which incumbency certificate shall be amended by the City whenever a person is to be added or deleted from the listing. If the City elects to give the Fiscal Agent Instructions using Electronic Means and the Fiscal Agent in its discretion elects to act upon such Instructions, the Fiscal Agent's understanding of such Instructions shall be deemed controlling. The City understands and agrees that the Fiscal Agent cannot determine the identity of the actual sender of such Instructions and that the Fiscal Agent shall conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Fiscal Agent have been sent by such Authorized Officer. The City shall be responsible for ensuring that only Authorized Officers transmit such Instructions to the Fiscal Agent and that the City and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the City. The Fiscal Agent shall not be liable for any losses, costs or expenses arising directly or indirectly from the Fiscal Agent's reliance upon and compliance with such Instructions notwithstanding such directions conflict or are inconsistent with a subsequent written instruction. The City agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Fiscal Agent, including without limitation the risk of the Fiscal Agent acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Fiscal Agent and that there may be more secure methods of transmitting Instructions than the method(s) selected by the City; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Fiscal Agent immediately upon learning of any compromise or unauthorized use of the security procedures.

The Fiscal Agent shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions hereof.

The Fiscal Agent may execute any of the trusts or powers hereof and perform the duties required of it hereunder either directly or by or through attorneys or agents, and shall be entitled to rely on advice of counsel concerning all matters of trust and its duty hereunder.

The permissive right of the Fiscal Agent to do things enumerated in this Agreement shall not be construed as a duty and it shall not be answerable for such actions other than as a result of its negligence or willful misconduct.

Section 7.05. Compensation; Indemnification. The City shall pay to the Fiscal Agent from time to time reasonable compensation for all services rendered as Fiscal Agent under this Agreement, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys (including the allocated costs of in-house attorneys), agents and employees, incurred in and about the performance of their powers and duties under this Agreement, but the Fiscal Agent shall not have a lien therefor on any funds at any time held by it under this Agreement. The City further agrees, to the extent permitted by applicable law, to indemnify and save the Fiscal Agent, its officers, employees, directors and agents harmless against any liabilities, costs, claims, suits, judgements, damages or expenses, including fees and expenses of its attorneys, which it may incur in the exercise and performance of its powers and duties hereunder which are not due to its negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Fiscal Agent under this Agreement, and payment of the Bonds and discharge of this Agreement.

ARTICLE VIII

MODIFICATION OR AMENDMENT

Section 8.01. Amendments Permitted.

(A) *With Consent.* This Agreement and the rights and obligations of the City and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Agreement pursuant to the affirmative vote at a meeting of Owners, or with the written consent without a meeting, of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in Section 8.04. No such modification or amendment shall (i) extend the maturity of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the City to pay the principal of, and the interest and any premium on, any Bond, without the express consent of the Owner of such Bond, or (ii) permit the creation by the City of any pledge or lien upon the Special Taxes superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as otherwise permitted by the Act, the laws of the State of California or this Agreement), or reduce the percentage of Bonds required for the amendment hereof.

(B) *Without Consent.* This Agreement and the rights and obligations of the City and of the Owners may also be modified or amended at any time by a Supplemental Agreement, without the consent of any Owners, only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the City herein, other covenants and agreements thereafter to be observed, or to limit or surrender any right or power herein reserved to or conferred upon the City;

(ii) to make modifications not adversely affecting any Outstanding Bonds in any material respect (as evidenced by the opinion of counsel delivered pursuant to Section 8.01(C) hereof) including, but not limited to, amending the Amended and Restated Rate and Method, so long as the amendment does not result in coverage less than that set forth in Section 3.05(D);

(iii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in this Agreement, or in regard to questions arising under this Agreement, as the City and the Fiscal Agent may deem necessary or desirable and not inconsistent with this Agreement, and which shall not adversely affect the rights of the Owners of the Bonds (as evidenced by the opinion of counsel delivered pursuant to Section 8.01(C) hereof);

(iv) to make such additions, deletions or modifications as may be necessary or desirable to assure exclusion from gross income for federal income tax purposes of interest on the Bonds; and

(v) in connection with the issuance of any Parity Bonds under and pursuant to Section 3.05.

(C) Fiscal Agent's Consent. Any amendment of this Agreement may not modify any of the rights or obligations of the Fiscal Agent without its written consent. The Fiscal Agent shall be furnished an opinion of counsel that any such Supplemental Agreement entered into by the City and the Fiscal Agent complies with the provisions of this Section 8.01 and the Fiscal Agent may conclusively rely on such opinion and shall be absolutely protected in so relying.

Section 8.02. Owners' Meetings. The City may at any time call a meeting of the Owners. In such event the City is authorized to fix the time and place of said meeting and to provide for the giving of notice thereof and to fix and adopt rules and regulations for the conduct of said meeting.

Section 8.03. Procedure for Amendment with Written Consent of Owners. The City and the Fiscal Agent may at any time adopt a Supplemental Agreement amending the provisions of the Bonds or of this Agreement or any Supplemental Agreement, to the extent that such amendment is permitted by Section 8.01(A), to take effect when and as provided in this Section 8.03. A copy of such Supplemental Agreement, together with a request to Owners for their consent thereto, shall be mailed by first class mail, by the Fiscal Agent, at the expense of the City), to each Owner of Bonds Outstanding, but failure to mail copies of such Supplemental Agreement and request shall not affect the validity of the Supplemental Agreement when assented to as in this Section 8.03 provided.

Such Supplemental Agreement shall not become effective unless there shall be filed with the Fiscal Agent the written consents of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in Section 8.04) and a notice shall have been mailed as hereinafter in this Section 8.03 provided. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof shall be such as is permitted by Section 9.04. Any such consent shall be binding upon the Owner of the Bonds giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Fiscal Agent prior to the date when the notice hereinafter in this Section 8.03 provided for has been mailed.

After the Owners of the required percentage of Bonds shall have filed their consents to the Supplemental Agreement, the City shall mail a notice to the Owners in the manner hereinbefore provided in this Section 8.03 for the mailing of the Supplemental Agreement, stating in substance that the Supplemental Agreement has been consented to by the Owners of the required percentage of Bonds and will be effective as provided in this Section 8.03 (but failure to mail copies of said notice shall not affect the validity of the Supplemental Agreement or consents thereto). Proof of the mailing of such notice shall be filed with the Fiscal Agent. A record, consisting of the papers required by this Section 8.03 to be filed with the Fiscal Agent, shall be proof of the matters therein stated until the contrary is proved. The Supplemental Agreement shall become effective upon the filing with the Fiscal Agent of the proof of mailing of such notice, and the Supplemental Agreement shall be deemed conclusively binding (except as otherwise hereinabove specifically provided in this Article) upon the City and the Owners of all Bonds at the expiration of sixty (60) days after such filing, except in the event of a final decree of a court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding for such purpose commenced within such sixty-day period.

Section 8.04. Disqualified Bonds. Bonds owned or held for the account of the City, excepting any pension or retirement fund, shall not be deemed Outstanding for the purpose of

any vote, consent or other action or any calculation of Outstanding Bonds provided for in this Article VIII, and shall not be entitled to vote upon, consent to, or take any other action provided for in this Article VIII; except that in determining whether the Fiscal Agent shall be protected in relying upon any such demand, request, direction, consent or waiver of an Owner, only Bonds which the Fiscal Agent actually knows to be so owned or held shall be disregarded unless all Bonds are so owned or held, in which case such Bonds shall be considered Outstanding for the purpose of such determination. Upon request of the Fiscal Agent, the City shall specify in a certificate to the Fiscal Agent those Bonds disqualified pursuant to this Section and the Fiscal Agent may conclusively rely on such certificate.

Section 8.05. Effect of Supplemental Agreement. From and after the time any Supplemental Agreement becomes effective under this Article VIII, this Agreement shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations under this Agreement of the City, the Fiscal Agent and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such Supplemental Agreement shall be deemed to be part of the terms and conditions of this Agreement for any and all purposes.

Section 8.06. Endorsement or Replacement of Bonds Issued After Amendments. The City may determine that Bonds issued and delivered after the effective date of any action taken as provided in this Article VIII shall bear a notation, by endorsement or otherwise, in form approved by the City, as to such action. In that case, upon demand of the Owner of any Bond Outstanding at such effective date and upon presentation of his Bond for that purpose at the Principal Office of the Fiscal Agent or at such other office as the City may select and designate for that purpose, a suitable notation shall be made on such Bond. The City may determine that new Bonds, so modified as in the opinion of the City is necessary to conform to such Owners' action, shall be prepared, executed and delivered. In that case, upon demand of the Owner of any Bonds then Outstanding, such new Bonds shall be exchanged at the Principal Office of the Fiscal Agent without cost to any Owner, for Bonds then Outstanding, upon surrender of such Bonds.

Section 8.07. Amendatory Endorsement of Bonds. The provisions of this Article VIII shall not prevent any Owner from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

ARTICLE IX

MISCELLANEOUS

Section 9.01. Benefits of Agreement Limited to Parties. Nothing in this Agreement, expressed or implied, is intended to give to any person other than the City, the Fiscal Agent and the Owners, any right, remedy, claim under or by reason of this Agreement. Any covenants, stipulations, promises or agreements in this Agreement contained by and on behalf of the City shall be for the sole and exclusive benefit of the Owners and the Fiscal Agent.

Section 9.02. Successor and Predecessor. Whenever in this Agreement or any Supplemental Agreement either the City or the Fiscal Agent is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Agreement contained by or on behalf of the City or the Fiscal Agent shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 9.03. Discharge of Agreement. The City may pay and discharge the entire indebtedness on all Bonds Outstanding in any one or more of the following ways:

(A) by paying or causing to be paid the principal of, and interest and any premium on, all Bonds Outstanding, as and when the same become due and payable;

(B) by depositing with the Fiscal Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the funds and accounts provided for in the Bond Fund and the 2019 Reserve Fund hereof, is fully sufficient to pay all Bonds Outstanding, including all principal, interest and redemption premiums; or

(C) by irrevocably depositing with the Fiscal Agent, in trust, cash and/or Federal Securities in such amount as the City shall determine, as confirmed by an independent certified public accountant in writing, as will, together with the interest to accrue thereon and moneys then on deposit in the fund and accounts provided for in the Bond Fund and the 2019 Reserve Fund (to the extent invested in Federal Securities), be fully sufficient to pay and discharge the indebtedness on all Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

If the City shall have taken any of the actions specified in (A), (B) or (C) above, and if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in this Agreement provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice, and, at the election of the City, and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Special Taxes and other funds provided for in this Agreement and all other obligations of the City under this Agreement with respect to such Bonds Outstanding shall cease and terminate. Notice of such election shall be filed with the Fiscal Agent.

Notwithstanding the foregoing, the following obligations and pledges of the City shall continue in any event: (i) the obligation of the City to pay or cause to be paid to the Owners of the Bonds not so surrendered and paid all sums due thereon, (ii) the obligation of the City to pay amounts owing to the Fiscal Agent pursuant to Section 7.05, and (iii) the obligation of the City to

assure that no action is taken or failed to be taken if such action or failure adversely affects the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Upon compliance by the City with the foregoing with respect to all Bonds Outstanding, any funds held by the Fiscal Agent after payment of all fees and expenses of the Fiscal Agent, which are not required for the purposes of the preceding paragraph, shall be paid over to the City and any Special Taxes thereafter received by the City shall not be remitted to the Fiscal Agent but shall be retained by the City to be used for any purpose permitted under the Act and the Resolution of Formation.

Section 9.04. Execution of Documents and Proof of Ownership by Owners. Any request, declaration, consent or other instrument which this Agreement may require or permit to be executed by Owners may be in one or more instruments of similar tenor, and shall be executed by Owners in person or by their attorneys appointed in writing.

Except as otherwise herein expressly provided, the fact and date of the execution by any Owner or his attorney of such request, declaration, consent or other instrument, or of such writing appointing such attorney, may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state in which he purports to act, that the person signing such request, declaration or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer.

Except as otherwise herein expressly provided, the ownership of registered Bonds and the amount, maturity, number and date of holding the same shall be proved by the registration books maintained by the Fiscal Agent under Section 2.07.

Any request, declaration, consent or other instrument or writing of the Owner of any Bond shall bind all future Owners of such Bond in respect of anything done or suffered to be done by the City or the Fiscal Agent in good faith and in accordance therewith.

Section 9.05. Waiver of Personal Liability. No member, officer, agent or employee of the City shall be individually or personally liable for the payment of the principal of or interest or any premium on the Bonds; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

Section 9.06. Notices to and Demands on City and Fiscal Agent. Any notice or demand which by any provision of this Agreement is required or permitted to be given or served by the Fiscal Agent to or on the City may be given or served by email, facsimile transmission, overnight mail or courier, receipt of which has been confirmed, or by being deposited postage prepaid in a post office letter box addressed (until another address is filed by the City with the Fiscal Agent) as follows:

City of Tracy
333 Civic Center Plaza
Tracy, California 95376
Fax: 209-831-6848
Attention: Finance Director

Any notice or demand which by any provision of this Agreement is required or permitted to be given or served by the City to or on the Fiscal Agent may be given or served by facsimile

transmission receipt of which has been confirmed or by being deposited postage prepaid in a post office letter box addressed (until another address is filed by the Fiscal Agent with the City) as follows:

U.S. Bank National Association
One California Street, Suite 1000,
San Francisco, CA 94111
Attn: Global Corporate Trust Services

Section 9.07. Partial Invalidity. If any Section, paragraph, sentence, clause or phrase of this Agreement shall for any reason be held by a court of competent jurisdiction to be illegal or unenforceable, such holding shall not affect the validity of the remaining portions of this Agreement. The City hereby declares that it would have adopted this Agreement and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses, or phrases of this Agreement may be held illegal, invalid or unenforceable.

Section 9.08. Unclaimed Moneys. Anything contained herein to the contrary notwithstanding, any moneys held by the Fiscal Agent for the payment and discharge of the principal of, and the interest and any premium on, the Bonds which remains unclaimed for two (2) years after the date when the payment of such principal, interest and premium have become payable, if such moneys were held by the Fiscal Agent at such date, shall be repaid by the Fiscal Agent to the City (without liability for interest) as its absolute property free from any trust, and the Fiscal Agent shall thereupon be released and discharged with respect thereto and the Owners of such Bonds shall look only to the City for the payment of the principal of, and interest and any premium on, such Bonds. Any right of any Owner to look to the City for such payment shall survive only so long as required under applicable law.

Section 9.09. Applicable Law. This Agreement shall be governed by and enforced in accordance with the laws of the State applicable to contracts made and performed in the State.

Section 9.10. Conflict with Act. In the event of a conflict between any provision of this Agreement with any provision of the Act as in effect on the Closing Date, the provision of the Act shall prevail over the conflicting provision of this Agreement.

Section 9.11. Conclusive Evidence of Regularity. Bonds issued under this Agreement shall constitute conclusive evidence of the regularity of all proceedings under the Act relative to their issuance and the levy of the Special Taxes.

Section 9.12. Payment on Business Day. In any case where the date of the maturity of interest or of principal (and premium, if any) of the Bonds, or the date fixed for redemption of any Bonds, or the date any action is to be taken under this Agreement, is other than a Business Day, the payment of interest or principal (and premium, if any) or the action shall be made on the next succeeding day which is a Business Day with the same force and effect as if made on the date required and no interest shall accrue for the period from and after such date.

Section 9.13. State Reporting Requirements. In addition to Section 5.15, the following requirements shall apply to the Bonds:

(A) Annual Reporting. Not later than October 30 of each calendar year, beginning with the October 30 first succeeding the date of the 2019 Bonds, and in each calendar year thereafter until the October 30 following the final maturity of the Bonds, the Finance Director shall cause the information required by Government Code Section 53359.5(b) to be supplied to CDIAC. The annual reporting shall be made using such form or forms as may be prescribed by CDIAC.

(B) Other Reporting. If at any time the Fiscal Agent fails to pay principal and interest due on any scheduled payment date for the Bonds due to the insufficiency of funds in the accounts from which such payments are to be made, or if funds are withdrawn from the 2019 Reserve Fund or any other debt service reserve fund to pay principal and interest on the Bonds so as to reduce the amount in the 2019 Reserve Fund or such other debt service reserve fund to less than the 2019 Reserve Requirement or applicable requirement, the Fiscal Agent shall notify the Finance Director of such failure or withdrawal in writing. The Finance Director shall notify CDIAC and the Original Purchasers of such failure or withdrawal within 10 days of such failure or withdrawal.

(C) Special Tax Reporting. The Finance Director shall file a report with the City no later than January 1, 2020, and at least once a year thereafter, which annual report shall contain: (i) the amount of Special Taxes collected and expended with respect to the CFD, (ii) the amount of Bond proceeds collected and expended with respect to the CFD, and (iii) the status of the Project. It is acknowledged that the Special Tax Fund is the account into which Special Taxes collected on the City will be deposited for purposes of Section 50075.1(c) of the California Government Code, and the funds and accounts listed in Section 4.01 are the funds and accounts into which Bond proceeds will be deposited for purposes of Section 53410(c) of the California Government Code, and the annual report described in the preceding sentence is intended to satisfy the requirements of Sections 50075.1(d), 50075.3(d) and 53411 of the California Government Code.

(D) Compliance with Section 53343.2. The City shall comply with the provisions of Section 53343.2, which require the City, within seven months after the last day of each fiscal year of the CFD, to display prominently on its Internet Web site all of the following information:

(i) A copy of an annual report for that fiscal year if requested pursuant to Section 53343.1.

(ii) A copy of the report provided to CDIAC pursuant to Section 53359.5.

(iii) A copy of the report provided to the State Controller's Office pursuant to Section 12463.2.

(E) Amendment. The reporting requirements of this Section 9.13 shall be amended from time to time, without action by the City or the Fiscal Agent (i) with respect to subparagraphs (A) and (B) above, to reflect any amendments to Section 53359.5(b) or Section 53359.5(c) of the Act, (ii) with respect to subparagraph (C) above, to reflect any amendments to Section 50075.1, 50075.3, 53410 or 53411 of the California Government Code and (iii) with respect to subparagraph (D) above, to reflect any amendments to Section 53343.2. Notwithstanding the foregoing, any such amendment shall not, in itself, affect the City's obligations under the Continuing Disclosure Certificate. The City shall notify the Fiscal Agent in

writing of any such amendments which affect the reporting obligations of the Fiscal Agent under this Agreement.

(F) No Liability. None of the City and its officers, agents and employees, the Finance Director or the Fiscal Agent shall be liable for any inadvertent error in reporting the information required by this Section 9.13.

The Finance Director shall provide copies of any such reports to any Bondowner upon the written request of a Bondowner and payment by the person requesting the information of the cost of the City to photocopy and pay any postage or other delivery cost to provide the same, as determined by the Finance Director. The term "Bondowner" for purposes of this Section 9.13 shall include any Beneficial Owner of the Bonds as described in Section 2.10.

Section 9.14. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original.

IN WITNESS WHEREOF, the City and the Fiscal Agent have caused this Agreement to be executed as of the date first written above.

CITY OF TRACY,
for and on behalf of City of Tracy
Community Facilities District No. 2006-01 (NEI
Phase II)

By: _____
Finance Director

U.S BANK NATIONAL ASSOCIATION,
as Fiscal Agent

By: _____
Authorized Officer

EXHIBIT A
FORM OF 2019 BOND

No. ____

\$_____

UNITED STATES OF AMERICA
STATE OF CALIFORNIA
COUNTY OF SAN JOAQUIN

CITY OF TRACY
Community Facilities District No. 2006-01
(NEI Phase II)
Special Tax Bond, Series 2019

INTEREST RATE	MATURITY DATE	DATED DATE
_____%	September 1, _____	_____, 2019
REGISTERED OWNER:		
PRINCIPAL AMOUNT:		*****DOLLARS

The City of Tracy (the "City") for and on behalf of the City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) (the "CFD"), for value received, hereby promises to pay solely from Special Tax Revenues (as hereinafter defined) to be collected in the CFD or amounts in certain funds and accounts held under the Agreement (as hereinafter defined), to the registered owner named above, or registered assigns, on the maturity date set forth above, unless redeemed prior thereto as hereinafter provided, the principal amount set forth above, and to pay interest on such principal amount from the Dated Date set forth above, or from the most recent Interest Payment Date (as hereinafter defined) to which interest has been paid or duly provided for (unless this Bond is authenticated on or before an Interest Payment Date (as hereinafter defined) and after the close of business on the fifteenth day of the calendar month next preceding such Interest Payment Date, whether or not such day is a Business Day (the "Record Date"), in which event it shall bear interest from such Interest Payment Date, or unless this Bond is authenticated on or prior to February 15, 2020, in which event it shall bear interest from the Dated Date identified above, payable semiannually on each September 1 and March 1, commencing March 1, 2020 (each an "Interest Payment Date"), at the interest rate set forth above, until the principal amount hereof is paid or made available for payment provided, however, that if at the time of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment.

Principal of and interest on the Bonds (including the final interest payment upon maturity or earlier redemption), is payable on the applicable Interest Payment Date by check of the Fiscal Agent (defined below) mailed by first class mail to the registered Owner thereof at such registered Owner's address as it appears on the registration books maintained by the Fiscal Agent at the close of business on the Record Date preceding the Interest Payment Date, or by wire transfer made on such Interest Payment Date upon written instructions of any Owner of

\$1,000,000 or more in aggregate principal amount of Bonds delivered to the Fiscal Agent prior to the applicable Record Date. The principal of the Bonds and any interest or premium on the Bonds are payable in lawful money of the United States of America, and the principal of the Bonds is payable upon surrender of the Bonds at the Principal Office of the Fiscal Agent or such other place as designated by the Fiscal Agent.

This Bond is one of a duly authorized issue of bonds in the aggregate principal amount of \$_____ approved by resolution of the City Council of the City on _____, 2019 (the "Resolution"), under the Mello-Roos Community Facilities Act of 1982, as amended, sections 53311, *et seq.*, of the California Government Code (the "Act") for the purpose of refinancing the outstanding \$_____ principal amount City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) Special Tax Bonds, Series 2006 (the "Prior Bonds"), and is one of the series of bonds designated "City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) Special Tax Refunding Bonds, Series 2019" (the "Bonds").

The issuance of the Bonds and the terms and conditions thereof are provided for by a Fiscal Agent Agreement, dated as of _____ 1, 2019 (the "Agreement"), between the City and U.S. Bank National Association (the "Fiscal Agent") and this reference incorporates the Agreement herein, and by acceptance hereof the owner of this Bond assents to said terms and conditions. The Agreement is authorized under, this Bond is issued under and both are to be construed in accordance with, the laws of the State of California.

Pursuant to the Act, the Resolution and the Agreement, the principal of and interest on this Bond are payable solely from "Special Tax Revenues", as defined in the Agreement, which consist primarily of the proceeds of the annual special tax authorized under the Act to be collected within the CFD (the "Special Tax"), and certain funds held under the Agreement. Any tax for the payment hereof shall be limited to the Special Tax (as defined in the Fiscal Agent Agreement), except to the extent that provision for payment has been made by the City, as may be permitted by law. The Bonds do not constitute obligations of the City for which the City is obligated to levy or pledge, or has levied or pledged, general or special taxation other than described hereinabove. Neither the faith and credit nor the taxing power of the City (except to the limited extent set forth in the Agreement) or the State of California or any political subdivision thereof is pledged to the payment of the Bonds.

Optional Redemption. The Bonds maturing on or after September 1, 20__, are subject to optional redemption as directed by the City, from sources of funds other than prepayments of Special Taxes, prior to their stated maturity on any date on or after September 1, 20__, as a whole or in part, at the redemption prices (expressed as a percentage of the principal amount of the Bonds to be redeemed) set forth below, together with accrued interest thereon to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
September 1, 20__ through August 31, 20__	103%
September 1, 20__ through August 31, 20__	—
September 1, 20__ through August 31, 20__	—
September 1, 20__ through any date thereafter	100

Mandatory Sinking Fund Redemption. The Term Bonds maturing on September 1, 20__ and September 1, 20__, are subject to mandatory redemption in part by lot, from sinking fund payments made by the City from the Bond Fund, at a redemption price equal to the principal

amount thereof to be redeemed, without premium, in the aggregate respective principal amounts all as set forth in the following tables:

Term Bond maturing September 1, 20__

Sinking Fund Redemption Date <u>(September 1)</u> 20__ 20__ (maturity)	Principal Amount <u>Subject to Redemption</u> \$ _____ _____
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Term Bond maturing September 1, 20__

Sinking Fund Redemption Date <u>(September 1)</u> 20__ 20__ (maturity)	Principal Amount <u>Subject to Redemption</u> \$ _____ _____
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Provided, however, if some but not all of the Term Bonds of a given maturity have been redeemed as a result of an optional redemption or a mandatory redemption, the total amount of all future Sinking Fund Payments relating to such maturity shall be reduced by the aggregate principal amount of Term Bonds of such maturity so redeemed, to be allocated among such Sinking Fund Payments on a pro rata basis in integral multiples of \$5,000 as determined by the Fiscal Agent, notice of which determination shall be given by the Fiscal Agent to the City.

Mandatory Prepayment Redemption. Special Tax Prepayments and any corresponding transfers from the 2019 Reserve Fund shall be used to redeem Bonds on the next Interest Payment Date for which notice of redemption can timely be given, among maturities so as to maintain substantially the same debt service profile for the Bonds as in effect prior to such redemption and by lot within a maturity, at a redemption price (expressed as a percentage of the principal amount of the Bonds to be redeemed), as set forth below, together with accrued interest to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
Any Interest Payment Date on or before March 1, 20__	__%
September 1, 20__ and March 1, 20__	__
September 1, 20__ and March 1, 20__	__
September 1, 20__ and any Interest Payment Date thereafter	100

Notice of redemption with respect to the Bonds to be redeemed shall be given to the registered owners thereof, in the manner, to the extent and subject to the provisions of the Agreement. A notice of redemption may be rescinded as set forth in the Fiscal Agent Agreement.

This Bond shall be registered in the name of the owner hereof, as to both principal and interest. Each registration and transfer of registration of this Bond shall be entered by the Fiscal

Agent in books kept by it for this purpose and authenticated by its manual signature upon the certificate of authentication endorsed hereon.

No transfer or exchange hereof shall be valid for any purpose unless made by the registered owner, by execution of the form of assignment endorsed hereon, and authenticated as herein provided, and the principal hereof, interest hereon and any redemption premium shall be payable only to the registered owner or to such owner's order. The Fiscal Agent shall require the registered owner requesting transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such transfer or exchange. No transfer or exchange hereof shall be required to be made (i) fifteen days prior to the date established by the Fiscal Agent for selection of Bonds for redemption or (ii) with respect to a Bond after such Bond has been selected for redemption.

The Agreement and the rights and obligations of the City thereunder may be modified or amended as set forth therein. The principal of the Bonds is not subject to acceleration upon a default under the Agreement or any other document.

This Bond shall not become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been dated and signed by the Fiscal Agent.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED by the City that all acts, conditions and things required by law to exist, happen and be performed precedent to and in the issuance of this Bond have existed, happened and been performed in due time, form and manner as required by law, and that the amount of this Bond, together with all other indebtedness of the City, does not exceed any debt limit prescribed by the laws or Constitution of the State of California.

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

IN WITNESS WHEREOF, the City of Tracy has caused this Bond to be to be signed by the facsimile signature of its Mayor and countersigned by the facsimile signature of the City Clerk.

City Clerk

Mayor

[FORM OF FISCAL AGENT'S CERTIFICATE OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the Agreement which has been authenticated on _____, 2019.

U.S. BANK NATIONAL ASSOCIATION,
as Fiscal Agent

By: _____
Authorized Signatory

FORM OF ASSIGNMENT

For value received, the undersigned do(es) hereby sell, assign and transfer unto

(Name, Address and Tax Identification or Social Security Number of Assignee)

the within Bond and do(es) hereby irrevocably constitute and appoint _____
_____, attorney, to transfer the same on the registration books of the Fiscal Agent, with
full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

NOTICE: Signature guarantee shall be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Fiscal Agent.

NOTICE: The signature on this assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

EXHIBIT B

**CITY OF TRACY
Community Facilities District No. 2006-01
(NEI Phase II)
Special Tax Refunding Bonds, Series 2019**

**OFFICER'S CERTIFICATE REQUESTING DISBURSEMENT
FROM COSTS OF ISSUANCE FUND**

REQUISITION NO. _____

The undersigned hereby states and certifies that:

(i) I am the duly appointed, qualified and acting Finance Director of the City of Tracy, a municipal corporation duly organized and existing under the laws of the State of California (the "City") and as such, am familiar with the facts herein certified and am authorized to certify the same;

(ii) I am an "Authorized Officer," as such term is defined in that certain Fiscal Agent Agreement, dated as of _____ 1, 2019 (the "Fiscal Agent Agreement"), by and between the City and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent");

(iii) under Section 4.02(B) of the Fiscal Agent Agreement, the undersigned hereby requests and authorizes the Fiscal Agent to disburse from the Costs of Issuance Fund established under the Fiscal Agent Agreement to each payee designated on Schedule A attached hereto and by this reference incorporated herein, the amount set forth opposite such payee, for payment or reimbursement of previous payment of Costs of Issuance (as that term is defined in the Fiscal Agent Agreement) as described on the attached Schedule A;

(iv) the disbursements described on the attached Schedule A constitute Costs of Issuance, and are properly chargeable to the Costs of Issuance Fund; and

(v) payments shall be made by check or wire transfer in accordance with the payment instructions set forth in Schedule A and the Fiscal Agent may rely on such payment instructions with no duty to investigate or inquire as to the authenticity of the payment instructions or the authority under which they were given.

Dated: _____

City of Tracy

By: _____
Finance Director

SCHEDULE A

Payee Name and Address

Purpose of Obligation

Amount

EXHIBIT C

**CITY OF TRACY
Community Facilities District No. 2006-01
(NEI Phase II)
Special Tax Refunding Bonds, Series 2019**

**OFFICER'S CERTIFICATE REQUESTING DISBURSEMENT
FROM ADMINISTRATIVE EXPENSE FUND**

REQUISITION NO. _____

The undersigned hereby states and certifies that:

(i) I am the duly appointed, qualified and acting Finance Director of the City of Tracy, a municipal corporation duly organized and existing under the laws of the State of California (the "City") and as such, am familiar with the facts herein certified and am authorized to certify the same;

(ii) I am an "Authorized Officer," as such term is defined in that certain Fiscal Agent Agreement, dated as of _____ 1, 2019 (the "Fiscal Agent Agreement"), by and between the City and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent");

(iii) under Section 4.06(B) of the Fiscal Agent Agreement, the undersigned hereby requests and authorizes the Fiscal Agent to disburse from the Administrative Expense Fund established under the Fiscal Agent Agreement to each payee designated on Schedule A attached hereto and by this reference incorporated herein, the amount set forth opposite such payee, for payment or reimbursement of previous payment of an Administrative Expense or Costs of Issuance (as those terms are defined in the Fiscal Agent Agreement) as described on the attached Schedule A;

(iv) the disbursements described on the attached Schedule A constitute Administrative Expenses or Costs of Issuance, and are properly chargeable to the Administrative Expense Fund; and

(v) payments shall be made by check or wire transfer in accordance with the payment instructions set forth in Schedule A and the Fiscal Agent may rely on such payment instructions with no duty to investigate or inquire as to the authenticity of the payment instructions or the authority under which they were given.

Dated: _____

CITY OF TRACY

By: _____
Finance Director

SCHEDULE A

Payee Name and Address

Purpose of Obligation

Amount

EXHIBIT D

**CITY OF TRACY
Community Facilities District No. 2006-01
(NEI Phase II)
Special Tax Refunding Bonds, Series 2019**

REQUISITION FORM FOR 2006 UNSPENT BOND PROCEEDS FUND

DISBURSEMENT REQUEST NO.: _____

U.S. Bank National Association
Global Corporate Trust Services
One California Street, Suite 1000
San Francisco, California 94111
Attention: Corporate Trust Department Reference: City of Tracy Community Facilities District
No. 2006-01 (NEI Phase II)

Ladies and Gentlemen:

In accordance with the terms of a Fiscal Agent Agreement, by and between the City of Tracy and you, dated as of _____ 1, 2019, (the "2019 Agreement"), you are hereby authorized and requested to make immediate disbursement of funds held by you in the 2006 Unspent Bond Proceeds Fund pursuant to Section 4.07 of the 2019 Agreement.

You are hereby requested to pay from such Fund, to the person(s), corporation(s) or other entity(ies) designated on Schedule A attached hereto as Payee(s), the sum set forth on said Schedule, in payment of all or a portion of the costs, which constitute authorized uses as set forth in the Agreements.

The undersigned hereby certifies that (i) no part of the amount requested herein has been included in any other request previously filed with you; (ii) the labor, services and/or materials covered hereby have been performed and the payment requested herein is due and payable under a purchase order, contract or other authorization; and (iii) the amount requested will be applied for authorized purposes as set forth in the Resolution of Formation (as defined in the 2019 Agreement).

Dated: _____, 201__

CITY OF TRACY

By: _____
Finance Director

SCHEDULE A

Payee Name and Address

Purpose of Obligation

Amount

EXHIBIT E

**CITY OF TRACY
Community Facilities District No. 2006-01
(NEI Phase II)
Special Tax Refunding Bonds, Series 2019**

**OFFICER'S CERTIFICATE REQUESTING DISBURSEMENT FROM IMPROVEMENT
FUND**

REQUISITION NO. _____

The undersigned hereby states and certifies that:

(i) I am the duly appointed, qualified and acting Finance Director of the City of Tracy, a general law city duly organized and existing under the laws of the State of California (the "City") and as such, am familiar with the facts herein certified and am authorized to certify the same;

(ii) I am an "Authorized Officer," as such term is defined in that certain Fiscal Agent Agreement, dated as of _____ 1, 2019 (the "Fiscal Agent Agreement"), by and between the City and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent");

(iii) under Section 4.08(B) of the Fiscal Agent Agreement, the undersigned hereby requests and authorizes the Fiscal Agent to disburse from the Improvement Fund established under the Fiscal Agent Agreement to each payee designated on Schedule A attached hereto and by this reference incorporated herein, the amount set forth opposite such payee, for payment or reimbursement of previous payment of a Project cost (as Project is defined in the Fiscal Agent Agreement) as described on attached Schedule A;

(iv) the disbursements described on the attached Schedule A are properly chargeable to the Improvement Fund; and

(v) no portion of the amount herein requested to be disbursed was set forth in any Officer's Certificate previously filed requesting disbursement.

Dated: _____

CITY OF TRACY

By: _____
Finance Director

SCHEDULE A

Payee Name and Address

Purpose of Obligation

Amount

\$ _____
CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2006-01
(NEI PHASE II)
SPECIAL TAX REFUNDING BONDS, SERIES 2019

BOND PURCHASE AGREEMENT

_____, 2019

City of Tracy
333 Civic Center Plaza
Tracy, California 95376

Ladies and Gentlemen:

Piper Jaffray & Co., as underwriter (the “Underwriter”), acting not as a fiduciary or agent for you, but on behalf of itself, offers to enter into this Bond Purchase Agreement (this “Purchase Agreement”) with the City of Tracy (the “City”), which upon acceptance will be binding upon the Underwriter and the City. This offer is made subject to the City’s acceptance by the execution of this Purchase Agreement and its delivery to the Underwriter at or before 8:00 P.M., California time, on the date hereof, and, if not so accepted, will be subject to withdrawal by the Underwriter upon notice delivered to the City at any time prior to the acceptance hereof by the City. All capitalized terms used herein, which are not otherwise defined, shall have the meaning provided for such terms in the Fiscal Agent Agreement (the “Fiscal Agent Agreement”), dated as of _____ 1, 2019, by and between the City and U.S. Bank National Association, as fiscal agent (the “Fiscal Agent”).

1. Purchase, Sale and Delivery of the Bonds.

A. Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Underwriter hereby agrees to purchase from the City and the City hereby agrees to sell to the Underwriter all (but not less than all) of the \$ _____ aggregate principal amount of the City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) Special Tax Refunding Bonds, Series 2019 (the “Bonds”), dated the Closing Date (as hereinafter defined), bearing interest at the rates and maturing on the dates and in the principal amounts set forth in Exhibit A hereto. The purchase price for the Bonds shall be \$ _____ (being 100% of the aggregate principal amount thereof plus an original issue premium of \$ _____ and less an Underwriter’s discount of \$ _____).

The Bonds shall be substantially in the form described in, shall be issued and secured under the provisions of, and shall be payable from the Special Tax Revenues as provided in the Fiscal Agent Agreement, the Preliminary Official Statement (as hereinafter defined), and the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5 of Part 1 of Division 2 of Title 5 (commencing with Section 53311) of the Government Code of the State of California (the “Act”). The issuance of the Bonds has been duly authorized by the City pursuant to Resolution No. 2019-_____, adopted on _____, 2019 (the “Approving Resolution”).

The net proceeds of the Bonds will be used, as indicated in the Fiscal Agent Agreement, for the following purposes: (1) to refund and defease certain bonds previously issued by the City captioned “\$10,660,000 City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) Special Tax Bonds, Series 2006” (the “2006 Bonds”), (ii) to fund a debt service reserve fund for the Bonds, and (iii) pay the costs of issuing the Bonds. The refunding and defeasance of the 2006 Bonds will be accomplished pursuant to the Irrevocable Refunding Instructions, dated as of August 6, 2019 (the “Refunding Instructions”), given by the City to The Bank of New York Mellon Trust Company, N.A. as the fiscal agent for the 2006 Bonds (the “2006 Fiscal Agent”).

Prior to the acceptance of this Purchase Agreement by the City, the City shall have caused to be delivered to the Underwriter a certificate duly executed by [Prologis Inc., a Maryland corporation (“Prologis”)] dated the date of the Preliminary Official Statement (as defined herein) in substantially the form set forth in Exhibit B hereto, with only such changes thereto as shall have been accepted by the Underwriter.

B. The City acknowledges that the Underwriter is entering into this Purchase Agreement in reliance on the representations and agreements made by the City herein, and the City shall take all action necessary to enforce its rights hereunder for the benefit of the Underwriter and shall immediately notify the Underwriter if it becomes aware that any representation or agreement made by the City herein is incorrect in any material respect.

The City acknowledges and agrees that: (i) the purchase and sale of the Bonds pursuant to this Purchase Agreement is an arm’s-length commercial transaction between the City and the Underwriter; (ii) in connection therewith and with the discussions, undertakings and procedures leading up to the consummation of such transaction, the Underwriter is and has been acting solely as principal and is not acting as a Municipal Advisor (as defined in Section 15B of the Securities Exchange Act of 1934, as amended); (iii) the Underwriter has not assumed an advisory or fiduciary responsibility in favor of the City with respect to the offering contemplated hereby or the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the City on other matters); and (iv) the City has consulted its own legal, financial and other advisors to the extent that the City has deemed appropriate.

C. Pursuant to the authorization of the City, the Underwriter has distributed copies of the Preliminary Official Statement dated _____, 2019, relating to the Bonds, which, together with the cover page, inside cover page and appendices thereto is herein called the “Preliminary Official Statement.” By its acceptance of this Purchase Agreement, the City hereby ratifies the use by the Underwriter of the Preliminary Official Statement and the preparation and distribution of the final Official Statement (together with any supplements thereto, the “Official Statement”) consisting of the Preliminary Official Statement with such changes as are noted thereon and as may be made thereto, with the approval of Jones Hall, A Professional Law Corporation, the City’s Bond Counsel (“Bond Counsel”) and Disclosure Counsel (“Disclosure Counsel”) and the Underwriter. The City agrees to execute the Official Statement and to provide a copy thereof to the Underwriter as set forth in Section 5.E.1. hereof. The City hereby authorizes and requires the Underwriter to use and promptly distribute, in connection with the offer and sale of the Bonds, the Preliminary Official Statement, the Official Statement and any supplement or amendment thereto. The City further authorizes the Underwriter to use and distribute, in connection with the offer and sale of the Bonds, the Fiscal Agent Agreement, the Refunding Instructions, this Purchase Agreement and all information contained herein, and all other documents, certificates and statements furnished

by or on behalf of the City to the Underwriter in connection with the transactions contemplated by this Purchase Agreement.

D. To assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”), the City will undertake pursuant to the Continuing Disclosure Certificate, in the form attached to the Official Statement as Appendix E (the “City Continuing Disclosure Certificate”), to provide annual reports and notices of certain enumerated events. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement.

E. Except as the Underwriter and the City may otherwise agree, the City will deliver to the Underwriter, at the offices of Bond Counsel in San Francisco, California, or at such other location as may be mutually agreed upon by the Underwriter and the City, the documents hereinafter mentioned; and the City will deliver to the Underwriter through the facilities of The Depository Trust Company (“DTC”) in New York, New York, the Bonds, in definitive form (all Bonds bearing CUSIP numbers), duly executed by the City and authenticated by the Fiscal Agent in the manner provided for in the Fiscal Agent Agreement and the Act at 8:00 a.m. California time, on _____, 2019 (the “Closing Date”), and the Underwriter will accept such delivery and pay the purchase price of the Bonds as set forth in paragraph (A) of this Section by wire transfer, payable in federal or other immediately available funds (such delivery and payment being herein referred to as the “Closing”). The Bonds shall be in fully registered book-entry form (which may be typewritten) and shall be registered in the name of Cede & Co., as nominee of DTC.

2. Public Offering and Establishment of Issue Price.

A. The Underwriter agrees to make a bona fide public offering of all of the Bonds initially at the public offering prices (or yields) set forth in Exhibit A attached hereto and incorporated herein by reference. Subsequent to the initial public offering, the Underwriter reserves the right to change the public offering prices (or yields) as it deems necessary in connection with the marketing of the Bonds, provided that the Underwriter shall not change the interest rates set forth in Exhibit A. The Bonds may be offered and sold to certain dealers at prices lower than such initial offering prices

B. The Underwriter agrees to assist the City in establishing the issue price of the Bonds and shall execute and deliver to the City at Closing an “issue price” or similar certificate, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Exhibit E, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Underwriter, the City and Bond Counsel, to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the Bonds. All actions to be taken by the City under this section to establish the issue price of the Bonds may be taken on behalf of the City by CSG Advisors Incorporated (the “Municipal Advisor”) and any notice or report to be provided to the City may be provided to the Municipal Advisor.

C. [Except as otherwise set forth in Exhibit A,] the City will treat the first price at which 10% of each maturity of the Bonds (the “10% test”) is sold to the public as the issue price of that maturity (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% test). At or promptly after the execution of this Purchase Agreement, the Underwriter shall report to the City the price or prices at which it has sold to the public each maturity of the Bonds. If at that time the 10% test has not been satisfied as to any

maturity of the Bonds, the Underwriter agrees to promptly report to the City the prices at which it sells the unsold Bonds of that maturity to the public. That reporting obligation shall continue, whether or not the Closing Date has occurred, until the 10% test has been satisfied as to the Bonds of that maturity or until all Bonds of that maturity have been sold to the public.

D. [The Underwriter confirms that it has offered the Bonds to the public on or before the date of this Purchase Agreement at the offering price or prices (the “initial offering price”), or at the corresponding yield or yields, set forth in Exhibit A, except as otherwise set forth therein. Exhibit A also sets forth, identified under the column “Hold the Offering Price Rule Used,” as of the date of this Purchase Agreement, the maturities, if any, of the Bonds for which the 10% test has not been satisfied and for which the City and the Underwriter agree that the restrictions set forth in the next sentence shall apply, which will allow the City to treat the initial offering price to the public of each such maturity as of the sale date as the issue price of that maturity (the “hold-the-offering-price rule”). So long as the hold-the-offering-price rule remains applicable to any maturity of the Bonds, the Underwriter will neither offer nor sell unsold Bonds of that maturity to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

1. the close of the fifth (5th) business day after the sale date; or
2. the date on which the Underwriter has sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The Underwriter shall promptly advise the City when it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.]

E. The Underwriter confirms that any selling group agreement and any retail distribution agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each dealer who is a member of the selling group and each broker-dealer that is a party to such retail distribution agreement, as applicable, to: (1) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the Underwriter that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public; and (2) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the Underwriter. The City acknowledges that, in making the representation set forth in this subsection, the Underwriter will rely on: (A) in the event that a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, if applicable, as set forth in a selling group agreement and the related pricing wires; and (B) in the event that a retail distribution agreement was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the hold-the-offering-price rule, if applicable, as set forth in the retail distribution agreement and the related pricing wires. The City further acknowledges that the Underwriter shall not be liable for the failure of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement, to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

F. The Underwriter acknowledges that sales of any Bonds to any person that is a related party to the Underwriter shall not constitute sales to the public for purposes of this section. Further, for purposes of this section:

1. “public” means any person other than an underwriter or a related party;

2. “underwriter” means: (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public; and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public);

3. a purchaser of any of the Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to: (A) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another); (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another); or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other); and

4. “sale date” means the date of execution of this Purchase Agreement by all parties.]

3. **Representations and Covenants of the City.** The City represents and covenants to the Underwriter that:

A. The City is duly organized and validly existing as a municipal corporation under the Constitution and laws of the State of California, and has duly authorized the formation of the City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) (the “Community Facilities District”) pursuant to resolutions and an ordinance duly adopted by the City Council (collectively, the “Community Facilities District Formation Resolution” and together with the Approving Resolution the “City Resolutions”).

The City Council, as the legislative body of the City and the Community Facilities District, (i) has duly adopted the City Resolutions, (ii) has duly adopted Ordinance No. ____ of the City on March 7, 2006, levying special taxes within the Community Facilities District (the “Ordinance”) pursuant to a rate and method of apportionment of special tax (the “Rate and Method”), and (iii) has caused to be recorded in the real property records of San Joaquin County a notice of special tax lien (the “Notice of Special Tax Lien”) (the Community Facilities District Formation Resolution, the Ordinance, the Rate and Method, and the Notice of Special Tax Lien are collectively referred to herein as the “Formation Documents”).

Each of the Formation Documents remains in full force and effect as of the date hereof and has not been amended, except to the extent set forth therein. The Community Facilities District is duly organized and validly existing as a Community Facilities District under the laws of

the State of California. The City has, and at the Closing Date will have, as the case may be, full legal right, power and authority: (i) to execute, deliver and perform its obligations under the Fiscal Agent Agreement and this Purchase Agreement, and to carry out all transactions contemplated by each of such agreements; (ii) to issue, sell and deliver its Bonds to the Underwriter; (iii) to enter into the City Continuing Disclosure Certificate; and (iv) to carry out, give effect to and consummate the transactions contemplated by the Formation Documents, the Fiscal Agent Agreement, the Refunding Instructions, the City Continuing Disclosure Certificate, this Purchase Agreement, the Bonds and the Official Statement.

This Purchase Agreement, the Fiscal Agent Agreement, the Refunding Instructions, the Bonds and the City Continuing Disclosure Certificate are collectively referred to herein as the “City Documents.”

B. The City has complied, and will at the Closing Date be in compliance in all material respects, with the Formation Documents and the City Documents, and any immaterial noncompliance by the City, if any, will not impair the ability of the City to carry out, give effect to or consummate the transactions contemplated by the foregoing. From and after the date of issuance of the Bonds, the City will continue to comply with the covenants of the City contained in the City Documents.

C. Except as described in the Preliminary Official Statement, the City is not, in any respect material to the transactions referred to herein or contemplated hereby, in breach of or in default under, any law or administrative rule or regulation of the State of California, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the City is a party or is otherwise subject or bound, and the execution and delivery and the performance of its obligations under the City Documents and compliance with the provisions of each thereof, or the performance of the conditions precedent to be performed by the City pursuant to the City Documents, will not conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the City is a party or is otherwise subject or bound, in any manner that would materially and adversely affect the performance by the City of its obligations under the City Documents or the performance of the conditions precedent to be performed by the City pursuant to the City Documents.

D. Except as may be required under the “blue sky” or other securities laws of any jurisdiction, all approvals, consents, authorizations, elections and orders of, or filings or registrations with, any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to, or the absence of which would materially adversely affect, the performance by the City of its obligations under the City Documents, have been or will be obtained at the Closing Date and are or will be in full force and effect at the Closing Date.

E. The City Documents conform as to form and tenor to the descriptions thereof contained in the Official Statement.

F. The Bonds are payable from the Special Tax Revenues generated by the levy of special taxes in the District (the “Special Taxes”), as set forth in the Fiscal Agent Agreement. The levy of the Special Taxes has been duly and validly authorized pursuant to the Act and, subject to the maximum rate of Special Taxes in the Rate and Method and the application of the Special Tax Revenues as set forth in the Fiscal Agent Agreement, the levy of the Special Taxes within the District will be fixed and levied in an amount which, together with other available funds, is required for the payment of the principal of, and interest on, the Bonds and any Parity Bonds when due and payable, all as provided in the Fiscal Agent Agreement. The City has covenanted in the Fiscal Agent Agreement to cause the Special Taxes to be levied and collected at the same time and in the same manner as ordinary *ad valorem* property taxes.

G. The Fiscal Agent Agreement creates a valid pledge of, first lien upon and security interest in, the Special Tax Revenues, and in the moneys in the Special Tax Fund established pursuant to the Fiscal Agent Agreement, on the terms and conditions set forth in the Fiscal Agent Agreement.

H. Except as disclosed in the Preliminary Official Statement, there are, to the best of the City’s knowledge, no entities with outstanding assessment liens against any of the properties within the District or which are senior to or on a parity with the Special Taxes referred to in paragraph (G) hereof.

I. The information contained in the Preliminary Official Statement and in the Official Statement (other than statements therein pertaining to DTC and its book-entry system as to which no view is expressed) does not and shall not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and, upon delivery and up to and including 25 days after the End of the Underwriting Period (as defined in paragraph (J) below), the Official Statement will be amended and supplemented so as to contain no misstatement of any material fact or omission of any statement necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading.

J. Up to and including 25 days after the End of the Underwriting Period, the City will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent will not be unreasonably withheld. The City will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise materially affecting the use of the Official Statement in connection with the offering, sale or distribution of the Bonds. As used herein, the term “End of the Underwriting Period” means the later of such time as: (i) the Bonds are delivered to the Underwriter; or (ii) the Underwriter does not retain, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public. Unless the Underwriter gives notice to the contrary, the End of the Underwriting Period shall be deemed to be the Closing Date. Any notice delivered pursuant to this provision shall be a written notice delivered to the City at or prior to the Closing Date, and shall specify a date (other than the Closing Date) to be deemed the “End of the Underwriting Period.”

K. At the time of acceptance hereof there is and as of the Closing there will be no action pending (notice of which has been served on the City) or to the best knowledge of the City threatened, in which any such action: (i) in any way questions the existence of the Community Facilities District or the titles of the officers of the City to their respective offices; (ii) affects,

contests or seeks to prohibit, restrain or enjoin the issuance or delivery of the Bonds or the payment or collection of Special Tax Revenues or any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contests or affects the validity of the City Documents or the consummation of the transactions on the part of the City contemplated thereby; (iii) contests the exemption of interest on the Bonds from federal or State income taxation or contests the powers of the City or the Community Facilities District which may result in any material adverse change relating to the financial condition of the Community Facilities District; or (iv) contests the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserts that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and as of the time of acceptance hereof there is and, as of the Closing Date, there will be no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (i) through (iv) of this sentence.

L. Any certificate signed on behalf of the City by any officer or employee of the City authorized to do so shall be deemed a representation by the City to the Underwriter as to the statements made therein.

M. At or prior to the Closing, the City will have duly authorized, executed and delivered the City Continuing Disclosure Certificate in substantially the form attached as Appendix E to the Official Statement. Except as disclosed in the Preliminary Official Statement, the City has not failed to comply in all respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events in the last five years.

N. The City will apply the proceeds of its Bonds in accordance with the Fiscal Agent Agreement.

O. Between the date of the Purchase Agreement and the date of Closing, the City will not offer or issue any bonds, notes or other obligations for borrowed money payable or secured by Special Taxes, except as previously disclosed to the Underwriter.

The execution and delivery of this Purchase Agreement by the City shall constitute a representation to the Underwriter that the representations contained in this Section 3 are true as of the date hereof.

4. **[Reserved]**.

5. **Conditions to the Obligations of the Underwriter.** The obligation of the Underwriter to accept delivery of and pay for the Bonds on the Closing Date shall be subject, at the option of the Underwriter, to the accuracy in all material respects of the representations on the part of the City contained herein, to the accuracy in all material respects of the statements of the officers and other officials of the City made in any certificates or other documents furnished pursuant to the provisions hereof, to the performance by the City of its obligations to be performed hereunder at or prior to the Closing Date and, to the following additional conditions:

A. At the Closing Date, the City Resolutions, the Formation Documents, and the City Documents shall be in full force and effect, and shall not have been amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter, and there shall have

been taken in connection therewith, with the issuance of the Bonds, and with the transactions contemplated thereby, and by this Purchase Agreement, all such actions as, in the opinion of Bond Counsel, shall be necessary and appropriate.

B. At the Closing Date, except as was described in the Official Statement, the City shall not be, in any respect material to the transactions referred to herein or contemplated hereby, in breach of or in default under, any law or administrative rule or regulation of the State of California, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the City is a party or is otherwise subject or bound, and the execution and delivery and the performance by the City of its obligations under the City Documents, the City Resolutions and any other instruments contemplated by any of such documents, and compliance with the provisions of each thereof, will not conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State of California, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the City is a party or is otherwise subject or bound, in any manner that would materially and adversely affect the performance by the City of its obligations under the City Documents or the City Resolutions.

C. The information contained in the Official Statement is, as of the Closing Date and as of the date of any supplement or amendment thereto pursuant hereto, true and correct in all material respects and does not, as of the Closing Date or as of the date of any supplement or amendment thereto, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

D. Between the date hereof and the Closing Date, the market price or marketability, at the initial offering prices set forth on the inside cover page of the Official Statement, of the Bonds shall not have been materially adversely affected, in the judgment of the Underwriter (evidenced by a written notice to the City terminating the obligation of the Underwriter to accept delivery of and pay for the Bonds), by reason of any of the following:

1. Legislation introduced in or enacted (or resolution passed) by the Congress of the United States of America or recommended to the Congress by the President of the United States, the Department of the Treasury, the Internal Revenue Service, or any member of Congress, or favorably reported for passage to either House of Congress by any committee of such House to which such legislation had been referred for consideration, or a decision rendered by a court established under Article III of the Constitution of the United States of America or by the Tax Court of the United States of America, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Treasury Department of the United States of America or the Internal Revenue Service, with the purpose or effect, directly or indirectly, of imposing federal income taxation upon such interest as would be received by any owners of the Bonds beyond the extent to which such interest is subject to taxation as of the date hereof;

2. Legislation introduced in or enacted (or resolution passed) by the Congress or an order, decree or injunction issued by any court of competent jurisdiction, or an order,

ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the Securities Act of 1933, as amended, or that the Fiscal Agent Agreement are not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amended, or that the issuance, offering or sale of obligations of the general character of the Bonds, including any or all underlying arrangements, as contemplated hereby or by the Official Statement or otherwise is or would be in violation of the federal securities laws as amended and then in effect;

3. A general suspension of trading in securities on the New York Stock Exchange, or a general banking moratorium declared by Federal, State of New York or State of California officials authorized to do so;

4. The introduction, proposal or enactment of any amendment to the Federal or California Constitutions or any action by any Federal or California court, legislative body, regulatory body or other authority materially adversely affecting the tax status of the City, its property, income, securities (or interest thereon), or the validity or enforceability of Special Taxes as contemplated by the Official Statement;

5. Any event occurring, or information becoming known which, in the judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Preliminary Official Statement or in the Official Statement, or has the effect that the Preliminary Official Statement or the Official Statement contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

6. Any national securities exchange, the Comptroller of the Currency, or any other governmental authority, shall impose as to the Bonds or obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of, the Underwriter;

7. There shall have occurred any material outbreak or escalation of hostilities or other calamity or crisis the effect of which on the financial markets of the United States is such as to make it impracticable, in the judgment of the Underwriter, following consultation with the City, to sell the Bonds;

8. The filing or threat of an Action described Section 3.K hereof; or

9. Any proceeding shall have been commenced or be threatened in writing by the Securities and Exchange Commission against the City.

E. At or prior to the Closing Date, the Underwriter shall have received a counterpart original or certified copy of the following documents, in each case satisfactory in form and substance to the Underwriter:

1. The Official Statement, executed on behalf of the City by its Finance Director or other authorized officer;

2. The City Documents, duly executed and delivered by all parties thereto;

3. The City Resolutions, together with a certificate dated as of the Closing Date of the City Clerk to the effect that the City Resolutions are true, correct and complete copies of the City Resolutions duly adopted by the City Council;

4. The Formation Documents, together with a certificate dated as of the Closing Date of the City Clerk to the effect that the Formation Documents are true, correct and complete copies of the Formation Documents duly adopted by the City Council;

5. An unqualified approving opinion for the Bonds, dated the Closing Date and addressed to the City, of Bond Counsel, in substantially the form included as Appendix D to the Official Statement;

6. A supplemental opinion or opinions, dated the Closing Date and addressed to the Underwriter, of Bond Counsel, in substantially the form attached hereto as Exhibit D;

7. An opinion of Bond Counsel, dated the Closing Date and addressed to the City and the Underwriter, in form and substance satisfactory to the Underwriter, to the effect that that 2006 Bonds have been legally defeased and are no longer outstanding;

8. A certificate dated the Closing Date and signed by an authorized representative of the City or an authorized designee, on behalf of the City to the effect that: (i) the representations made by the City contained in this Purchase Agreement are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date, provided that any references as to the Preliminary Official Statement shall be deemed to be to the Official Statement; (ii) to the best knowledge of such officer, no event has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein not misleading in any material respect; and (iii) the City has complied with all the agreements and satisfied all the conditions on its part to be satisfied under the City Documents prior to the Closing Date;

9. An opinion of the City Attorney of the City, dated the date of Closing and addressed to the Underwriter and the City, to the effect that:

(i) The City is a municipal corporation, corporate and politic, duly organized and existing under the Constitution and laws of the State of California;

(ii) The City Resolutions and the Formation Documents have been duly adopted at a meeting of the City Council, which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and the City Resolutions and the Formation Documents are in full force and effect and have not been modified, amended, rescinded or repealed since the date of their adoption;

(iii) The City Documents and the Official Statement have been duly authorized, executed and delivered by the City and the City Documents constitute the

legal, valid and binding obligations of the City enforceable against the City in accordance with their terms, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles where equitable remedies are sought and to the exercise of judicial discretion in appropriate cases;

(iv) To the best knowledge of such counsel, the execution and delivery of the City Documents and the Official Statement and compliance with the provisions thereof under the circumstances contemplated thereby: (a) do not in any material respect conflict with or constitute on the part of the City a breach of or default under any agreement or other instrument to which the City is a party or by which it is bound; and (b) do not and will not in any material respect or constitute on the part of the City a violation, breach of or default under any court order or consent decree to which the City is subject;

(v) Except as may be stated in the Official Statement, there is no action, suit, proceeding or investigation before or by any court, public board or body pending (notice of which has been served on the City) or, to such counsel's knowledge, threatened wherein an unfavorable decision, ruling or finding would: (a) affect the creation, organization, existence or powers of the City or the Community Facilities District, or the titles of its members and officers to their respective offices; or (b) affect the validity of the City Documents, the City Resolutions or the Formation Documents, or restrain or enjoin the repayment of the Bonds or in any way contest or affect the validity of the City Documents, the City Resolutions or the Formation Documents, or contest the authority of the City to enter into or perform its obligations under any of the City Documents, the City Resolutions or the Formation Documents, or under which a determination adverse to the City would have a material adverse effect upon the financial condition or the revenues of the City or the Community Facilities District, questions the right of the City to use Special Tax Revenues for the repayment of the Bonds or affects in any manner the right or ability of the City to collect or pledge the Special Taxes levied within the District for the repayment of the Bonds;

10. A transcript of all proceedings relating to the authorization, issuance, sale and delivery of the Bonds, including certified copies of the Fiscal Agent Agreement, the Refunding Instructions, the City Continuing Disclosure Certificate and all resolutions of the City relating thereto;

11. A certificate dated the Closing Date from Goodwin Consulting Group, Inc. addressed to the City and the Underwriter to the effect that: (i) the Special Taxes (after payment of estimated Administrative Expenses) if collected in the maximum amounts permitted pursuant to the Rate and Method as of the Closing Date would generate at least 110% of the annual debt service payable with respect to the Bonds in each year, based on such assumptions and qualifications as shall be acceptable to the Underwriter; and (ii) the statements in the Official Statement provided by Goodwin Consulting Group, Inc. concerning the Special Taxes and the Rate and Method and all information supplied by it for use in the Official Statement as of the date of the Official Statement and as of the Closing Date did not and do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading;

12. Certified copies of the general resolution of the Fiscal Agent authorizing the execution and delivery of certain documents by certain officers of the Fiscal Agent,

which resolution authorizes the execution of the Fiscal Agent Agreement and the authentication of the Bonds;

13. A certificate of the Fiscal Agent, addressed to the Underwriter and the City dated the Closing Date, to the effect that: (i) the Fiscal Agent is authorized to carry out corporate trust powers, and have full power and authority to perform its duties under the Fiscal Agent Agreement; (ii) the Fiscal Agent is duly authorized to execute and deliver the Fiscal Agent Agreement, to accept the obligations created by the Fiscal Agent Agreement and to authenticate the Bonds pursuant to the terms of the Fiscal Agent Agreement; (iii) no consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Fiscal Agent that has not been obtained is or will be required for the authentication of the Bonds or the consummation by the Fiscal Agent of the other transactions contemplated to be performed by the Fiscal Agent in connection with the authentication of the Bonds and the acceptance and performance of the obligations created by the Fiscal Agent Agreement; and (iv) to the best of its knowledge, compliance with the terms of the Fiscal Agent Agreement will not conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, trust agreement, bond, note, resolution or any other agreement or instrument to which the Fiscal Agent is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Fiscal Agent or any of its activities or properties;

14. An opinion of counsel to the Fiscal Agent, dated the Closing Date, addressed to the Underwriter and the City to the effect that the Fiscal Agent is a national banking association duly organized and validly existing under the laws of the United States having full power and being qualified to enter into, accept and agree to the provisions of the Fiscal Agent Agreement, and that the Fiscal Agent Agreement has been duly authorized, executed and delivered by the Fiscal Agent and, assuming due execution and delivery by the other parties thereto, constitutes the legal, valid and binding obligation of the Fiscal Agent enforceable in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting the enforcement of creditors' rights in general and except as such enforceability may be limited by the application of equitable principles if equitable remedies are sought;

15. A certificate of the City dated the Closing Date, in a form acceptable to Bond Counsel and the Underwriter, that the Bonds are not arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended;

16. An opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, counsel to the Underwriter ("Underwriter's Counsel"), dated the date of Closing and addressed to the Underwriter in form and substance acceptable to the Underwriter;

17. A certificate of [Prologis] dated the date of the Preliminary Official Statement, substantially in the form attached as Exhibit B hereto;

18. A certificate of [Prologis] dated the Closing Date, substantially in the form attached as Exhibit C hereto;

19. A continuing disclosure certificate executed and delivered by Prologis dated as of the Closing Date in the form attached as Appendix F to the Official Statement (the "Prologis Continuing Disclosure Certificate");

20. A certificate of the 2006 Fiscal Agent, dated the Closing Date, to the effect that (i) the 2006 Fiscal Agent is authorized to carry out corporate trust powers, and has full power and authority to perform its duties under the Refunding Instructions; (ii) the 2006 Fiscal Agent is duly authorized to execute and deliver the Refunding Instructions, to accept the obligations created by the Refunding Instructions and to authenticate the Bonds pursuant to the terms of the Refunding Instructions; (iii) no consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the 2006 Fiscal Agent that has not been obtained is or will be required for the consummation by the 2006 Fiscal Agent of the other transactions contemplated to be performed by the 2006 Fiscal Agent in connection with the acceptance and performance of the obligations created by the Refunding Instructions; and (iv) to the best of its knowledge, compliance with the terms of the Refunding Instructions will not conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, trust agreement, bond, note, resolution or any other agreement or instrument to which the 2006 Fiscal Agent is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the 2006 Fiscal Agent or any of its activities or properties;

21. An opinion of counsel to the 2006 Fiscal Agent, dated the Closing Date, addressed to the Underwriter and the City to the effect that the 2006 Fiscal Agent is a national banking association duly organized and validly existing under the laws of the United States having full power and being qualified to enter into, accept and agree to the provisions of the Refunding Instructions, and that the Refunding Instructions have been duly accepted by the 2006 Fiscal Agent and, assuming due execution and delivery by the City, constitute the legal, valid and binding obligation of the 2006 Fiscal Agent enforceable in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting the enforcement of creditors' rights in general and except as such enforceability may be limited by the application of equitable principles if equitable remedies are sought; and

22. Such additional legal opinions, certificates, instruments and other documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the material representations of the City contained herein, and of the statements and information contained in the Official Statement and the due performance or satisfaction by the City at or prior to the Closing of all agreements then to be performed and all conditions then to be satisfied by the City in connection with the transactions contemplated hereby and by the Fiscal Agent Agreement and the Official Statement.

If the City shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds contained in this Purchase Agreement, or if the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds shall be terminated for any reason permitted by this Purchase Agreement, this Purchase Agreement shall terminate and neither the City nor the Underwriter shall be under any further obligation hereunder, except that the respective obligations of the Underwriter and the City set forth in Section 7 hereof shall continue in full force and effect.

6. **Conditions to the Obligations of the City.** The obligations of the City shall be subject to the satisfaction of the conditions contained in Section 5 of this Purchase Agreement.

7. **Expenses.** Whether or not the transactions contemplated by this Purchase Agreement are consummated, the Underwriter shall be under no obligation to pay, and the City shall pay only from the proceeds of the Bonds or any other legally available funds of the City or the Community

Facilities District, but only as the City and such other party providing such services may agree, all expenses and costs of the City incident to the performance of its obligations in connection with the authorization, execution, sale and delivery of the Bonds to the Underwriter, including, without limitation, printing costs, initial fees of the Fiscal Agent, including fees and disbursements of their counsel, if any, fees and disbursements of Bond Counsel, Disclosure Counsel and other professional advisors employed by the City, costs of preparation, printing, signing, transportation, delivery and safekeeping of the Bonds and for expenses (included in the expense component of the spread) incurred by the Underwriter on behalf of the City's employees which are incidental to implementing this Purchase Agreement, including, but not limited to, meals, transportation and lodging of those employees. The Underwriter shall pay all out-of-pocket expenses of the Underwriter, including, without limitation, advertising expenses, the California Debt and Investment Advisory Commission fee, CUSIP Services Bureau charges, regulatory fees imposed on new securities issuers and any and all other expenses incurred by the Underwriter in connection with the public offering and distribution of the Bonds, including fees of its counsel.

8. **Notices.** Any notice of other communication to be given to the City under this Purchase Agreement may be given by delivering the same in writing to the City of Tracy, 333 Civic Center Plaza, Tracy, California 95376, Attention: Finance Director; any notice or other communication to be given to the Underwriter under this Purchase Agreement may be given by delivering the same in writing to Piper Jaffray & Co, 8880 Cal Center Drive, Suite 400, Sacramento, CA 95826, Attention: Dennis McGuire.

9. **Parties In Interest.** This Purchase Agreement is made solely for the benefit of the City and the Underwriter (including any successors or assignees of the Underwriter) and no other person shall acquire or have any right hereunder or by virtue hereof.

10. **Survival of Representations.** The representations of the City under this Purchase Agreement shall not be deemed to have been discharged, satisfied or otherwise rendered void by reason of the Closing and regardless of any investigations made by or on behalf of the Underwriter (or statements as to the results of such investigations) concerning such representations and statements of the City and regardless of delivery of and payment for the Bonds.

11. **Execution in Counterparts.** This Purchase Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

12. **Effective.** This Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the City and shall be valid and enforceable as of the time of such acceptance.

13. **No Prior Agreements.** This Purchase Agreement supersedes and replaces all prior negotiations, agreements and understanding among the parties hereto in relation to the sale of the Bonds by the City.

14. **Governing Law.** This Purchase Agreement shall be governed by the laws of the State of California.

15. **Effective Date.** This Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the City and shall be valid and enforceable as of the time of such acceptance.

Very truly yours,

PIPER JAFFRAY & CO.

By: _____
Its: Authorized Officer

Time of Execution: _____

CITY OF TRACY

By: _____
Jennifer D. Haruyama, City Manager

EXHIBIT A

\$ _____
CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2006-01
(NEI PHASE II)
SPECIAL TAX REFUNDING BONDS, SERIES 2019

**Schedule of Bond Maturities, Principal Amounts, Interest Rates, Yields
and Initial Offering Prices**

<i>Maturity Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Initial Offering Price</i>	<i>10% Test Used</i>	<i>Hold the Price Offering Rule Used</i>
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Optional Redemption. The Bonds maturing on or before September 1, 20__, are not subject to optional redemption before maturity. The Bonds maturing on September 1, 20__, and thereafter are subject to redemption from any source of funds prior to their stated maturities, on September 1, 20__, and any date thereafter, in whole or in part, at a redemption price (expressed as a percentage of the principal amount of the Bonds to be redeemed), as set forth below, together with accrued interest thereon to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
September 1, ____ through August 31, ____	____%
September 1, ____ through August 31, ____	____
September 1, ____ through August 31, ____	____
September 1, ____ and any date thereafter	____

Mandatory Sinking Fund Redemption. The Bonds maturing on September 1, 20__ (the “**Term Bonds**”), are subject to mandatory redemption in part by lot, from sinking fund payments made by the City from the Bond Fund, at a redemption price equal to the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts all as set forth in the following tables:

20__ Term Bonds

Sinking Fund Redemption Date (September 1)	<u>Sinking Fund Payments</u>
	\$

(maturity)

20__ Term Bonds

Sinking Fund Redemption Date (September 1)	<u>Sinking Fund Payments</u>
	\$

(maturity)

Redemption from Special Tax Prepayments. Special Tax Prepayments and any corresponding transfers from the 2019 Reserve Fund will be used to redeem 2019 Bonds on the next Interest Payment Date for which notice of redemption can timely be given under the Fiscal Agent Agreement, among maturities so as to maintain substantially the same debt service profile for the 2019 Bonds as in effect prior to such redemption and by lot within a maturity, at a redemption price (expressed as a percentage of the principal amount of the 2019 Bonds to be redeemed), as set forth below, together with accrued interest to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
Any Interest Payment Date on or before March 1, ____	____%
September 1, ____ and March 1, ____	____%
September 1, ____ and March 1, ____	____%
September 1, ____ and any Interest Payment Date thereafter	____%

EXHIBIT B

**CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2006-01
(NEI PHASE II)
SPECIAL TAX REFUNDING BONDS, SERIES 2019**

CERTIFICATE OF [PROLOGIS INC.]

_____, 2019

City of Tracy
333 Civic Center Plaza
Tracy, California 95376

Piper Jaffray & Co.
8880 Cal Center Drive, Suite 400
Sacramento, California 95826

The undersigned hereby states and certifies that her or she is an authorized officer of representative of [Prologis Inc., a Maryland corporation (“Prologis”) and as such is familiar with the facts herein certified and is authorized and qualified to certify the same.

The information in the Preliminary Official Statement, dated _____, 2019 relating to the City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) Special Tax Refunding Bonds, Series 2019 under the caption “THE DISTRICT—Property Ownership and Development,” is true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading insofar as such information relates to Prologis, its affiliates, Prologis’ or its affiliates’ ownership of property within the City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) Prologis’ or its affiliates’ tenants.

Dated: _____, 2019

[PROLOGIS INC., a Maryland corporation]

By: _____
Its: _____

EXHIBIT C

\$ _____

**CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2006-01
(NEI PHASE II)
SPECIAL TAX REFUNDING BONDS, SERIES 2019**

CLOSING CERTIFICATE OF [PROLOGIS INC.]

_____, 2019

City of Tracy
333 Civic Center Plaza
Tracy, California 95376

Piper Jaffray & Co.
8880 Cal Center Drive, Suite 400
Sacramento, California 95826

Ladies and Gentlemen:

Reference is made to the City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) Special Tax Refunding Bonds, Series 2019 (the “Bonds”) and to the Bond Purchase Agreement, dated _____, 2019 (the “Purchase Agreement”), entered into in connection therewith. This Closing Certificate of [Prologis Inc.] (the “Closing Certificate”) is delivered by [Prologis Inc. a Maryland corporation] (“Prologis”) pursuant to the Purchase Agreement. Capitalized terms used herein or in the POS Certificate (defined below) and not otherwise defined have the meanings ascribed to them in the Purchase Agreement. A copy of the Certificate of [Prologis Inc.] (the “POS Certificate”), dated _____, 2019, delivered by [Prologis], is attached hereto as Exhibit A.

The undersigned certifies that he or she is familiar with the facts herein certified and is authorized and qualified to certify the same as an authorized officer or representative of Prologis, and the undersigned, on behalf of Prologis, further certifies as follows:

1. Prologis has received the final Official Statement relating to the Bonds. Each statement, representation and warranty made in the POS Certificate is true and correct in all material respects on and as of the date hereof with the same effect as if made on the date hereof, except that all references therein to the Preliminary Official Statement shall be deemed to be references to the final Official Statement.

2. No event has occurred since the date of the Preliminary Official Statement affecting the statements and information described in the POS Certificate relating to Prologis or its affiliates which should be disclosed in the Official Statement for the purposes for which it is to be used in order to make such statements and information contained in the Official Statement not misleading in any material respect.

3. [Prologis] has duly authorized, executed and delivered the Continuing Disclosure Certificate (Property Owner) (the “Continuing Disclosure Certificate”) dated as of ____ __, 2019 in substantially the form attached to the Official Statement as Appendix F.

4. The undersigned has executed this Closing Certificate solely in his or her capacity as an officer of Developer and he or she will have no personal liability arising from or relating to this Closing Certificate. Any liability arising from or relating to this Closing Certificate may only be asserted against the Developer.

[Prologis Inc.
a Maryland corporation]

By: _____
Authorized Representative

EXHIBIT D

SUPPLEMENTAL OPINION OF BOND COUNSEL

[Date of Issuance]

Piper Jaffray & Co., as Underwriter
Sacramento, California

§ _____
CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2006-01
(NEI PHASE II)
SPECIAL TAX REFUNDING BONDS, SERIES 2019
Special Tax Bonds, Series 2019

(Supplemental Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Tracy (the “City”) of the above-referenced bonds (the “Bonds”) pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being sections 53311 et seq. of the California Government Code (the “Law”), a resolution of the City adopted on _____, 2019 (the “Resolution”) and a Fiscal Agent Agreement (the “Fiscal Agent Agreement”), dated as of July 1, 2019 by and between the City, for and on behalf of the City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) (the “District”), and U.S. Bank National Association, as fiscal agent. Capitalized terms used herein but not defined have the meaning given them in the Bond Purchase Agreement, dated _____, 2019 (the “Purchase Agreement”), by and between Piper Jaffray & Co., as underwriter (the “Underwriter”), and the City, acting for and on behalf of the District.

We have examined the Fiscal Agent Agreement, the Purchase Agreement, and the Continuing Disclosure Certificate, dated _____, 2019 (the “Continuing Disclosure Certificate”), executed and delivered by the City and agreed and accepted by Goodwin Consulting Group, Inc., as dissemination agent, (collectively, the “City Documents”), the Law and such certified proceedings and other papers as we deem necessary to render this opinion.

This letter is being delivered in our capacity as bond counsel to the City and not as counsel to the Underwriter.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Resolution, the Fiscal Agent Agreement and the certified proceedings and certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

(i) the Purchase Agreement has been duly authorized, executed and delivered by the City, and, assuming that the Purchase Agreement constitutes the valid and binding obligation the Underwriter, constitutes the legally valid and binding obligation of the City enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and general principles of equity (regardless of whether such enforceability is considered in equity or at law);

(ii) the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Fiscal Agent Agreement is exempt from qualification under the Trust Indenture Act of 1939, as amended;

(iii) the information contained in the Official Statement on the cover and under the captions "INTRODUCTION," "THE 2019 BONDS," "SECURITY FOR THE BONDS," "TAX MATTERS" and Appendices C and D thereof (except that no opinion or belief is expressed as to any financial or statistical data contained therein), insofar as it purports to summarize certain provisions of the Act, the Bonds, the Fiscal Agent Agreement and the exclusion from gross income for federal income tax purposes and exemption from State personal income taxes of interest on the Bonds, presents a fair and accurate summary of such provisions; and

(iv) We are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement, dated as of _____, 2019 (the "Official Statement"), and make no representation that we have independently verified the accuracy, completeness or fairness of any such statements; however, in connection with the Official Statement, we have reviewed certain documents and have participated in conferences in which the contents of the Official Statement and related matters were discussed. During the course of our work on this matter, no facts have come to our attention that have caused us to believe that the Official Statement (except for the following items, which we expressly exclude from the scope of this sentence: any financial, statistical and demographic data or forecasts, numbers, charts, estimates, projections, assumptions or expressions of opinion, the appraisal, and information regarding DTC and its book-entry only system, that is contained or incorporated by reference in the Official Statement and the appendices to the Official Statement) as of the date of the Official Statement or the date hereof contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

The preceding paragraph is not an opinion but constitutes negative observations based on certain limited activities performed by specific lawyers in our firm in our role as special disclosure counsel to the City. The scope of the activities we performed for purposes of delivering this letter was inherently limited and does not purport to encompass all activities necessary for compliance with applicable securities laws. In addition, in performing those activities, we relied on third party representations, warranties, certifications and opinions, including and primarily, representations, warranties and certifications made by the City. The preceding paragraph is otherwise subject to the conditions set forth herein.

This opinion letter is solely for your benefit in connection with the transaction covered by the first paragraph of this letter and may not be relied upon, used, circulated, quoted or referred to, nor any copies hereof be delivered to, any other person without our prior written approval.

Very truly yours,

JONES HALL, a Professional Law Corporation

EXHIBIT E

\$ _____
CITY OF TRACY
COMMUNITY FACILITIES DISTRICT NO. 2006-01
(NEI PHASE II)
SPECIAL TAX REFUNDING BONDS, SERIES 2019

FORM OF ISSUE PRICE CERTIFICATE

The undersigned, on behalf of Piper Jaffray & Co. (the “**PJC**”), hereby certifies as set forth below with respect to the sale and issuance of the above-captioned bonds (the “**Bonds**”).

1. ***Sale of the General Rule Maturities.*** As of the date of this certificate, for each Maturity of the General Rule Maturities, the first price at which at least 10% of such Maturity was sold to the Public is the respective price listed in Schedule A.

2. ***[Initial Offering Price of the Hold-the-Offering-Price Maturities.***

(a) **PJC** offered the Hold-the-Offering-Price Maturities to the Public for purchase at the respective initial offering prices listed in Schedule I (the “**Initial Offering Prices**”) on or before the Sale Date. A copy of the pricing wire or equivalent communication for the Bonds is attached to this certificate as Schedule II.

(b) As set forth in the Bond Purchase Agreement, dated _____, 2019, by and between **PJC** and the Issuer, PJC has agreed in writing that: (i) for each Maturity of the Hold-the-Offering-Price Maturities, it would neither offer nor sell any of the Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the “**hold-the-offering-price rule**”); and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any retail distribution agreement shall contain the agreement of each broker-dealer who is a party to the retail distribution agreement, to comply with the hold-the-offering-price rule. Pursuant to such agreement, no Underwriter (as defined below) has offered or sold any Maturity of the Hold-the-Offering-Price Maturities at a price that is higher than the respective Initial Offering Price for that Maturity of the Bonds during the Holding Period].

3. ***Reserve Fund.*** The establishment of the Reserve Fund for the Bonds in the amount of the Reserve Requirement) as such terms are defined in the Fiscal Agent Agreement, dated as of _____ 1, 2019, by and between the Issuer and U.S. Bank National Association, as fiscal agent (the “**Fiscal Agent**”), pursuant which the Bonds are being issued, was vital to the marketing of the Bonds and reasonably required to assure payment of debt service on the Bonds.

4. ***Defined Terms.***

(a) ***General Rule Maturities*** means those Maturities of the Bonds listed in Schedule I hereto as the “**General Rule Maturities.**”

(b) ***[Hold-the-Offering-Price Maturities*** means those Maturities of the Bonds listed in Schedule I hereto as the “**Hold-the-Offering-Price Maturities.**”

(c) *Holding Period* means, with respect to a Hold-the-Offering-Price Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the _____, 2019 (the Sale Date), or (ii) the date on which the Underwriter has sold at least 10% of such Hold-the-Offering-Price Maturity to the Public at prices that are no higher than the Initial Offering Price for such Hold-the-Offering-Price Maturity.]

(d) *Issuer* means the City of Tracy.

(e) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate maturities.

(f) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(g) [*Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is _____, 2019.]

(h) *Underwriter* means: (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public; and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents PJC’s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Jones Hall, a Professional Law Corporation, in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

PIPER JAFFRAY & CO.

By: _____
Name: _____

Dated: _____, 2019

SCHEDULE A

**SALE PRICES OF THE GENERAL RULE MATURITIES [AND INITIAL OFFERING
PRICES OF THE HOLDS THE OFFERING PRICE MATURITIES]**

(Attached)

[SCHEDULE B
PRICING WIRE OR EQUIVALENT COMMUNICATION
(Attached)

RESOLUTION _____

A RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF
SPECIAL TAX REFUNDING BONDS, AND APPROVING AND AUTHORIZING
RELATED DOCUMENTS AND ACTIONS

City of Tracy
Community Facilities District No. 2006-01 (NEI Phase II)
Special Tax Refunding Bonds, Series 2019

RESOLVED, by the City Council (the "City Council") of the City of Tracy (the "City"),
County of San Joaquin, State of California, that:

WHEREAS, the City Council previously conducted proceedings under and pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, Chapter 2.5 of Part 1 of Division 2 of Title 5 (commencing with Section 53311) of the California Government Code (the "Act"), to form "City of Tracy Community Facilities District No. 2006-01 (NEI Phase II)" (the "CFD"), to authorize the levy of special taxes upon the land within the CFD, and to issue bonds secured by said special taxes the proceeds of which were to be used to finance certain public improvements, all as described in those proceedings; and

WHEREAS, under the provisions of the Act, the City issued, for and on behalf of the CFD, its \$10,660,000 initial principal amount City of Tracy Community Facilities District No. 2006-01 (NEI Phase II) Special Tax Bonds, Series 2006 (the "Prior Bonds"); and

WHEREAS, on February 4, 2014, by Resolution No. 2014-019, the City Council adopted a Resolution adopting the "Amended Local Goals and Policies for Community Facilities Districts (CFDs)" (the "Goals and Policies"); and

WHEREAS, to effect the refunding of the Prior Bonds and achieve interest cost savings, the City Council proposes to issue its City of Tracy Community Facilities District No. 2006-01 (NEI Phase II), Special Tax Refunding Bonds, Series 2019, which may be issued in one or more series (the "Bonds"), and there have been submitted to the City Council certain documents described below providing for the issuance of the Bonds for the CFD and the use of the proceeds of those Bonds, and the City Council with the aid of its staff, has reviewed the documents and found them to be in proper order; and

WHEREAS, there has also been submitted to the City Council a form of preliminary Official Statement in connection with the marketing of the Bonds and the City Council, with the aid of its staff, has reviewed the preliminary Official Statement; and

WHEREAS, the Prior Bonds are subject to redemption on any date, at a redemption price equal to the principal amount of the Prior Bonds to be redeemed, plus accrued interest to the redemption date, without a premium; and

WHEREAS, City staff has determined that between fiscal year 2007-08 and fiscal year 2018-19, the amount of special taxes levied on certain properties in the CFD was sometimes greater than required by the Rate and Method of Apportionment of Special Tax for the CFD and sometimes lower. As a result of these over- and underlevies, in aggregate certain property owners are owed a refund. Pursuant to a settlement agreement with such property owners which was previously approved by the City Council, the City shall refund the property owners

from available CFD funds concurrently with issuance of the Bonds. The settlement agreement evidences the City's satisfaction of any payment liability to such property owners; and

WHEREAS, in accordance with Government Code Section 5852.1, the City Council has obtained and wishes to disclose the information set forth in Appendix A hereto; and

WHEREAS, all conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of the Bonds and the levy of the special taxes as contemplated by this resolution and the documents referred to herein exist, have happened and have been performed in due time, form and manner as required by the laws of the State of California, including the Act;

NOW, THEREFORE, BE IT RESOLVED, as follows:

1. Bonds Authorized. Pursuant to the Act, this Resolution and the Fiscal Agent Agreement (as defined in Section 3 of this Resolution), bonds designated the "City of Tracy Community Facilities District No. 2006-01 (NEI Phase II), Special Tax Refunding Bonds, Series 2019," which may be issued in one or more series in accordance with Section 8 (the "Bonds") in the aggregate principal amount not to exceed \$11,000,000 are hereby authorized to be issued. The Bonds shall be dated, shall bear interest at the rates, shall mature on the dates (provided that the final maturity date of the Bonds shall not exceed the final maturity date of the Prior Bonds), shall be issued in the form, shall be subject to redemption, and shall otherwise be issued on the terms and conditions, all as set forth in the Fiscal Agent Agreement and in accordance with this Resolution; provided, however, that the Bonds may be issued only if the net present value of debt service savings resulting from the issuance of the Bonds will be equal to at least 3.00% of the refunded principal amount of the Prior Bonds being refunded. The Fiscal Agent (as defined in Section 3 of this Resolution), an Authorized Officer (as defined in Section 2 of this Resolution) and other responsible officers of the City are hereby authorized and directed to take such actions as are required to cause the delivery of the Bonds upon receipt of the purchase price thereof.

The City Council hereby finds as follows:

(i) The rate and method of apportionment of special taxes for the CFD is in compliance with the Goals and Policies.

(ii) The provision of the Goals and Policies requiring property owners to provide continuing disclosure as long as they own property that is responsible for at least 10% of the special taxes in the CFD is hereby waived so that the threshold can be established for the Bonds at a level acceptable to the Underwriter (as defined in Section 4).

(iii) It would be prudent in the management of the City's fiscal affairs to issue the Bonds to refund the Prior Bonds.

(iv) Section 53345.8 of the Act requires, with certain exceptions, that the value of the real property subject to special taxes levied in the CFD must be at least three times the principal amount of the Bonds and the principal amount of all other bonds that will be outstanding following issuance of the Bonds that are secured by a special tax levied pursuant to the Act on property within the CFD or a special assessment levied on property within the CFD (this

requirement is referred to as the “value to lien ratio”). The value of the real property in the CFD that would be subject to the special tax to pay debt service on the Bonds, consisting of the fiscal year 2018-19 assessed value of the taxable property in the CFD will be at least three times the principal amount of the sum of the following: (A) the principal amount of the Bonds and (B) the principal amount of all other bonds outstanding that are secured by a special tax levied pursuant to the Act on property within the CFD or a special assessment levied on property within the CFD.

2. Authorities Granted. The Mayor, City Manager, Assistant City Manager, Finance Director, or such other official of the City as may be designated by such officer pursuant to Section 9 hereof (each, an “Authorized Officer”) is hereby authorized and directed to execute and deliver the documents approved herein in substantially the form on file with the City Clerk, together with such additions or changes as are approved by such Authorized Officer, including such additions or changes as are necessary or advisable to permit the timely issuance, sale and delivery of the Bonds. The approval of such additions or changes shall be conclusively evidenced by the execution and delivery by an Authorized Officer of the documents herein specified.

3. Fiscal Agent Agreement; Irrevocable Refunding Instructions. The City Council hereby approves the form of the Fiscal Agent Agreement by and between the City, for and on behalf of the CFD, and U.S. Bank National Association, as fiscal agent (the “Fiscal Agent”), with respect to the Bonds, in substantially the form on file with the City Clerk (the “Fiscal Agent Agreement”). The terms and provisions of the Fiscal Agent Agreement, as executed, are incorporated herein by this reference as if fully set forth herein. An Authorized Officer is hereby authorized and directed to execute the Fiscal Agent Agreement on behalf of the City and the City Clerk is hereby authorized and directed to attest thereto.

The City Council hereby approves the form of Irrevocable Refunding Instructions by the City, for and on behalf of the CFD, to The Bank of New York Mellon Trust Company, N.A., in its capacity as the Prior Bonds fiscal agent, in substantially the form on file with the City Clerk (the “Irrevocable Refunding Instructions”). The terms and provisions of the Irrevocable Refunding Instructions, as executed, are incorporated herein by this reference as if fully set forth herein. An Authorized Officer is hereby authorized and directed to execute the Irrevocable Refunding Instructions on behalf of the City.

4. Official Statement. The City Council hereby approves the Official Statement prepared in connection with the Bonds in substantially the form on file with the City Clerk, together with any changes therein or additions thereto deemed advisable by an Authorized Officer. The City Council hereby approves and authorizes the distribution by Piper Jaffray & Co., the underwriter of the Bonds (the “Underwriter”), of the Official Statement to prospective purchasers of the Bonds, and authorizes and directs an Authorized Officer on behalf of the City to deem the Official Statement “final” pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934 (the “Rule”) prior to its distribution to prospective purchasers of the Bonds. The execution of the final Official Statement, which shall include then-current financial information regarding the City and the CFD and such other changes and additions thereto deemed advisable by an Authorized Officer and such information permitted to be excluded from the preliminary version of the Official Statement pursuant to the Rule, shall be conclusive evidence of the approval of the Official Statement by the City for and on behalf of the CFD.

5. Continuing Disclosure. The City Council hereby approves the form of the Continuing Disclosure Certificate with respect to the Bonds in substantially the form thereof attached to the Official Statement on file with the City Clerk. An Authorized Officer is hereby authorized and directed to complete and execute the Continuing Disclosure Certificate on behalf of the City (for and on behalf of the CFD) with such changes, additions or deletions as may be approved by the Authorized Officer.

6. Sale of the Bonds; Bond Purchase Agreement. The bond purchase agreement, between the City and the Underwriter, in the form on file with the City Clerk (the "Bond Purchase Agreement") and made a part hereof as though set forth in full herein, is hereby approved by the City Council. An Authorized Officer is hereby authorized and directed to execute and deliver the Bond Purchase Agreement in such form, together with such changes, insertions and omissions which are approved by an Authorized Officer and which are in accordance with the provisions of this Resolution, such execution to be conclusive evidence of such approval; subject to the requirement that the Underwriter's discount on the purchase of the Bonds (excluding original issue discount) may not exceed 1.50% and the net present value of the debt service savings resulting from the issuance of the Bonds must be equal to or greater than the amount specified in Section 1 hereof. The City Council hereby approves the negotiated sale of the Bonds to the Underwriter pursuant to such Bond Purchase Agreement.

7. Approval of Agreements with Bond Counsel and Disclosure Counsel. The City Council hereby approves the form of a supplement to the Master Legal Services Agreement (the "Supplement") with Jones Hall, A Professional Law Corporation, as bond counsel and disclosure counsel to the City in connection with the Bonds, in substantially the form on file with the City Clerk. An Authorized Officer is hereby authorized and directed to complete and execute the Supplement on behalf of the City with such changes, additions or deletions as may be approved by the Authorized Officer.

8. Multiple Series of Bonds. In addition to the other authorities granted by this Resolution, an Authorized Officer, in consultation with the City's bond counsel, municipal advisor and Underwriter, is hereby authorized to determine that it is in the best interest of the City and the CFD for the City to issue one series of Bonds the interest on which is exempt from federal income taxation and a second series the interest on which is subject to federal income taxation, and to make changes to the documents approved by the City Council in this Resolution to reflect that determination.

9. Actions Authorized. All actions heretofore taken by the officers and agents of the City with respect to the establishment of the CFD and the sale and issuance of the Bonds are hereby approved, confirmed and ratified, and the appropriate officers of the City are hereby authorized and directed to do any and all things and take any and all actions and execute any and all certificates, agreements and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance and delivery of the Bonds in accordance with this resolution, including but not limited to any actions required in connection with any certificate, agreement, and other document described in the documents herein approved. All actions to be taken by an Authorized Officer, as defined herein, may be taken by such Authorized Officer or any designee, with the same force and effect as if taken by the Authorized Officer.

10. Effectiveness. This resolution shall take effect from and after its adoption. The provisions of any previous resolutions in any way inconsistent with the provisions hereof in and for the issuance of the Bonds as herein described are hereby repealed.

The foregoing Resolution _____ was adopted by the Tracy City Council on the 2nd day of July, 2019 by the following vote:

AYES: COUNCIL MEMBERS:

NOES: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS

MAYOR

ATTEST:

CITY CLERK

APPENDIX A

Government Code Section 5852.1 Disclosure

The good faith estimates set forth herein are provided with respect to the Bonds in accordance with California Government Code Section 5852.1. Such good faith estimates have been provided to the City by CSG Advisors Incorporated, the City's Municipal Advisor in consultation with Piper Jaffray & Co., Underwriter of the Bonds, and the estimates assume that the Bonds will be issued as a single series of tax-exempt bonds.

Principal Amount. The Municipal Advisor has informed the City that, based on the CFD financing plan and current market conditions, its good faith estimate of the aggregate principal amount of the Bonds to be sold is **\$8,820,000** (the "Estimated Principal Amount"), which excludes approximately **\$1,057,000** of net premium estimated to be generated from current market pricing. Net premium is generated when, on a net aggregate basis for a single issuance, the prices paid for the bonds are higher than the face values of such bonds.

True Interest Cost of the Bonds. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the true interest cost of the Bonds, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the Bonds, is **3.53%**.

Finance Charge of the Bonds. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the finance charge for the Bonds, which means the sum of all fees and charges paid to third parties (or costs associated with the Bonds), is **\$351,000**. Such fees and charges include fees for bond and disclosure counsel, municipal advisor, special tax consultant, fiscal agent, city attorney and staff time related to bond issuance, set-aside for Fiscal Year 2019-20 CFD administrative expenses, printing, and underwriting.

Amount of Proceeds to be Received. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the Bonds is sold plus net premium, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the amount of proceeds expected to be received on behalf of the CFD for sale of the Bonds, less the finance charge of the Bonds, as estimated above, and any reserves or capitalized interest paid or funded with proceeds of the Bonds, is **\$8,585,000**.

Total Payment Amount. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the total payment amount, which means the sum total of all payments that the CFD property owners will make to pay debt service on the Bonds, plus the finance charge for the Bonds, as described above, not paid with the proceeds of the Bonds, and exclusive of any reserve funds or capitalized interest that could offset such costs, calculated to the final maturity of the Bonds, is **\$13,444,000**.

The foregoing estimates constitute good faith estimates only. The actual principal amount of the Bonds issued and sold, the true interest cost thereof, the finance charges thereof, the amount of

proceeds received therefrom and total payment amount with respect thereto may differ from such good faith estimates due to (a) the actual date of the sale of the Bonds being different than the date assumed for purposes of such estimates, (b) the actual principal amount of Bonds sold being different from the Estimated Principal Amount, (c) the actual amortization of the Bonds being different than the amortization assumed for purposes of such estimates, (d) the actual market interest rates at the time of sale of the Bonds being different than those estimated for purposes of such estimates, (e) other market conditions, (f) the number of series of the Bonds or (g) alterations in the CFD financing plan, delays in the financing, or a combination of such factors. The actual date of sale of the Bonds and the actual principal amount of Bonds sold will be determined by the City based on the timing of the need for proceeds of the Bonds and other factors. The actual interest rates borne by the Bonds will depend on market interest rates at the time of sale thereof. The actual amortization of the Bonds will also depend, in part, on market interest rates at the time of sale thereof. Market interest rates are affected by economic and other factors beyond the control of the City.

July 2, 2019

AGENDA ITEM 3.C

REQUEST

PUBLIC HEARING FOR THE PURPOSE OF ACCEPTING THE CITY OF TRACY 2019 PUBLIC HEALTH GOALS REPORT ON WATER QUALITY AS REQUIRED BY THE CALIFORNIA HEALTH AND SAFETY CODE AND APPROVING THE REPORT TO FILE WITH THE STATE WATER RESOURCES CONTROL BOARD

EXECUTIVE SUMMARY

California Health and Safety Code (H&SC) Section 116470 requires all California water retailers with more than 10,000 service connections to prepare a report every three years informing consumers of water quality constituents that exceeded the Public Health Goals (PHGs). These goals established by the Office of California Environmental Health Hazard Assessment are non-enforceable water quality goals and not the required quality standards. The City's consultant prepared a report that indicates that four constituent categories above the applicable PHG levels or Maximum Contaminant Level Goal (MCLG) were detected in the City's water system. However, the City's water system meets all primary drinking water standards set by the state and federal governments to protect public health, and therefore, no further action is proposed at this time. The purpose of this is to comply with the public hearing requirements of the California Health and Safety Code.

DISCUSSION

The City of Tracy prepares an annual Consumer Confidence Report for the City's water system and distributes it to consumers (see attached). In addition to information of City's water resources, treatment, and regulations, it provides detailed information of water quality constituents with permitted regulatory standards.

However, California Health and Safety Code (H&SC) Section 116470 requires all California water retailers who provide more than 10,000 service connections to prepare a report every three years informing consumers of water quality constituents that exceeded a PHG. PHGs are non-enforceable water quality goals established by the California Office of Environmental Health Hazard Assessment (OEHHA) and are based solely on public health risk consideration. Where there is no PHG for a specific contaminant, water providers are required to use MCLG established by the U.S. Environmental Protection Agency (USEPA).

In setting PHGs/MCLGs, OEHHA and USEPA do not take into account the practical risk management factors that are considered by the USEPA and the State Water Resources Control Board (SWRCB) Division of Drinking Water (DDW) when setting drinking water standards, such as Maximum Contaminant Levels (MCLs). MCLs are the highest level (concentration) of a contaminant that is allowed in drinking water. When setting an MCL, the USEPA and the SWRCB consider factors, such as analytical detection capabilities, treatment technologies available, benefit and costs.

The City acquired the services of West Yost Associates to prepare this report on PHGs. The report presents an analysis of drinking water quality data that has been collected over the past three years (2016, 2017 & 2018). The analysis does not include Asbestos, Synthetic Organic Chemicals (SOCs), Gross Alpha Particle Activity, Radium, Radon and Uranium, Gross Beta Particle Activity, Strontium-90 and Tritium. The City is required to collect data for these constituents only once every nine years.

Four contaminants categories (Arsenic, Copper and Lead, Gross Alpha Particle Activity, and Total Coliform) had detected levels above the applicable PHG or MCLG between 2016 and 2018.

Arsenic:

- Arsenic is a naturally occurring element in the earth's crust and is spread throughout the natural environment.
- Arsenic was detected at all wells within the City's system. Detected values were above the PHG, but below the MCL, and therefore requires no follow up action. Well water typically represents less than 10% of the water used by the community.

Copper and Lead:

- Copper is present in many naturally occurring minerals and is widely used in industrial and household products. The presence of copper pipe and lead connections in drinking water distribution systems can also contribute to copper levels in drinking water measured at household taps, depending on the alkalinity and hardness of the drinking water. There is no MCL established for copper and lead.
- Copper was not detected above the PHG in any of the City's water supplies. However, tap monitoring in 2018 showed a 90th percentile concentration of 533 µg/L (0.53 mg/L) based on 48 samples. Based on the Association of California Water Agencies (ACWA) Guidelines, because the 90th percentile concentration exceeds 300 µg/L (0.3 mg/L), the PHG for copper was exceeded. Nevertheless, copper concentrations throughout the distribution system were consistently below the action level.
- Lead was detected above the PHG in Well 3 with an average concentration of 0.61 µg/L for the monitoring period from 2016 through 2018. However, based on 48 tap samples collected in 2018, the 90th percentile lead concentration was 1 µg/L. According to the ACWA Guidelines, the PHG for lead was not exceeded because the 90th percentile concentration was below 5 µg/L. Lead concentrations in water supplies and throughout the distribution system were consistently below the action level.

Gross Alpha Particle Activity:

- Gross alpha particle activity refers to a group of radioactive elements, including radium-226, radium-228, radium-224, uranium, and polonium-210. Radioactive elements contributing to gross alpha particle activity, primarily radium-226, are naturally present throughout the earth's crust.

- Gross alpha particle activity was detected above the MCLG in Well 8 and surface water treated at the City's John Jones Water Treatment Plant. However, observed gross alpha particle activity was below the MCL in both of these water supplies.

Total Coliform:

- Coliforms are bacteria that occur naturally in the environment and serve as an indicator for other, potentially harmful bacteria. The numerical health risk associated with coliforms has not been quantified because coliforms are an indicator of pathogens but are not typically pathogenic.
- The City collects 92 samples throughout the distribution system for total coliform testing each month. From 2016 through 2018, a total of 6 samples were positive for total coliform but all repeat samples were negative. Therefore, a maximum of 1.8 percent of samples were positive for total coliform. The MCLG of zero percent was exceeded, but the City consistently complied with the MCL.

The PHG report satisfies the requirement of H&SC by presenting the following information:

- Identifies contaminants detected in drinking water at a level that exceeds the PHG or MCLG during the past three years
- Discloses the numerical public health risk associated with the MCL and PHG for each detected contaminant
- Identifies the category of risk to public health associated with each detected contaminant
- Describes the Best Available Technology (BAT), if available, to remove the contaminant
- Estimates the aggregate cost and cost per customer of utilizing the BAT to reduce the concentration of each contaminant to a concentration at or below the PHG or MCLG

At this time, the City meets all primary drinking water standards set by both the state and federal government regulatory agencies to protect public health. Therefore, no further action is proposed at this time. The purpose of the public hearing is to comply with the California Health and Safety Code requirement. However, if the City desires to for strive for PHG, a comprehensive multiple year implementation plan can be established to construct new treatment processes resulting in increased water rates for consumers.

STRATEGIC PLAN

This agenda item is a routine operational item and is not related to the City Council's Strategic Plans.

FISCAL IMPACT

This agenda item is to update the City Council on water quality provided by the City's water utility. Costs associated with preparing this report have been included in the Council adopted operating budget.

RECOMMENDATION

That the City Council of the City of Tracy accepts and approves the City of Tracy 2019 Public Health Goals Report on water quality as required by the California Health and Safety Code.

Prepared by: Ripon Bhatia, Senior Civil Engineer

Reviewed by: Kul Sharma, Utilities Director
Karin Schnaider, Finance Director
Andrew Malik, Assistant City Manager

Approved by: Jenny Haruyama, City Manager

ATTACHMENTS:

- A. City of Tracy's Public Health Goal Report 2019
- B. 2018 Consumer Confidence Report

FINAL REPORT

Water Quality Relative to Public Health Goals

PREPARED FOR
City of Tracy

MAY 2019

Water Quality Relative to Public Health Goals

Prepared for

City of Tracy

Project No. 404-50-19-49



Project Manager: Craig Thompson, P.E., BCEE
RCE No. 44224

05-20-19

Date

A blue ink handwritten signature of Elizabeth Drayer.

QA/QC Review: Elizabeth Drayer, P.E. RCE No.
46872

05-20-19

Date

Davis

2020 Research Park Drive, Suite 100
Davis, CA 95618
(530) 756-5905

Eugene

1650 W 11th Ave. Suite 1-A
Eugene, OR 97402
(541) 431-1280

Irvine

6 Venture, Suite 290
Irvine, CA 92618
(949) 517-9060

Phoenix

4505 E Chandler Boulevard, Suite 230
Phoenix, AZ 85048
(602) 337-6110

Pleasanton

6800 Koll Center Parkway, Suite 150
Pleasanton, CA 94566
(925) 426-2580

Portland

4949 Meadows Road, Suite 125
Lake Oswego, OR 97035
(503) 451-4500

Sacramento

8950 Cal Center Drive, Bldg. 1, Suite 363
Sacramento, CA 95826
(916) 306-2250

Santa Rosa

2235 Mercury Way, Suite 105
Santa Rosa, CA 95407
(707) 543-8506

Walnut Creek

1777 Botelho Drive, Suite 240
Walnut Creek, CA 94596
(925) 949-5800



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Water Quality Relative to Public Health Goals

1.0 BACKGROUND

The California Health and Safety Code (Section 116470) requires that public water systems serving more than 10,000 service connections to prepare a brief written report every three years if the concentrations of any contaminants exceeded Public Health Goals (PHGs) during the three years preceding preparation of the report. The report evaluates exceedances of Public Health Goals (PHGs) or Maximum Contaminant Level Goals (MCLGs) if PHGs have not been published.

PHGs are non-enforceable goals published by the California Office of Environmental Health Hazard Assessment (OEHHA) for many contaminants. Only public health risks are considered when setting PHGs; analytical detection limits, availability of treatment technologies, and costs are not considered. MCLGs are similar non-enforceable goals published by the United States Environmental Protection Agency (USEPA).

The report specifically accomplishes the following:

- Identifies each contaminant detected in drinking water at a level that exceeds the Public Health Goal (PHG) or Maximum Contaminant Level Goal (MCLG) if no PHG has been identified
- Discloses the numerical public health risk associated with the Maximum Contaminant Level (MCL) and PHG for each detected contaminant
- Identifies the category of risk to public health associated with each detected contaminant
- Describes the Best Available Technology (BAT), if available, to remove the contaminant
- Estimates the aggregate cost and cost per customer of utilizing the BAT to reduce the concentration of each contaminant to a concentration at or below the PHG or MCLG

Additional information on the City of Tracy's (City's) potable water system, the methodology and results of the evaluation of drinking water quality data from 2016 through 2018, and recommended further action are discussed in the following sections:

- Description of Potable Water System
- Methodology
- Constituents Detected Above PHGs or MCLGs
- Recommended Further Action

Water Quality Relative to Public Health Goals

2.0 DESCRIPTION OF POTABLE WATER SYSTEM

The City’s potable water system has 24,310 active and inactive service connections based on the City’s 2017 American Water Works Association (AWWA) Water Audit. The City’s system relies on the following sources:

- Surface water from the Stanislaus River treated and supplied by South San Joaquin Irrigation District (SSJID)
- Surface water from the Delta Mendota Canal treated at the City’s John Jones Water Treatment Plant (JJWTP)
- Groundwater from nine production wells operated by the City, seven of which are currently active

Table 1 summarizes the annual water volumes from each source in 2016 through 2018.

Table 1. Potable Water Production Volumes				
Source	Annual Water Production, million gallons			Average Annual Production (2016-2018), million gallons
	2016	2017	2018	
Surface Water				
SSJID	3,706	3,842	3,412	3,653
JJWTP	1,089	1,858	1,998	1,648
Groundwater				
Lincoln	2.7	0	80	28
Well 1	47	8	28	27
Well 2	99	28	26	51
Well 3	65	19	18	34
Well 4	40	8	18	22
Well 5	0	0.05	0	0.02
Well 6	10	27	42	26
Well 7	0.52	16	55	24
Well 8 ^(a)	107	1.0	0	36
Total Supply	5,166	5,807	5,677	5,550
(a) Production Well 8 is an aquifer storage and recovery well. The annual production total includes only withdrawals and does not account for recharge.				

As shown in Table 1, from 2016 through 2018 the City received about 60 to 70 percent of its potable water from SSJID. This treated surface water supply is provided by the South County Water Supply Program which is a partnership of SSJID and the cities of Tracy, Manteca, Lathrop, and Escalon. The City has an allocation of 17 mgd of treatment capacity in the Nick C. DeGroot Water Treatment Plant located near Woodward Reservoir in Stanislaus County and an allocation of 11,120 acre-feet, or 3,623 million gallons, per year of water supply.

At the JJWTP, raw surface water from the Delta Mendota Canal is treated by flocculation, sedimentation, granular activated carbon filtration, and ultraviolet (UV) disinfection. Chlorine and

Water Quality Relative to Public Health Goals

ammonia are added for disinfection. The JJWTP has a treatment capacity of 30 mgd. From 2016 to 2018, the JJWTP supplied about 20 to 30 percent of the City's potable water.

The City currently operates nine production wells, including Wells 1 through 8 and the Lincoln Well. Well 8 is used for the City's Aquifer Storage and Recharge (ASR) Program but can be used as an extraction well when needed. From 2016 through 2018, the City's groundwater wells comprised the smallest fraction of the City's water supply, accounting for less than 10 percent of the total supply.

3.0 METHODOLOGY

Guidance for preparation of PHG reports has not been published by the State Water Resources Control Board (SWRCB) Division of Drinking Water (DDW). Therefore, suggested guidelines published by the Association California of Water Agencies (ACWA) in 2019, referred to as ACWA Guidelines herein, were used in the preparation of this PHG report.

The following sections provide more detailed discussion of the data and methodology used to prepare this report:

- Water Quality Data and Analysis
- Assessment of Public Health Risk
- Estimation of Treatment Cost

3.1.1 Water Quality Data and Analysis

Available water quality monitoring data collected in 2016 through 2018 for the following locations was used to determine whether any of the City's water supplies exceeded applicable PHGs or MCLGs:

- Treated surface water from SSJID at the water treatment plant (2016 – 2018)
- Treated surface water from the JJWTP sampled after disinfection (2016 – 2018)
- Groundwater from each well after disinfection (2016 – 2018)
- Copper and lead monitoring at water service taps throughout the distribution system (2018)
- Monthly total coliform and *Escherichia coli* (E. coli) monitoring at water service taps throughout the distribution system (2016 – 2018)

Based on the ACWA Guidelines, non-detect data or results reported below the Detection Limit for Purposes of Reporting (DLR) established in California Code of Regulations (CCR) Title 22 Chapter 15 Section 64400.34 were generally set to a value of zero for inorganic, organic, and radioactive contaminants. The only exception to this practice was gross alpha particle activity, for which half of the DLR was used.

For inorganic, organic, and radioactive contaminants, average concentrations in water from each of the sources were calculated and compared to the applicable PHG or MCLG. For copper and lead, 90th percentile concentrations were calculated based on data collected at water service taps throughout the distribution system as well and compared to thresholds as specified in the ACWA Guidelines. For microbiological contaminants, the total number of samples in which each

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microbiological contaminant was detected was determined for the 36-month period from January 2016 through December 2018.

A few constituents, for which MCLs and PHGs or MCLGs have been established, were not analyzed for all water supplies as part of this report because water quality data was not available for some or all water supplies as discussed below:

- **Asbestos:** The City is required to monitor asbestos at sites throughout the distribution system once every nine years. Data was not available for the 2016-2018 period.
- **Synthetic Organic Chemicals (SOCs):** The City is required to monitor SOC's once every nine years. While atrazine, dibromochloropropane, ethylene dibromide, and simazine were monitored in the City's wells and the JJWTP in 2016 through 2018, alachlor was not monitored during the 2016-2018 period. While alachlor, atrazine, and simazine were monitored once and not detected in treated water provided by SSJID in the 2016-2018 period, dibromochloropropane and ethylene dibromide were not monitored in water provided by SSJID during the 2016-2018 period.
- **Gross Alpha Particle Activity:** The City is required to monitor gross alpha particle activity once every nine years. Only Well 8 and treated water from the JJWTP were monitored in the 2016-2018 period.
- **Radium, Radon, and Uranium:** In accordance with CCR Title 22 Chapter 15 Section 64442, the City does not monitor radium-226, radium-228, radon, and uranium because the gross alpha particle activity of its water sources is consistently below 5 picocuries per liter (pCi/L).
- **Gross Beta Particle Activity, Strontium-90, and Tritium:** The City is not required to monitor gross beta particle activity, strontium-90, and tritium. Compliance for radioactive contaminants is assessed only based on gross alpha particle activity per the 2018 Inspection of The City of Tracy Domestic Water System Report.

3.1.2 Assessment of Public Health Risk

The category of risk to public health associated with contaminants that exceeded the applicable PHG or MCLG was determined using *Health Risk Information for Public Health Goal Exceedance Reports* published by OEHHA in February 2019. The numerical health risk associated with the MCL and PHG or MCLG were also determined based on this document.

3.1.3 Estimation of Treatment Cost

The BAT for removal of contaminants that exceeded the applicable PHG or MCLG was selected based on CCR Title 22 Article 12 Sections 64447 through 64447.4. The BATs presented in the CCR are specifically aimed to reduce the concentrations of contaminants to below the applicable MCLs. It is unknown if these BATs would be able to reduce concentrations of contaminants to below the applicable PHGs or MCLGs.

Based on these BAT selections, preliminary cost estimates for treatment of water sources found to exceed the applicable PHG or MCLG were prepared. The cost estimates include annualized capital and operations and maintenance costs. Cost estimates were based on unit costs presented in the ACWA Guidelines and the water production capacity for each facility. The unit costs are based on

Water Quality Relative to Public Health Goals

a survey conducted by ACWA in 2012 and other references compiled by ACWA. The unit costs in the ACWA Guidelines are in 2018 dollars, adjusted from 2012 dollars using the annual average values of the Building Cost Index (BCI) published by Engineering News Record (ENR).

The cost estimates are preliminary in nature, and the cost of multiple treatment technologies are presented to reflect a range of potential costs, where possible. The feasibility of removal of contaminants has not been evaluated specifically for the City's water supplies, accounting for factors such as the availability of space at well sites and water treatment plants and the ability of selected technologies to achieve concentrations at or below the PHG or MCLG for the specific contaminant. Thus, costs could be significantly higher or lower than the estimates presented.

4.0 CONSTITUENTS DETECTED ABOVE PHGS OR MCLGS

This section discusses any contaminants detected above the applicable PHG or MCLG, including observed concentrations, health risks, contaminant sources, and treatment options and costs. The contaminants detected above the PHG or MCLG in one or more of the City's drinking water supplies in the period from 2016 to 2018 include the following:

- Arsenic
- Copper and Lead
- Gross Alpha Particle Activity
- Total Coliform

Each of these contaminants is described further below.

4.1 Arsenic

4.1.1 Comparison to PHG/MCLG

A PHG of 0.004 µg/L and an MCL of 10 µg/L have been established for arsenic. Arsenic was detected at two to three orders of magnitude above the PHG in each of the City's groundwater wells, as shown in Table 2. However, arsenic concentrations in each of the City's wells were below the MCL.

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Water Supply	Average Arsenic Concentration (2016-2018), µg/L
Groundwater	
Well 1	0.73
Well 2	0.95
Well 3	1.3
Well 4	1.2
Well 5	2.8
Well 6	2.9
Well 7	1.3
Well 8	1.7
Lincoln Well	2.3

4.1.2 Public Health Risk

Ingestion of large doses of arsenic may be lethal, and prolonged exposure to lower levels can cause a variety of health impacts (OEHHA, 2004). Arsenic ingestion can result in irritation of the digestive tract, nausea, vomiting, and diarrhea (OEHHA, 2004). Exposure to arsenic can also cause decreased production of red and white blood cells, abnormal cardiac function, and blood vessel damage, as well as liver and/or kidney damage and impaired nerve function in the hands and feet (OEHHA, 2004). Arsenic has also been linked to occurrence of skin abnormalities that may progress to skin cancer and increased cancer risk, especially in the lungs, urinary bladder, kidneys, and liver (OEHHA, 2004).

OEHHA quantified arsenic health risks due to lifetime exposure as a cancer risk of one per million at the PHG and 2.5 per thousand at the MCL (OEHHA, 2019).

4.1.3 Contaminant Sources

Arsenic is a naturally occurring element in the earth's crust and is spread throughout the natural environment. In Tracy, arsenic concentrations in drinking water result from natural mineral deposits containing arsenic. Other potential sources of arsenic contamination of water supplies (but not likely applicable to Tracy) include: waste chemical disposal; improper application or accidental spills of pesticides, mainly herbicides and wood preservatives; and burning of fossil fuels.

Water Quality Relative to Public Health Goals

4.1.4 Treatment Costs

CCR Title 22 Section 64447.2 indicates that BATs for arsenic removal include the following:

- Activated alumina
- Coagulation/filtration
- Ion exchange
- Lime softening
- Reverse osmosis
- Electrodialysis
- Oxidation/filtration
- Oxidation/coagulation/filtration

Estimated costs were evaluated for coagulation/filtration, ion exchange, and reverse osmosis. Unit costs, including annualized capital and O&M costs, were estimated to be \$0.41, \$2.19, and \$7.33 per 1,000 gallons for coagulation/filtration, ion exchange, and reverse osmosis (ACWA, 2019). Resulting annual treatment costs for the City's wells (based on production capacity) are summarized in Table 3. Costs per service connection are also shown in Table 3.

Parameter	Annual Treatment Cost, \$/year		
	Coagulation/Filtration	Ion Exchange	Reverse Osmosis
Wells 1-8 and Lincoln Well Total ^(a) (\$/year)	\$4,210,000	\$22,560,000	\$75,450,000
Total per Service Connection (\$/year)	\$173	\$928	\$3,104

(a) Based on production capacity for each well, which ranges between 2.2 and 3.6 mgd.

4.2 Copper and Lead

4.2.1 Comparison to PHG/MCLG

A PHG of 0.3 mg/L has been established for copper. No MCL has been established, but the 90th percentile concentration of all samples from water service taps in the distribution system cannot exceed an action level of 1.3 mg/L according to CCR Title 22 Section 64678. Copper was not detected above the PHG in any of the City's water supplies. However, tap monitoring in 2018 showed a 90th percentile concentration of 533 µg/L (0.53 mg/L) based on 48 samples. Based on the ACWA Guidelines, because the 90th percentile concentration exceeds 300 µg/L (0.3 mg/L), the PHG for copper was exceeded. Nevertheless, copper concentrations throughout the distribution system were consistently below the action level.

A PHG of 0.2 µg/L has been established for lead. No MCL has been published, but the 90th percentile concentration of all samples from water service taps in the distribution system cannot exceed an action level of 15 µg/L according to CCR Title 22 Section 64678. Lead was detected above the PHG in Well 3 with an average concentration of 0.61 µg/L for the monitoring period

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from 2016 through 2018. However, based on 48 water service tap samples collected in 2018, the 90th percentile lead concentration was 1 µg/L. According to the ACWA Guidelines, the PHG for lead was not exceeded because the 90th percentile concentration was below 5 µg/L. Lead concentrations in water supplies and throughout the distribution system were consistently below the action level.

4.2.2 Public Health Risk

While copper is an essential nutrient, excessive ingestion of copper is associated with digestive system toxicity, leading to nausea, vomiting, and diarrhea (OEHHA, 2019). Abdominal cramps, dizziness, headaches, and liver and kidney damage are also associated with exposure to elevated copper concentrations (OEHHA, 2008). OEHHA has not quantified the numerical health risk (OEHHA, 2019).

Exposure to elevated lead concentrations is associated with development neurotoxicity, causing neurobehavioral effects and slowing development in children (OEHHA, 2019). Lead is also associated with cardiovascular toxicity, causing high blood pressure, and is a known carcinogen in animals and a probable carcinogen in humans (OEHHA, 2019). Ingestion of lead is also linked to negative impacts on kidneys (OEHHA, 2009). The cancer risk associated with lead is less than one per million at the PHG of 0.2 µg/L and two per million at the action level of 15 µg/L (OEHHA, 2019).

4.2.3 Contaminant Sources

The presence of copper pipes in drinking water distribution systems can contribute to copper levels in drinking water measured at household taps depending on the alkalinity and hardness of the drinking water (OEHHA, 2008). In Tracy, copper in the drinking water is primarily from copper household water service pipelines and household plumbing. Copper is present in many naturally occurring minerals and is widely used in industrial and household products. Copper is present in the air due to natural sources, including wind-blown dust, volcanic activity, and spray from ocean waves, and due to human activities, such as mining, refining, smelting, and incineration of metals and burning of fuel at power plants. Copper in the air can be deposited to land or water. Copper is also introduced in soil by discharge of treated wastewater, mining, agriculture, and other industries. This copper can leach into groundwater or run off to surface waters, which may serve as drinking water sources. As noted above, the copper level in the Tracy water supplies are well below the PHG, and these sources are unlikely to be the source of copper in the drinking water in Tracy.

Lead “pigtail” or “gooseneck” connections, service lines in the distribution system plumbing, and solder used to join pipes in residences can contribute to lead levels in drinking water if appropriate corrosion control measures are not used (OEHHA, 2009). In Tracy, lead in the drinking water is primarily from household plumbing. Lead is released into the air by smelters and refineries and when particles of lead-contaminated soil become airborne. Soil can become contaminated by lead due to deposition of atmospheric particles, lead paint, and disposal of lead storage batteries. Lead in drinking water sources comes from deposition of atmospheric particles and leaching from soils. This may be the source of lead found in Well 3, but it is unlikely the source of lead found in the drinking water in the distribution system, as the water from Well 3 constitutes only a small portion of the total water supply (the annual production from Well 3 is less than one percent of the total annual water production).

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4.2.4 Treatment Costs

CCR Title 22 Chapter 17.5 Section 64670 indicates that reduction of copper and lead levels is generally achieved by optimizing corrosion control. The City's potable water system complies with the Lead and Copper Rule set out in CCR Section 64670 and has a history of consistent compliance with action levels for copper and lead.

The City conducts reduced tap monitoring for copper and lead once every three years at no less than 30 sites in accordance with CCR Section 64675, Table 64675-A. The City monitors parameters related to corrosion, including pH and water temperature, throughout the distribution system weekly. The City also monitors other corrosion-related parameters, including pH, specific conductance, hardness, alkalinity, and TDS, at entry points to the distribution system annually. In addition, monitoring of orthophosphate every other week at three entry points and three sites throughout the distribution system is expected to begin in May 2019. The City will take action if necessary to ensure adequate corrosion control based on observed condition.

The City currently adds poly orthophosphate at the JJWTP for corrosion control; no corrosion control chemicals are added at groundwater wells, at SSJID's WTP, or where SSJID's water is delivered to the City. To further reduce copper concentrations at water service taps to below the PHG, the City could install corrosion control chemical addition systems at each of the well sites. However, the City's current practices are protective of public health, demonstrating lead and copper concentrations below action levels throughout the distribution system. Therefore, additional corrosion control measures are not recommended as they would require addition of more chemicals and could cause other water quality issues. No cost estimate has been prepared for chemical addition to improve corrosion control.

4.3 Gross Alpha Particle Activity

4.3.1 Comparison to PHG/MCLG

OEHHA determined that it would not be practical to develop a PHG for gross alpha particle activity (OEHHA, 2003). However, an MCLG of 0 pCi/L and an MCL of 15 pCi/L have been established for gross alpha particle activity.

Gross alpha particle activity was detected above the MCLG in Well 8 and surface water treated at the JJWTP, as shown in Table 4. However, observed gross alpha particle activity was below the MCL in both of these water supplies.

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Water Supply	Average Gross Alpha Particle Activity (2016-2018), pCi/L
Surface Water	
JJWTP	2.1
Groundwater	
Well 8	1.5

4.3.2 [Public Health Risk](#)

Gross alpha particle activity refers to a group of radioactive elements, including radium-226, radium-228, radium-224, uranium, and polonium-210. Exposure to radioactivity produced by these contaminants over prolonged periods results in increased risk of cancer. There is no cancer risk at the MCLG, and the cancer risk is up to one per thousand at the MCL (OEHHA, 2019).

4.3.3 [Contaminant Sources](#)

Radioactive elements contributing to gross alpha particle activity, primarily radium-226, are naturally present throughout the earth's crust (OEHHA, 2003).

4.3.4 [Treatment Costs](#)

CCR Title 22 Section 64447 indicates that the BAT for removal of gross alpha particle activity is reverse osmosis. The unit cost of reverse osmosis treatment was estimated to be \$7.33 per 1,000 gallons (ACWA, 2019). Resulting annual treatment costs for Well 8 and the JJWTP are summarized in Table 5. Costs per service connection are also shown in Table 5.

Water Supply	Annual Treatment Cost, \$/year
JJWTP	\$80,270,000 ^(a)
Well 8	\$9,640,000 ^(b)
Total (\$/year)	\$89,910,000
Total per Service Connection (\$/year)	\$3,698

(a) Based on 30 mgd production capacity.
 (b) Based on 3.6 mgd production capacity.

4.4 Total Coliform

4.4.1 [Comparison to PHG/MCLG](#)

An MCLG of zero percent and an MCL of 5 percent of distribution system samples positive for total coliform have been established. The City collects 92 samples throughout the distribution system per month. In 2016 through 2018, a total of 6 samples were positive for total coliform but all repeat samples were negative. Therefore, a maximum of 1.8 percent of samples were positive for total coliform. The MCLG of zero percent was exceeded but the City consistently complied with the MCL.

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The federal Revised Total Coliform Rule (rTCR) became effective on April 1, 2016. The California rTCR has not been adopted by the State but is currently anticipated will be adopted during 2019. The draft rTCR published in February 2017 indicates that the City would exceed a Level 1 treatment technique trigger if more than 5 percent of samples are total coliform-positive in a given month or if the City fails to take all required repeat samples after any single total coliform-positive sample. If the City exceeds a Level 1 treatment technique trigger, it would need to conduct a Level 1 assessment. The assessment would need to review inadequacies in sample sites, sampling protocol, and sample processing; unusual events that could affect water quality; changes in distribution system maintenance and operation that could affect water quality; source and treatment considerations that affect water quality; and existing water quality monitoring data. The assessment also must identify any sanitary defects detected, corrective actions completed, and a schedule for any additional proposed correction actions.

The rTCR indicates that the City would exceed a Level 2 treatment technique trigger if it violates the *E. coli* MCL¹ or the water system has two Level 1 treatment technique triggers within a rolling 12-month period unless the SWRCB DDW has determined a likely reason that the samples that caused the first Level 1 treatment technique trigger were total coliform-positive and has established that the water system corrected the problem. If the City exceeds a Level 2 treatment trigger, the City would need to arrange that the SWRCB DDW completes a Level 2 assessment, which reviews the same elements as a Level 1 assessment. The public water system must submit this assessment and a document identifying any sanitary defects detected, corrective actions completed, and a schedule for any proposed corrective actions.

Based on the number of total coliform-positive samples collected in 2016 through 2018 and the fact that the City never had an *E. coli*-positive sample, the City would not have exceeded a Level 1 or Level 2 treatment technique trigger in 2016 through 2018 and no assessments would have been needed.

4.4.2 [Public Health Risk](#)

Coliforms are bacteria that occur naturally in the environment and serve as an indicator for other, potentially harmful bacteria. The numerical health risk associated with coliforms has not been quantified because coliforms are an indicator of pathogens but are not typically pathogenic.

4.4.3 [Contaminant Sources](#)

Coliform bacteria are present in the environment and can occur in water distribution systems if they are not removed by treatment of a contaminated water source, if they enter through breaks in the distribution system, or if regrowth occurs in the distribution system.

4.4.4 [Treatment Costs](#)

CCR Title 22 Section 64447 indicates that the BAT for achieving compliance with the total coliform MCL includes:

- Placement and construction of wells to protect from coliform contamination

¹ An *E. coli* MCL violation occurs if routine and repeat samples are total coliform-positive and either is *E. coli*-positive; the City fails to take repeat samples following an *E. coli*-positive routine sample; or the City fails to analyze a total coliform-positive repeat sample for *E. coli*.

Water Quality Relative to Public Health Goals

- Maintenance of disinfection residual throughout the distribution system
- Proper maintenance of the distribution system
- Filtration and/or disinfection of water sources

At the City's JJWTP, surface water is treated using a combination of coagulation, flocculation, sedimentation, granular activated carbon (GAC) media filtration, and UV light and free chlorine disinfection; a chloramine residual is established by addition of both chlorine and ammonia. Chlorine is added for disinfection at each groundwater well. Surface water at the SSJID WTP is treated using ultrafiltration and chlorine disinfection. Ammonia for chloramine formation can be added at the Mossdale Pump Station, which delivers water from SSJID to the City's distribution network. If the chlorine needs to be boosted, it can be added at either the Linne Reservoir or the Northeast Industrial Reservoir. The City monitors total chlorine or chloramine residual weekly at all sites at which microbiological samples are collected and maintains its distribution system through routine flushing for example.

No action could be taken that would ensure that the City's potable water system would have no coliform-positive samples every month. The City could increase the disinfectant residual to decrease the possibility of exceeding the MCLG, but higher disinfectant residuals may increase the rate at which regulated disinfection byproducts are formed. This could increase cancer risk through chronic exposure. Higher free chlorine disinfectant residuals can also increase taste and odor complaints and related issues. The City uses chloramines as a disinfectant to reduce disinfection byproduct formation, and it must balance the need to meet both regulatory and aesthetic requirements and to minimize both coliform detection and formation of disinfection byproducts. Because the City's potable water system continuously complies with the total coliform MCL, no further action is recommended to reduce total coliforms in the distribution system.

5.0 RECOMMENDATION FOR FURTHER ACTION

The City's drinking water quality for the contaminants discussed in this PHG Report meet all drinking water standards established by the SWRCB and USEPA to protect public health. Additional treatment would need to be implemented at the City's wells and the JJWTP to reduce the levels of contaminants identified in this Report to concentrations below the respective PHGs or MCLGs. However, additional treatment could increase operating costs, and it is uncertain whether additional treatment would further reduce the contaminant concentrations that are currently below the applicable MCLs to achieve levels below the applicable PHGs or MCLGs.

Public health protection benefits that might be increased from additional treatment are unclear. Therefore, no additional treatment is proposed at this time. Instead, the City should continue to maintain its wells, the JJWTP, and distribution system in good operational conditions and to monitor water quality throughout its potable water system to determine whether any operational changes are warranted to maintain high water quality.

6.0 REFERENCES

Association of California Water Agencies. *Suggested Guidelines for Preparation of Required Reports on PUBLIC HEALTH GOALS (PHGs) to satisfy requirements of California Health and Safety Code Section 116470(b)*. April 2019.

Water Quality Relative to Public Health Goals

Office of Environmental Health Hazard Assessment. *Health-Protective Considerations Regarding Measurement of Gross Alpha Particle Activity in Drinking Water*. December 2003.

Office of Environmental Health Hazard Assessment. *Public Health Goal for Arsenic in Drinking Water*. April 2004.

Office of Environmental Health Hazard Assessment. *Public Health Goal for Copper in Drinking Water*. February 2008.

Office of Environmental Health Hazard Assessment. *Public Health Goal for Lead in Drinking Water*. April 2009.

Office of Environmental Health Hazard Assessment. *Public Health Goals: Health Risk Information for Public Health Goal Exceedance Reports*. February 2019.

Where Does Your Water Come From?

Sources of the City of Tracy's water supply include the Stanislaus River, the Delta-Mendota Canal, and groundwater pumped from wells. In 2018, 60% of the water supply, or 3.4 billion gallons, came from the Stanislaus River. Water from the Delta-Mendota Canal comprised 35% of the total water supply, or 2.0 billion gallons. The groundwater supply comprised 5%, or 0.27 billion gallons.

During 2019, the City anticipates having an adequate water supply for the community.



Water Quality Control

Before the water reaches your tap, samples are collected and tested in State-certified laboratories. The City of Tracy has a water quality monitoring program and inspection system that ensures safe drinking water is delivered to you and your family.

As required by the Federal Safe Drinking Water Act, the City's water supplies must meet stringent water quality standards set by the California Department of Public Health and the United States Environmental Protection Agency. The City of Tracy completed a watershed sanitary survey of its drinking water sources in 2016. This survey can be obtained by contacting the Water Production Superintendent at the number provided below.

Water customers who are landlords receiving this report are asked to share this information with any tenant or user on the premises. The City of Tracy staff is available to answer your questions and provide further information: (209) 831-6302.



WHAT DOES A 20% REDUCTION in water use look like?

AVERAGE DAILY USE
The average Californian uses 196 gallons of water per day. Here are some easy ways to reduce water use. Find the right combination for you to reduce by 20% or 39 gallons a day.

196 GALLONS PER DAY

TURN OFF WATER WHEN BRUSHING TEETH OR SHAVING
saves **10 GALLONS** per person/day

TAKE FIVE MINUTE SHOWERS INSTEAD OF 10 MINUTE SHOWERS
saves **12.5 GALLONS** with a water efficient showerhead

WASH ONLY FULL LOADS OF CLOTHES
saves **15-45 GALLONS** per load

FILL THE BATHTUB HALFWAY OR LESS
saves **12 GALLONS** per person

USE A BROOM TO CLEAN OUTDOOR AREAS
saves **8-18 GALLONS** per minute

WATER PLANTS EARLY IN THE AM
saves **25 GALLONS** each time you water

INSTALL DRIP IRRIGATION
saves **15 GALLONS** each time you water

ADJUST SPRINKLER TO WATER PLANTS, NOT DRIVEWAY
saves **12-15 GALLONS** each time you water

Learn more ways to save water inside and outside of your home at www.saveourH2O.org

FOLLOW US



Attachment B

2018 Consumer Confidence Report



Think Inside the Triangle™

CITY OF TRACY

The City of Tracy is pleased to report that from January 1 – December 31, 2018 the water delivered to your home or business complied with, or exceeded, all state and federal drinking water requirements! Provided in this brochure is a table that lists detectable and non-detectable substances found in the City's drinking water, and the maximum allowable substance levels set by United States Environmental Protection Agency (USEPA).



In California, drinking water standards, also called Maximum Contaminant Levels (MCLs), are set in two categories: Primary Standards related to public health, and Secondary Standards which relate to the aesthetic qualities such as taste, odor, and color. Within you will find a complete listing of both types of standards along with the results of the analysis of your water supply.

Este informe contiene información muy importante sobre su agua potable. Tradúzcalo ó hable con alguien que lo entienda bien.

CONSERVATION: EVERYONE'S RESPONSIBILITY!



State officials say that abundant rainfalls in January and February have the state on par with historical averages for this time of year. On average, the Sierra snowpack supplies about 30 percent of California's needs as it melts in the spring and early summer to meet water demands in the summer and fall. The City of Tracy depends on this snowmelt to fill the reservoir that supplies its water.

Governor Brown signed an Executive Order mandating that California Make Conservation a Way of Life. In 2018, two new laws came into effect requiring that all water suppliers, like the City of Tracy, must reduce their daily water consumption for all uses. This means that even in years where there is an abundance of rain and snowpack, it is still required of the City to continue to conserve water, wherever possible. This includes indoor and outdoor water uses as well as commercial, industrial and institutional water uses and ultimately water loss. In order to meet the ever-increasing mandates by the State, the City of Tracy enacts Water Stages for conservation measures. Currently, the City is in Stage 1 of its Water Conservation Ordinance. This limits outdoor water use such as irrigating your landscape to the hours of 7 pm to 9 am, each day. It also prohibits using water from your hose to wash off driveways, patios and other hard-scapes.

WATER YOU DOING TO CONSERVE?

What are you able to do to help? Some simple indoor measures include: taking shorter showers, turning water off while shampooing, washing full loads of laundry, never using the toilet as a trash receptacle, repairing drips and leaking faucets quickly, and always turning off water while brushing teeth. Businesses might also consider changing out high water consuming appliances and toilets to more efficient models.

The biggest use of water by homeowners and businesses is outdoor activities. Mandatory outdoor water conservation measures include: using a triggered handheld sprayer and bucket when washing your own car; and turning off non-recirculating fountains and ornamental water features. Some simple voluntary measures are: turning off irrigation timers in the winter months; never water landscaping on a windy day; and do not water for longer than 8 minutes per cycle. For more information on drought conditions visit <http://www.water.ca.gov/waterconditions/drought/>. Also, you may report any water waste by calling (209) 831-6333 or online at www.thinkinsidethetriangle.com. Your continued efforts will assist the City in attaining its water conservation goals!

Substances Expected to be in the Drinking Water

The sources of drinking water (both tap water and bottled water) include rivers, lakes, streams, ponds, reservoirs, springs and wells. As water travels over the surface of the land or through the ground, it dissolves naturally occurring minerals and, in some cases, radioactive material, and can pick up substances resulting from the presence of animals or human activity. Contaminants that may be present in source water include:

- **Microbial Contaminants**, such as viruses and bacteria, which may come from sewage treatment plants, septic systems, agricultural livestock operations, and wildlife;
- **Inorganic Contaminants**, such as salts and metals, which can be naturally occurring or result from urban storm water runoff, industrial or domestic wastewater discharges, oil and gas production, mining, or farming;
- **Pesticides and Herbicides**, which may come from a variety of sources such as agriculture, urban storm water runoff, and residential uses;
- **Organic Chemical Contaminants**, including synthetic and volatile organic chemicals, which are by-products of industrial processes and petroleum production, and can, also come from gas stations, urban runoff and septic systems;
- **Radio Active Contaminants**, which can be naturally occurring or be the result of oil and gas production and mining activities.

In order to ensure that the tap water is safe to drink, USEPA and the California Department of Public Health prescribe regulations that limit the amount of certain contaminants in water provided by public water systems. California Department of Public Health regulations also establish limits for contaminants in bottled water that must provide the same protection for public health. Drinking water, including bottled water, may reasonably be expected to contain at least small amounts of some contaminants. The presence of contaminants does not necessarily indicate that the water poses a health risk. More information about contaminants and potential health effects can be obtained by calling the USEPA's Safe Drinking Water Hotline (800) 426-4791.



Special Health Information

Some people may be more vulnerable to contaminants in drinking water than the general population. Immunocompromised persons such as those with cancer undergoing chemotherapy, persons who have undergone organ transplants, people with HIV/AIDS or other immune disorders, and some elderly and infants, can be particularly at risk from infections. These people should seek advice about drinking water from their health care providers. USEPA/CDC (Center for Disease Control) guidelines on appropriate means to lessen the risk of infection by Cryptosporidium and other microbial contaminants are available from the Safe Drinking Water Hotline (800) 426-4791.



Safe Drinking Water Act

Under the Safe Drinking Water Act (SDWA), USEPA is responsible for setting national limits for hundreds of substances in drinking water and also specifies various treatments that water systems must use to remove these substances. Each system continually monitors for these substances and reports directly to the California Department of Public Health if they were detected in the drinking water. USEPA uses this data to ensure that the consumers are receiving clean water and to verify that states are enforcing the laws that regulate drinking water.

This publication conforms to the regulation under SDWA requiring water utilities to provide detailed water quality information to each of their customers annually. We are committed to providing you with this information about your water supply because customers who are well informed are our best allies in supporting improvements necessary to maintain the highest quality drinking water standards.

What's in My Water?

ANALYTICAL PARAMETER	TREATED SURFACE WATER		WELL WATER			REGULATORY LIMIT		TYPICAL SOURCES
	SOUTH SAN JOAQUIN IRRIGATION DISTRICT	JOHN JONES WATER TREATMENT PLANT	AVERAGE	MINIMUM	MAXIMUM	MCLG OR PHG	MAXIMUM CONTAMINANT LEVEL (MCL)	
PRIMARY STANDARDS								
INORGANIC (ug/L)								
Arsenic	ND	ND	1	ND	3	0	10 ug/L	Erosion of natural deposits
Barium	ND	20	28	1	47	2000	2000 ug/L	Erosion of natural deposits
Chromium	ND	ND	6	ND	8	100	100 ug/L	Erosion of natural deposits
Copper	ND	ND	2	ND	10	1300	1300 ug/L	Erosion of natural deposits
Iron	ND	ND	0.1	ND	0.2	NA	300 ug/L	Erosion of natural deposits
Manganese	ND	3.40	5	ND	29	NA	50 ug/L	Erosion of natural deposits
FLUORIDE (mg/L)								
Fluoride	ND	0.06	0.1	ND	0.2	1	2 mg/L	Erosion of natural deposits
NITRATE/NITRITE								
Nitrate (as NO ₃)	ND	2	7	ND	12	45	45 mg/L	Runoff from fertilizer use; Erosion of natural deposits
Nitrate + Nitrite (sum as N)		ND	2	ND	3	10	10 mg/L	
Nitrite (as N)	ND	ND	ND	ND	ND	1	1 mg/L	
REGULATED ORGANICS (ug/L)								
TRIHALOMETHANE								
Bromodichloromethane		ND	ND	ND	ND	NA	ug/L	By-products of drinking water chlorination
Bromoform		ND	ND	ND	1	NA	ug/L	
Chloroform		ND	1	ND	10	NA	ug/L	
Dibromochloromethane		ND	ND	ND	1	NA	ug/L	
Total Trihalomethane		ND	2	ND	10	NA	80 ug/L	
SECONDARY STANDARDS								
Aesthetic - Related								
Apparent Color (Units)	ND	ND	ND	ND	ND	NA	15 units	Naturally occurring organic materials
Foaming Agents (MBAS) (mg/L)	ND	ND	ND	ND	ND	NA	0.5 mg/L	Municipal and industrial waste discharge
Odor (TON)	ND	1	1	ND	2	NA	3 TON	Naturally occurring organic materials
Potassium (K) (mg/L)	ND	2	4	2	5	NA	NS	Erosion of natural deposits
Turbidity (NTU) ₂	0.1	0.2	1	ND	2	NA	5 NTU	Soil runoff
Bicarbonate (HCO ₃) (mg/L)	51	45	170	110	230	NA		Erosion of natural deposits
Carbonate (CO ₃) (mg/L)	ND	ND	ND	ND	ND	NA		Erosion of natural deposits
Hydroxide Alkalinity (OH) (mg/L)	ND	ND	ND	ND	ND	NA		Erosion of natural deposits
Total Alkalinity (CaCO ₃) (mg/L)	41	55	139	93	190	NA	NS	Erosion of natural deposits
Boron (B) (mg/L)	ND	ND	2	ND	3	NA	NS	Erosion of natural deposits
Calcium (Ca) (mg/L)	12	15	70	29	92	NA	NS	Erosion of natural deposits
Magnesium (Mg) (mg/L)	2	8	26	10	34	NA	NS	Erosion of natural deposits
Sodium (Na) (mg/L)	4	33	136	65	170	NA	NS	Erosion of natural deposits
Total Hardness (CaCO ₃) (mg/L)	37	71	283	110	350	NA	NS	Erosion of natural deposits
TDS (mg/L)	52	180	737	290	871	NA	1000 mg/L	Erosion of natural deposits
Specific Conductance (umhos/cm)	90	320	1168	540	1322	NA	1600 umhos/cm	Substances that form ions when in water
Chloride (mg/L)	3	41	120	48	180	NA	250 mg/L	Erosion of natural deposits
Sulfate (mg/L)	1	46	236	88	300	NA	500 mg/L	Erosion of natural deposits
pH	7.9	8.6	7.4	7.1	7.9	NA	6.5-8.5 Units	NA
WATER DISTRIBUTION DATA SHEET								
BACTERIOLOGICAL (%Present)								
Coliform Density	<1	<1	<1	<1	<1	0	5%Present/mo	Municipal and industrial waste discharge
ORGANICS (ug/L)								
RUNNING ANNUAL AVERAGE								
Total Trihalomethane				37		NA	80	By-products of drinking water chlorination
Total Haloacetic Acids				21		NA	60	By-products of drinking water chlorination

DEFINITIONS

- AL (Action Level):** The concentration of a contaminant, which, if exceeded, triggers treatment or other requirements, which a water system must follow.
- MCL (Maximum Contaminant Level):** The highest level of a contaminant that is allowed in drinking water. Primary MCLs are set as close to the PHGs (or MCLGs) as is economically and technologically feasible.
- Secondary MCLs (SMCL):** Are set to protect the odor, taste, and appearance of drinking water.
- MCLG (Maximum Contaminant Level Goal):** The level of a contaminant in drinking water below, which there is no known or expected risk to health. MCLGs are set by the U.S. Environmental Protection Agency.
- PHG (Public Health Goal):** The level of a contaminant in drinking water below which there is no known or expected risk to health. PHGs are set by the California Environmental Protection Agency.
- PDWS (Primary Drinking Water Standard):** MCLs for contaminants that affect health along with their monitoring and reporting requirements, and water treatment requirements.
- TT (Treatment Technique):** A required process intended to reduce the level of a contaminant in drinking water.
- NA:** Not applicable.
- ND:** Not detected.
- NS:** No standard.
- NTU (Nephelometric Turbidity Units):** Measurement of the clarity, or turbidity, of water.
- ppb (Parts Per Billion):** One part per billion (or micrograms per liter).
- ppm (Parts Per Million):** One part per million (or milligrams per liter).
- pCi/L (Picocuries Per Liter):** A measure of the natural rate of radioactive disintegration.
- umhos/cm (Micromhos Per Centimeter):** A measure of electrical conductance.

DISINFECTION PRACTICES

The City effectively disinfects the drinking water using three processes: ultraviolet (UV) light, chlorine, and chloramines.

CHLORAMINES: Chloramines are used when water supply from the Delta-Mendota Canal is utilized. Chloramines are created by adding ammonia with chlorine. For most uses, water containing chloramines is the same as water containing chlorine. **However, chloramines must be removed for kidney dialysis treatment and may require recalibration of dialysis equipment. If you are receiving kidney dialysis treatment, please contact your doctor or dialysis technician.**

SAMPLING RESULTS SHOWING THE DETECTION OF LEAD AND COPPER						
Lead and Copper (To be completed only if there was a detection of lead or copper in the last sample set)	# Of Samples Collected	90TH Percentile Level Detected	# Sites Exceeding AL	AL	MCLG	Typical Source of Contaminant
Lead (ppb)	48	0.001	0	0.015	0	Internal corrosion of household water plumbing systems; discharges from industrial manufacturers; erosion of natural deposits.
Copper (ppm)	48	0.43	0	1.3	1.3	Internal corrosion of household water plumbing systems; erosion of natural deposits; leaching from wood preservatives.

Note: The City's water is in complete compliance with regulations related to lead and copper.

STANISLAUS RIVER WATER

The City of Tracy is committed to providing a safe, reliable and affordable water supply to meet the needs of the community today and in the future. The City has participated with the cities of Manteca, Lathrop, Escalon, and the South San Joaquin Irrigation District to bring high quality Sierra water from the Stanislaus River. This water source has increased the reliability of City water supplies by having a third source of supply and redundancy in treatment facilities. Delivery of this water comprises the majority of water consumed in the City and is the only supply source used during the winter months. The Stanislaus River water supply is very soft water and has significantly reduced the minerals in the City's water supply. You may no longer need to use a water softener.



CROSS CONNECTION PROTECTION

Backflow prevention assemblies are designed to allow water to flow into your home or office from the public water system but not allow water to flow in the reverse direction, creating effective cross connection protection. Reverse flow can carry untreatable pollutants and contaminants back to the public water system, compromising the water quality for all customers. Backflow prevention assemblies are required to be tested annually to ensure they are effectively protecting the public water system. If your residence has an active well on the premises or your business has fire sprinklers and/or landscaping, you should have a backflow prevention assembly. For questions regarding annual testing requirements, please call Erich Delmas, Laboratory Supervisor at (209) 831-6325.

WATER SOURCE ASSESSMENT

An assessment of the drinking water sources for the City of Tracy's water system was completed in June 2001. The sources are considered most vulnerable to the following activities: airports (maintenance and fueling areas), gas stations (historic and current), mining activities (historic and current), septic and waste landfill dumps (historic and current). You may request a copy of the assessment by contacting the Water Production Superintendent, Dave Carter, at (209) 831-6302.

The native groundwater under Tracy contains boron. Boron is a naturally occurring, non-carcinogenic, unregulated contaminant. Six of the City's wells contain elevated levels of boron. Although well water comprises only a small portion of the City's total water supply, well water does contain boron. Some pregnant women who drink water containing boron may have an increased risk of developmental effects in their baby, based on studies in laboratory animals.

SAMPLING RESULTS SHOWING TREATMENT OF SURFACE WATER SOURCES

Treatment Technique: A required process intended to reduce the level of a contaminant in drinking water (type of approved filtration technology used).

Turbidity of the filtered water must:

1. Be less than or equal to 0.3 NTU in 95% of measurements in a month.
2. Not exceed 1 NTU for more than eight consecutive hours.
3. Not exceed 3 NTU at any time.

Turbidity Performance Standards: Turbidity (measured in NTU) is a measurement of the cloudiness of water and is a good indicator of water quality and filtration performance. Turbidity results, which meet performance standards, are considered to be in compliance with filtration requirements (that must be met through the water treatment process).

Lowest monthly percentage of samples that met Turbidity Performance Standard No.1: 100%. Highest single turbidity measurement during 2018 was .18 NTU.

RESOLUTION 2019-_____

ACCEPTING THE CITY OF TRACY 2019 PUBLIC HEALTH GOALS REPORT ON WATER QUALITY AS REQUIRED BY THE CALIFORNIA HEALTH AND SAFETY CODE AND APPROVING THE REPORT TO FILE WITH THE STATE WATER RESOURCES CONTROL BOARD

WHEREAS, The City of Tracy prepares an annual Consumer Confidence Report for the City's water system and distributes it to consumers, and

WHEREAS, California Health and Safety Code (H&SC) Section 116470 requires all California water retailers who provide more than 10,000 service connections to prepare a report every three years informing consumers of water quality constituents that exceeded a Public Health Goal (PHG), and

WHEREAS, The City acquired the services of West Yost Associates to prepare this report on PHGs, and

WHEREAS, The report presents an analysis of drinking water quality data that has been collected over the past three years (2016, 2017 & 2018), and

WHEREAS, The City meets all primary drinking water standards set by both the state and federal government regulatory agencies to protect public health, and

WHEREAS, Costs associated with preparing this report have been included in the Council adopted operating budget;

NOW, THEREFORE, BE IT RESOLVED, That the City Council of the City of Tracy accepts the City of Tracy 2019 Public Health Goals Report on water quality as required by the California Health and Safety Code and approves the Report to file with the State Water Resources Control Board.

The foregoing Resolution 2019-_____ was adopted by Tracy City Council on the 2nd day of July, 2019, by the following vote:

- AYES: COUNCIL MEMBERS:
- NOES: COUNCIL MEMBERS:
- ABSENT: COUNCIL MEMBERS:
- ABSTAIN: COUNCIL MEMBERS:

MAYOR

ATTEST:

CITY CLERK

AGENDA ITEM 3.D

REQUEST

DISCUSS AND APPROVE A RESPONSE LETTER TO THE SAN JOAQUIN COUNTY CIVIL GRAND JURY'S REPORT "TRACY CITY COUNCIL: RESTORE THE PUBLIC TRUST" 2018-2019 CASE NO.0418 AND AUTHORIZE THE CITY MANAGER TO EXECUTE THE LETTER

EXECUTIVE SUMMARY

The San Joaquin County Civil Grand Jury issued a report on its investigation of the Tracy City Council prompted by multiple complaints it received regarding allegations of misbehavior on the part of Tracy City Council (Report) (Attachment A). The Report contains findings and recommendations on five topics: Ethics Policy, City Council Conduct, Council Vacancy Appointment Process, Impact on Executive Staff Separations, and Council Intrusion in City Operations.

State law requires the City to respond to the Grand Jury's findings and recommendations within 90 days of receipt of the request. Typically, staff drafts responses to grand jury reports and presents them to Council for approval prior to submitting them to the Presiding Judge of San Joaquin County Superior Court. Staff requests that the City Council review the draft response letter and provide feedback to finalize it. This item further requests that Council authorize the City Manager to sign the final response letter.

DISCUSSION

The San Joaquin County Grand Jury's Report on its investigation of the Tracy City Council was released on June 6, 2019. The Grand Jury's investigation entailed reviewing various materials such as the agendas, minutes and videos of Council meetings, the Tracy Municipal Code, news articles, and City employee personnel agreements; conducting 17 interviews (in-person and via phone); and attending Tracy City Council meetings. The Report contains a total of fifteen findings and six recommendations. The Report focused on the following five topics:

1. Ethics Policy
2. City Council Conduct
3. Council Vacancy Appointment Process
4. Impact on Executive Staff Separations
5. Council Intrusion in City Operations

In June 2018, the Grand Jury released a report titled "San Joaquin County Municipality Ethics Policies" 2017-18 Case No. 0917 about its investigation of the ethics policies of San Joaquin County and the municipalities within its boundaries. The City's response to the 2018 report stated that the City was committed to enacting a code of ethics in 2018. To date, the City Council has yet to adopt a code of ethics.

Section 933 of the Penal Code requires the governing body of the public agency that is

the subject of a Grand Jury report to provide comments on the findings and recommendations regarding matters under its control within 90 days of the report being released. Subsection (c) of Section 933 further provides that “[i]n any city and county, the mayor shall also comment on the findings and recommendations.”

Per Section 933.05 of the Penal Code the responses to the findings and recommendations in a grand jury report must meet the following requirements:

“(a) For purposes of subdivision (b) of Section 933, ***as to each grand jury finding***, the responding person or entity shall indicate one of the following:

- (1) The respondent agrees with the finding.
- (2) The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefor.

(b) For purposes of subdivision (b) of Section 933, ***as to each grand jury recommendation***, the responding person or entity shall report one of the following actions:

- (1) The recommendation has been implemented, with a summary regarding the implemented action.
- (2) The recommendation has not yet been implemented, but will be implemented in the future, with a timeframe for implementation.
- (3) The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This timeframe shall not exceed six months from the date of publication of the grand jury report.
- (4) The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefor.”
(Italics and bold added for emphasis.)

The Report’s subject matter and content is highly sensitive because it speaks to Council relations and the Grand Jury’s perception of those relations and their impact on the public, the City as an organization, and its employees. Staff looks to Council to determine whether the City agrees or disagrees (wholly or partially) with the findings and to confirm its support of the proposed responses to the recommendations (Attachment B). Staff drafted statements to provide context and additional information in response to the Report’s findings (Attachment C). While some may agree or disagree with the Grand Jury’s findings and recommendations, the City understands that these conclusions were informed by the evidence the Grand Jury reviewed in the course of its investigation including confidential testimony.

Staff requests that Council review the initial draft responses, provide feedback, and authorize the Mayor to sign the letter so that the final response accurately reflects Council’s collective response.

STRATEGIC PLAN

This is a routine operational item and is not related to any of the Council Strategic Plans.

FISCAL IMPACT

There is no fiscal impact.

RECOMMENDATION

That the City Council, by resolution, approve a response letter to the San Joaquin County Civil Grand Jury's report "Tracy City Council: Restore the Public Trust" 2018-2019 Case No.0418 and authorize the City Manager to execute the letter.

Prepared, Reviewed, and Approved by: Jenny Haruyama, City Manager
Leticia Ramirez, Interim City Attorney

ATTACHMENTS

- A – Grand Jury Report
- B – Draft City of Tracy Response
- C – Statements drafted by staff providing background information in response to findings.

San Joaquin County Grand Jury



Tracy City Council: Restore the Public Trust

2018 - 2019 Case #0418



Summary

The City Council of San Joaquin County's second largest city was the target of multiple complaints that warranted the attention of the Grand Jury. Over the past several years, the Tracy City Council has developed a reputation for its inability to work together as a collegial legislative body. The 2017-2018 Grand Jury recommended the Tracy City Council adopt an Ethics Policy that governs the behaviors of their elected officials, by October 31, 2018. However, to date, the City Council has been unable to agree on the content or language of an Ethics Policy. Along with the Council's public discord, a pattern of power politics surfaced in a consistent 3/2 voting bloc that led to the terminations or forced resignations of the City Manager, Assistant City Manager, and the Chief of Police. The unexplained departures of the City's administrative leaders created an unstable work environment at City Hall. Morale was further damaged through the increasing interference of Council members into the City's business operations. This open disregard for the City's Council-Manager form of government further contributed to a difficult work environment for many of the City's talented staff members.

Through its investigation, this Grand Jury identified several opportunities for implementing changes that will ensure a more harmonious and productive City Council, as well as providing additional safeguards for City administrators and staff:

- Council members must agree on an Ethics Policy that will help them work together more effectively and respectfully.
- Individual Council members must stifle their personal animosity toward fellow members and show the public they can work together more civilly.
- Give the Tracy voters more control over Council vacancy appointments.
- The City Manager and City Attorney should be shielded from power politics and shifting alliances by requiring a supermajority vote for their termination.

These measures will build a more effective Tracy City Council and begin to restore the public trust. This will result in stable leadership that will enable the City's capable staff to better meet the needs of this community.

Glossary

- **City Council, Council, Council members:** For the purpose of this report these terms are interchangeable and generally refer to the entire five-member Tracy City Council, including the Mayor.
- **Council-Manager form of Government:** A form of municipal government in which the city manager functions as the chief executive of the city, overseeing the day-to-day operations of the city, and serving as the chief advisor to the city council.
- **Ethics Policy, Code of Conduct, Code of Ethics and Conduct:** A set of principles used to guide conduct and decision making. For the purposes of this report these terms are interchangeable.

- **ICMA:** International City Managers Association
- **Supermajority:** In the case of the Tracy City Council, at least four out of five.
- **Voting Bloc:** A group that votes together for a common agenda which dominates their voting pattern.

Background

With a population of 90,889, Tracy is the second largest city in San Joaquin County and the 86th largest in the State of California. Tracy's growth rate since 2010 is 9%. For the purpose of comparison, Stockton's growth rate for the same time period is 0.8%.¹

The City's geographical boundaries lie within the triangle created by interstate highways 580, 205, and 5, prompting the city's trademarked motto "Think Inside the Triangle." Tracy's proximity to the densely populated Bay Area continues to lure families looking for more affordable housing while the availability of land draws companies that fuel continued job growth. In the Mayor's 2019 State of the City address, it was announced that four new manufacturing employers would bring 1,200 additional jobs to Tracy this year.

The City of Tracy operates under the Council-Manager form of government, as outlined in section 2.08.060 of the Tracy Municipal Code. It designates the five-member City Council as the governing body of the City, vested with the authority to establish policy, adopt new laws, levy taxes, award contracts, and appoint the City Manager and City Attorney. Council members are limited to two four-year terms; the office of Mayor is limited to two two-year terms. The Mayor is the fifth member of the Council and presides over meetings and acts as a figurehead at various city functions. Council members are ultimately responsible to the people for the actions of local government. In the Council-Manager form of municipal government, the Council appoints the City Manager, a professional career administrator, who is responsible for the day-to-day operations of City business and oversees all City staff.

In September 2017, by a 3/2 vote, the Tracy City Council fired its City Manager. The Council then appointed the Fire Chief as the Interim City Manager. Within a few weeks, the Interim City Manager dismissed the Assistant City Manager. This was followed by the controversial forced resignation of the City's Chief of Police in August 2018.

The 2017-2018 Grand Jury found: *"The lack of an ethics policy in Tracy has resulted in conflict, mistrust, and allegations of misconduct."* They recommended that Tracy adopt an Ethics Policy to guide the conduct of City Council members and key leadership staff. Specifically, the Grand Jury requested the following: *"By October 31, 2018, the Tracy City Council develop and adopt an ethics policy that governs the behavior of its elected officials, appointed officials, and senior staff."* To date, the Council has been unable to agree on the language and scope of an Ethics Policy.

¹ <http://worldpopulationreview.com/us-cities/tracy-ca/>

Reason for Investigation

The Grand Jury received multiple complaints citing misbehavior on the part of Tracy City Council members. Complaints alleged conflicts of interest, persistent violations of the Council-Manager form of government, concerns about a series of unexplained executive staff terminations and forced resignations, abuse of power, and the inability to conduct the public's business in a professional, respectful manner. The number of complaints received, the sweeping scope of allegations, and the ongoing public displays of discord and disrespect amongst Council members, compelled the Grand Jury to move forward with this investigation.

Method of Investigation

Materials Reviewed

- Agendas, Minutes, and Videos of Tracy City Council Meetings
- Applicable California Government Codes
- California League of Cities website
- City of Tracy Municipal Codes
- Executive Staff Employment Contracts
- Executive Staff Performance Reviews
- Executive Staff Separation Agreements
- Fair Political Practice Commission Filings
- Grand Jury Report 2017-2018
- Online Archives: *Tracy Press*, *Stockton Record*, *San Jose Mercury News*, *San Francisco Chronicle*
- Online Video Archives: ABC, NBC, CBS, FOX News
- San Joaquin County Registrar of Voter Records
- Tracy Police Officers Association Facebook Page

Interviews Conducted

The Grand Jury conducted 17 interviews in person and by phone which included:

- Current and former City staff
- Current and former Council members
- Contracted professionals who provided services to the City Council
- Government consultants

Site Visited

- Tracy City Council meetings

Discussions, Findings, and Recommendations

1.0 Ethics Policy

Many cities and counties in California have an Ethics Policy and/or Code of Conduct for their elected officials. These codes provide a set of behavioral expectations that elected officials should follow. They also provide a standard for elected officials to refer to when one of their peers crosses the line. The 2017-2018 San Joaquin County Grand Jury recommended that the Tracy City Council develop and adopt an Ethics Policy by October 31, 2018.

The Tracy City Council meeting on August 21, 2018 was the first occasion in which the 2017-2018 Grand Jury report was discussed. Agenda item seven was intended to: "Introduce An Ordinance Adding Section 2.04.050 To The Tracy Municipal Code Prohibiting Members Of The City Council, Boards And Commissions, City Treasurer And Appointed Employees From Contracting With The City And Appoint An Ad Hoc Subcommittee To Work With The City Attorney's Office To Create A Comprehensive Code Of Conduct For City Council Approval."

At this August meeting, a Council member asked the City Attorney why he was recommending an ad hoc committee to draft the Ethics Policy instead of holding a special session where all five members could work on it together. The City Attorney replied, *"There's no legal impediment. There's simply the divisive nature of the Council as it sits here today and coming up with specific language."* On February 19, 2019, nearly six months after the ad hoc committee was formed, the entire City Council met to discuss a proposed Ethics Policy. At this meeting, the divisive nature of the Council made it clear that a special session would be required to work on the language for a Code of Ethics and Conduct. When the Council met on April 2, 2019 for the special session, only one member had done their homework and submitted proposed changes. Most of that meeting was spent discussing proposed additions not typically included in a Code of Ethics and Conduct. In the end, nothing was accomplished.

The Council eventually referred the Code of Conduct and Ethics back to the ad hoc committee to write a new draft for the April 16, 2019 Council meeting. To date, the Tracy City Council has yet to come close to agreeing on an Ethics Policy.

Table 1. Timeline for the Development of an Ethics Policy by the Tracy City Council

Date	Summary
June 2018	Grand Jury releases report #0917 "San Joaquin County Municipality Ethics Policies" recommending the Tracy City Council develop and adopt an Ethics Policy by October 31, 2018.
August 21, 2018	The Council appoints an ad hoc committee to develop an Ethics Policy. The committee is to bring the draft to the Council at the first meeting in October 2018.
September 19, 2018	The Council formally responds to the Grand Jury that they are " <i>in the process of implementing this recommendation.</i> " The Council notes they may not meet the deadline, but indicates they are " <i>committed to enacting a code of ethics ... in 2018.</i> "
October 31, 2018	Deadline set by the Grand Jury to adopt an Ethics Policy.
November 6, 2018	City Council Election
February 5, 2019	The first meeting since August 21, 2018 in which the draft Ethics Policy was discussed. The Council decided to defer discussions until the February 19 th Council meeting.
February 19, 2019	The Council spent a significant amount of time discussing the draft Ethics Policy. Ultimately, they decided that each Council member would send the City Attorney proposed changes to the draft and he would compile a revised draft to be reviewed and approved at a special meeting on April 2.
April 2, 2019	At a special meeting to review the Code of Ethics and Conduct, only one Council member submitted proposed revisions. Multiple versions of a draft Code of Ethics and Conduct were discussed at that meeting. After lengthy debate, the Council failed to reach agreement on the proposed language and closed by agreeing to send their proposed changes to the City Attorney. The intent was for the subcommittee to meet, review the proposed changes, and develop a new draft to be approved at the next Council meeting on April 16.
April 16, 2019	The Code of Ethics and Conduct was not on the Council agenda.

Findings

F1.1 The Tracy City Council's failure to agree on an Ethics Policy is reflective of the Council's inability to agree on the fundamentals of how to work together as an effective governing body.

F1.2 The Tracy City Council's failure to prioritize the establishment of an Ethics Policy conveys a message to Tracy residents that ethical behavior by the City Council is not of paramount importance.

F1.3 The adoption of an Ethics Policy will provide the Tracy City Council with a tool to hold fellow members accountable for their actions.

Recommendations

R1.1 The Tracy City Council create and adopt an Ethics Policy that governs the behavior of its elected officials, appointed officials, and senior staff by October 31, 2019.

R1.2 The Tracy City Council develop a “Rules of Behavior” document to be distributed to each Council member and posted in the Council Chambers and the closed meeting rooms by October 31, 2019

2.0 City Council Conduct

Council Tensions

It has become common behavior for Tracy Council members to initiate personal attacks on one another from the dais. By August 2017, the interpersonal strife and bad behaviors deteriorated to the point that the former City Manager hired an outside consultant to facilitate a special retreat for the Council to discuss “how to govern together most effectively; roles and frameworks for effectiveness; and, how to best accomplish the work of the Council.” Proposed topics of the retreat included:

- Benefits from Good Government
- Maintaining Credibility as a Governing Body
- Refresher on the Form of Government
- Strategies for Creating a Credible, Effective Council
- Vehicle for Change
- Opportunity Makers and Obstacle Busters

Followed by the following exercises:

- Conflict Triggers
- Wouldn't it be great if...

The minutes of the retreat reflect that the planned exercises never occurred. In fact, the retreat was cut short due to profane language and insults exchanged by two Council members.

Whether Tracy's citizens attend the Tuesday Council meetings in person, or watch the proceedings from home, or follow the action in the local *Tracy Press* newspaper, they are subjected to the Council members' animosity for one another on a regular basis. A survey of news articles related to Council business in the Tracy Press includes these headlines:

- *Council Tensions Erupt (10/7/17)*
- *Dust up Delays Council Meeting (3/6/18)*

- *Contention over Chief's Dismissal (8/24/18)*
- *Acrimony and Accusations (11/8/18)*

While the verbal sparring between Council members in open meetings may seem remarkable, the gloves truly come off in closed sessions. The Grand Jury heard many examples of yelling, name calling, and outright hostility between Council members in closed sessions.

Campaign Tactics

The 2018 election campaign season in Tracy was a showcase for unethical conduct. Citizens seemed genuinely shocked at a late-hour attack ad mailer that not only tried to impugn the reputations of those who were running for office, but included aspersions against a sitting Council member not in the race. Additionally, two Council candidates complained when their campaign websites were mysteriously re-directed to another candidate's website.

Findings

F2.1 The petty bickering between Tracy City Council members during Council meetings has diminished their ability to effectively conduct the public's business and has undermined the public's trust in the Council.

F2.2 The lack of an Ethics Policy restricts the ability of Tracy City Council members to hold one another accountable for violating established ethical standards.

F2.3 The discord amongst Tracy City Council members is obvious to viewers of Council meetings, although the Council members themselves seemingly fail to recognize this reality.

F2.4 Unethical conduct during the 2018 election campaign further damaged Council members' ability to work together.

Recommendations

R2.1 Tracy City Council members publicly agree to set aside their personal differences and conduct the public's business in an efficient and respectful manner, by October 31, 2019.

3.0 Council Vacancy Appointment Process

Following the elections of 2012, 2014, and 2016, vacancies on the Tracy City Council occurred when one Council member was either elected or appointed to another political position. California Government Code Section 36512 statutorily grants authority to the elected officials to appoint a replacement within 60-days or call for a special election to fill the vacated seat. However, it does

not define what type of appointment process should be used. It is left up to the elected officials to determine what works best for their community at the time of the vacancy. In each case, the Tracy Council chose to fill the vacancy through an appointment process, instead of calling a special election. While a special election places the selection in the hands of the voters, the San Joaquin County Registrar of Voters currently estimates that a special election in Tracy would cost \$393,891.

The appointment process utilized to fill vacant Council seats after the 2012 and 2014 elections resulted in contentious debates and a split Council vote of 2/2. Only after facing the possibility of an expensive special election did one of the Council members reluctantly change their vote. In each instance, a 3/2 voting bloc materialized, with the compromising Council member on the short end.

The current appointment process adopted by Council as Resolution 2014-180, and amended by Resolution 2017-001, opens the application field to any eligible Tracy citizen supported by the signatures of at least 20 registered voters. After public interviews of each of the applicants, each of the Council members votes for two applicants (one vote if there are only two applicants). Voting continues as the field is narrowed by the majority of Council votes.

The current appointment process was used after the 2016 election and resulted in less contentiousness. However, another 3/2 voting bloc quickly emerged, followed by the termination of the City Manager. The current process is not responsive to the will of Tracy voters and has contributed to Council alliances, engendering a 3/2 voting bloc based on loyalty to those Council members supportive of the appointee's selection. Furthermore, after serving out their terms, each of the appointed Council members campaigned to retain their Council seat and each did not receive sufficient voter support.

Table 2 summarizes the results for the past four elections. Table 3 shows the timeline for the Tracy City Council.

Table 2. Tracy City Council Election Results 2012 – 2018

2018			2016		
Mayor			Mayor		
Name	Votes	Percentage	Name	Votes	Percentage
Robert Rickman*	13,433	52.1%	Robert Rickman*	15,009	55.4%
Nancy Young	12,356	47.9%	Michael Maciel	12,023	44.4%
Council			Council		
Name	Votes	Percentage	Name	Votes	Percentage
Dan Arriola*	10,100	22.9%	Nancy Young*	11,176	26.2%
Veronica Vargas*	8,371	19.0%	Rhodesia Ransom*	10,613	24.9%
Dotty Nygard	8,256	18.7%	Mary Mitracos	8,006	18.8%
Juana Dement	6,952	15.8%	Anne Marie Fuller	6,936	16.3%
Catalina Olvera	5,516	12.5%	Amer Hammudi	5,777	13.6%
Amer Hammudi	4,923	11.2%			
2014			2012		
Mayor			Mayor		
Name	Votes	Percentage	Name	Votes	Percentage
Michael Maciel*	6,977	58.4%	Brent Ives*	19,300	95.00%
Ray Morelos	4,906	41.0%			
Council			Council		
Name	Votes	Percentage	Name	Votes	Percentage
Robert Rickman*	7,639	38.4%	Nancy Young*	9,563	26.90%
Veronica Vargas*	5,473	27.5%	Michael Maciel*	9,046	25.50%
Charles Manne	4,516	22.7%	Ray Morelos	6,355	17.90%
Robert Tanner	2,220	11.1%	Charles Manne	5,698	16.10%
			Roger Birdsall	4,680	13.20%
*Elected					

Table 3. Tracy City Council Timeline

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Mayor	Brent Ives		Brent Ives		Mike Maciel		Robert Rickman		Robert Rickman	
Council Member	Bob Elliott		Charles Manne*		Veronica Vargas				Veronica Vargas	
Council Member	Steve Abercrombie		Nancy Young				Nancy Young			
Council Member	Mike Maciel		Mike Maciel		Mary Mitracos*		Rhodesia Ransom			
Council Member	Robert Rickman				Robert Rickman		Juana Dement*		Dan Arriola	
	*Appointed									

Findings

F3.1 The appointment process used by the Tracy City Council to fill Council vacancies has fostered loyalty, allegiance, and personal obligation by appointed Council members and has resulted in consistent voting blocs and facilitated divisiveness amongst the Council members.

F3.2 The appointment process used by the Tracy City Council to fill Council vacancies does not take into account the will of the voters and has not been endorsed by Tracy’s electorate.

Recommendations

R3.1 The Tracy City Council adopt a resolution for filling Council vacancies that is more responsive to the voice of the voters by appointing the next highest vote-getter from the previous election by December 31, 2019.

4.0 Impact of Executive Staff Separations

City Administrators

In September 2017, Tracy’s highly regarded City Manager was fired by the City Council after a very contentious 3/2 vote. No explanation was given for the surprise termination. The next person in line for the position, the Assistant City Manager, was bypassed and the City’s Fire Chief was appointed to the position of Interim City Manager. Within two weeks, the newly appointed Interim City Manager forced the resignation of the Assistant City Manager, again without explanation.

Chief of Police

In August 2018, Tracy's popular Police Chief was abruptly relieved of duty, and again, no explanation was given. Citizens' outrage boiled over in the form of protests, letters to the local newspaper, and a series of emotional public pleas for transparency and accountability voiced during Council meetings. Public discord was matched by Council dissension with two members expressing their deep concerns for hidden politics at play. Council members sat silent as the Council Chamber overflowed with Tracy citizens and police officers seeking explanations and assurances from their elected officials. The sudden and unexplained departure of the City's Police Chief was noteworthy enough to draw the attention of most regional newspapers, including the *Stockton Record*, *San Jose Mercury News*, and *San Francisco Chronicle*. Major network affiliates ABC, CBS, NBC, and Fox sent field reporters to cover the crowded Council proceedings.

The abrupt departure of the Tracy Police Chief came as a shock to the department's officers and triggered rampant rumors amongst staff and citizens. Many publicly speculated the loss was simply one more casualty of power politics. The Tracy Police Officers Association issued a public statement expressing they were "*extremely disappointed*" in the decision and that the Chief "*had the full support of their membership.*"

On August 24, 2018, the *Tracy Press* editorial board entreated the Council to "*End the silence, inform the citizens*". The same editorial referenced the unexplained departures of the City Manager, Assistant City Manager, and the Director of Parks and Recreation. It noted the continued silence served to spawn uninformed speculation and rumors and ended by pressing the Council "*to conduct the public's business in public.*"

Counting the Costs

This series of unexplained leadership departures created significant turmoil for City of Tracy employees. Leadership positions were hastily filled with temporary appointments that included an Interim City Manager, Interim Assistant City Manager, Acting Human Resources Director, Acting Fire Chief, and Interim Chief of Police. Filling these positions proved difficult. The turmoil in City Hall damaged the City's reputation as a desirable employer and made candidates reluctant to apply for open positions. It took the City over 19 months to hire a new City Manager. The Chief of Police continues to be interim until a permanent replacement is hired.

In addition to the human toll, the various separations inflicted significant financial impact on the City. Severance payments to the City Manager, Assistant City Manager, and Police Chief cost the City more than \$400,000. Filling these three openings required hiring an executive search firm, costing about \$30,000 per position. Overall, these three separations resulted in the City of Tracy paying out approximately \$500,000. Added to hard costs, are the less quantifiable costs of lost productivity from shuffling staff, fear of job loss, and general anxiety of a working environment in turmoil.

City Attorney

The essential role and function of the Tracy City Attorney as legal advisor to the City Council has also been negatively affected by the familiar 3/2 controlling majority on the Council. While the City Attorney serves at the pleasure of, and is appointed by, the City Council, it is imperative that the function of the City Attorney not be impaired by fear or intimidation from Council alliances.

Findings

F4.1 The rapid succession of executive staff terminations and forced resignations created an unstable work environment for the City of Tracy's staff as department leadership was dismantled. The instability created an unnecessarily stressful work environment which was compounded by fear of job loss.

F4.2 The Tracy City Council's lack of transparency further eroded the public trust and caused many to speculate that power politics was the catalyst for unexplained departures of the City's professional leadership team.

F4.3 The City of Tracy's reputation as a desirable employer was damaged by the series of unexplained terminations and forced resignations. This unstable environment made recruiting for open positions substantially more difficult.

Recommendation

R4.1. The Tracy City Council amend the Tracy City Municipal Code to require a supermajority vote of four (4) members of the City Council to remove the City Manager or City Attorney, by December 31, 2019.

5.0 Council Intrusion in City Operations

Tracy practices a Council-Manager form of government in which the City Manager serves as the Chief Executive Officer for the City's operations and acts as advisor to the Council. Tracy's Municipal Code section 2.08.060 specifies the duties and powers of the City Manager, including: "It shall be the duty of the City Manager and he or she shall have the power to control, order, and give directions to all heads of departments and to subordinate officers and employees of the City through their department heads, to transfer employees from one department to another, and to consolidate or combine offices, positions, departments, or units under his or her direction."

To ensure boundaries of authority, Tracy's Municipal Code section 2.08.080 is explicit in its separation of duties within its Council-Manager form of government: "The Council and its members shall deal with the administrative services only through the City Manager, except for the purpose of

inquiry, and neither the Council nor any member thereof shall give orders to any subordinates of the City Manager.”

The Grand Jury uncovered a sweeping pattern of over-reach by individual Council members during the past two years, including:

- Department heads were contacted by Council members and given directives that violated City policy.
- Staff members received direct requests to perform tasks contrary to established procedures.
- Department heads and staff members were berated in public meetings and accused of “dragging their feet”.

Under the Council-Manager construct, the Council sets the strategic direction of the City and proposes policies to support their objectives. The City Manager directs staff members to research and analyze the impact of the Council’s proposals and then present the impartial results of their analyses. With the City Manager acting as a firewall between Council and staff, studies and reports are based on best practices and data from the field. However, in the absence of a buffer between staff members and the Council, and in a fearful work environment, the objectivity of reports is at risk.

The City of Tracy employs highly-educated, experienced, competent professionals with expertise in public administration, urban planning, economic development, and other job-related fields. Many live in Tracy, volunteer in Tracy, and are raising their families “inside the Triangle.” The stakes are high when their careers depend on pleasing the personal agendas of elected officials. It has become standard operating procedure to “keep your head down” and avoid upsetting the City Council. The Council Chamber has often become an “echo chamber” in which staff recommendations and reports are more apt to reflect the preferences of individual Council members or the Council majority, rather than proven best practices. The “echo chamber” has served to muffle the full measure and benefit of City staff’s professional experience, education, and expertise.

Findings

F.5.1 The Tracy City Council has failed to follow their policy by intruding into the responsibilities of City staff. This has negatively impacted staff morale and the effective operations of City business.

F.5.2 Individual Council members have intimidated staff by giving orders that are in direct opposition to departmental procedures.

F.5.3 The professional recommendations of City of Tracy staff may be tempered by the potential consequences of disapproving Council members due to fear of potential job loss.

Recommendation

R5.1 The Tracy City Council develop and implement a written protocol for sanctions or censure of Council members who violate the Tracy Municipal Code by failing to work through the City Manager to conduct City business, by December 31, 2019

Conclusion

“Demonstrate by word and action, the highest standard of ethical conduct and integrity in all public, professional, and personal relationships, in order that the member may merit the trust and the respect of all elected and appointed officials.”
ICMA Code of Ethics, Revised June 2018.

The lack of an approved Ethics Policy, as originally cited by the 2017-2018 Grand Jury, has continued to compound the discord and resultant impaired governance on the part of the City of Tracy elected officials. An electorate cannot fully enjoy the benefits of a well-run city government if basic standards of ethical behavior are not agreed upon and adhered to. When there is dysfunction amongst elected officials, the public is the ultimate victim. Voters who believe they are neither heard, nor acknowledged, become distrustful of the entire electoral process. Apathy ensues, to the detriment of everyone.

The 2018-2019 Grand Jury has detailed numerous findings and recommendations intended to help restore public trust by improving the collegiality and effectiveness of the Tracy City Council, while providing additional safeguards for City administrators and staff.

Ultimately, it is the Tracy electorate who may prove most influential in their ability to affect needed change through the ballot box. An example of such change occurred recently when Tracy voters brought to the Council a new member, one who is less encumbered by the alliances and scars of past Council skirmishes. Coupled with the recent hiring of a capable new City Manager, there is reason for hope, even optimism, in Tracy.

Recusal

This report was issued by the Grand Jury with the exception of one juror who was appointed to a Tracy advisory commission. Upon appointment, this grand juror recused himself from all parts of the investigation, including interviews, deliberations, and the writing and approval of this report.

Disclaimers

Grand Jury reports are based on documentary evidence and the testimony of sworn or admonished witnesses, not on conjecture or opinion. However, the Grand Jury is precluded by law from disclosing such evidence except upon the specific approval of the Presiding Judge of the Superior Court, or another judge appointed by the Presiding Judge (Penal Code Section 911. 924.1 (a) and 929). Similarly, the Grand Jury is precluded by law from disclosing the identity of witnesses except upon an order of the court for narrowly defined purposes (Penal Code Sections 924.2 and 929).

Response Requirements

California Penal Code Sections 933 and 933.05 require that specific responses to all findings and recommendations contained in this report be submitted to the Presiding Judge of the San Joaquin County Superior Court within 90 days of receipt of the report.

The Tracy City Council shall respond to all findings and recommendations.

Mail or hand deliver a hard copy of the response to:

Honorable Linda L. Lofthus, Presiding Judge
San Joaquin County Superior Court
180 E Weber Ave, Suite 1306J
Stockton, California 95202

Also, please email a copy of the response to Ms. Trisa Martinez, Staff Secretary to the Grand Jury, at grandjury@sicourts.org

Honorable Linda L. Lofthus, Presiding Judge
Superior Court of California, County of San Joaquin
180 East Weber Avenue, Suite 1306J
Stockton, CA 95202

Highlighted/shaded text will be drafted as approved by the Tracy City Council during its meeting on July 2, 2019.

Re: Grand Jury Report: Tracy City Council: Restore the Public Trust 2018-2019 Case No. 0418

Honorable Judge Lofthus:

This letter responds to the above-referenced Grand Jury Report in accordance with California Penal Code sections 933 and 933.05. The City Council has reviewed and thoughtfully considered the Grand Jury's Report. The responses contained in this letter have been approved by the Tracy City Council.

1.0 ETHICS POLICY

***F 1.1** The Tracy City Council's failure to agree on an Ethics Policy is reflective of the Council's inability to agree on the fundamentals of how to work together as an effective governing body.*

The City **agrees or disagrees wholly or partially** with this finding.

***F 1.2** The Tracy City Council's failure to prioritize the establishment of an Ethics Policy conveys a message to Tracy residents that ethical behavior by the City Council is not of paramount importance.*

The City **agrees or disagrees wholly or partially** with this finding.

***F 1.3** The adoption of an Ethics Policy will provide the Tracy City Council with a tool to hold fellow members accountable for their actions.*

The City **agrees or disagrees wholly or partially** with this finding.

***R 1.1** The Tracy City Council create and adopt an Ethics Policy that governs the behavior of its elected officials, appointed officials, and senior staff by October 31, 2019.*

This recommendation has not yet been implemented. Upon Council direction, the City will endeavor to draft and adopt an Ethics Policy by October 31, 2019.

***R 1.2** The Tracy City Council develop a "Rules of Behavior" document to be distributed to each Council member and posted in the Council Chambers and the closed meeting rooms by October 31, 2019.*

This recommendation has not yet been implemented. Upon Council direction, rules regarding expectations for City Council's behavior and norms would be included in the City's Ethics Policy.

2.0 CITY COUNCIL CONDUCT

F 2.1 *The petty bickering between Tracy City Council members during Council meetings has diminished their ability to effectively conduct the public's business and has undermined the public's trust in the Council.*

The City **agrees or disagrees wholly or partially** with this finding.

F 2.2 *The lack of an Ethics Policy restricts the ability of Tracy City Council members to hold one another accountable for violating established ethical standards.*

The City **agrees or disagrees wholly or partially** with this finding.

F 2.3 *The discord amongst Tracy City Council members is obvious to viewers of Council meetings, although the Council members themselves seemingly fail to recognize this reality.*

The City **agrees or disagrees wholly or partially** with this finding.

F 2.4 *Unethical conduct during the 2018 election campaign further damaged Council members' ability to work together.*

The City **agrees or disagrees wholly or partially** with this finding.

R 2.1 *Tracy City Council members publicly agree to set aside their personal differences and conduct the public's business in an efficient and respectful manner, by October 31, 2019.*

This recommendation has not yet been implemented. The anticipated adoption of an Ethics Policy will serve as an opportunity for the Council as a body to proclaim its commitment to work together collaboratively.

3.0 COUNCIL VACANCY APPOINTMENT PROCESS

F.3.1 *The appointment process used by the Tracy City Council to fill Council vacancies has fostered loyalty, allegiance, and personal obligation by appointed Council members and has resulted in consistent voting blocs and facilitated divisiveness amongst the Council members.*

The City **agrees or disagrees wholly or partially** with this finding.

F3.2 *The appointment process used by the Tracy City Council to fill Council vacancies does not take into account the will of the voters and has not been endorsed by Tracy's electorate.*

The City **agrees or disagrees wholly or partially** with this finding.

R3.1 *The Tracy City Council adopt a resolution for filling Council vacancies that is more responsive to the voice of the voters by appointing the next highest vote-getter from the previous election by December 31, 2019.*

This recommendation requires further analysis and discussion. Upon Council direction, staff will develop and present alternative Council vacancy selection processes for consideration.

4.0 IMPACT OF EXECUTIVE STAFF SEPARATIONS

F4.1 *The rapid succession of executive staff terminations and forced resignations created an unstable work environment for the City of Tracy's staff as department leadership was*

dismantled. The instability created an unnecessarily stressful work environment which was compounded by fear of job loss.

The City **agrees or disagrees wholly or partially** with this finding.

F4.2 *The Tracy City Council's lack of transparency further eroded the public trust and caused many to speculate that power politics was the catalyst for unexplained departures of the City's professional leadership team.*

The City **agrees or disagrees wholly or partially** with this finding.

F4.3 *The City of Tracy's reputation as a desirable employer was damaged by the series of unexplained terminations and forced resignations. This unstable environment made recruiting for open positions substantially more difficult.*

The City **agrees or disagrees wholly or partially** with this finding.

R.4.1 *The Tracy City Council amend the Tracy City Municipal Code to require a supermajority vote of four (4) members of the City Council to remove the City Manager or City Attorney, by December 31, 2019.*

This recommendation requires further analysis and discussion. Upon Council direction, staff will evaluate the proposed ordinance amendment.

5.0 COUNCIL INTRUSIONS IN CITY OPERATIONS

F.5.1 *The Tracy City Council has failed to follow their policy by intruding into the responsibilities of City staff. This has negatively impacted staff morale and the effective operations of City business.*

The City **agrees or disagrees wholly or partially** with this finding.

F.5.2 *Individual Council members have intimidated staff by giving orders that are in direct opposition to departmental procedures.*

The City **agrees or disagrees wholly or partially** with this finding.

F 5.3 *The professional recommendations of City of Tracy staff may be tempered by the potential consequences of disapproving Council members due to fear of potential job loss.*

The City **agrees or disagrees wholly or partially** with this finding.

R 5.1 *The Tracy City Council develop and implement a written protocol for sanctions or censure of Council members who violate the Tracy Municipal Code by failing to work through the City Manager to conduct City business, by December 31, 2019.*

This recommendation requires further analysis and discussion. Upon Council direction, staff will present options for accountability measures to be included in the Ethics Policy.

STATEMENTS DRAFTED BY STAFF REGARDING GRAND JURY'S FINDINGS

1.0 ETHICS POLICY

F 1.1 The Tracy City Council's failure to agree on an Ethics Policy is reflective of the Council's inability to agree on the fundamentals of how to work together as an effective governing body.

The City Council did not adopt an Ethics Policy in 2018 as it previously committed to do so. An Ethics Policy or similar guiding document is a best practice but it is not the only mechanism for addressing ethics and conflict of interests issues.

F 1.2 The Tracy City Council's failure to prioritize the establishment of an Ethics Policy conveys a message to Tracy residents that ethical behavior by the City Council is not of paramount importance.

The City Council did not adopt an Ethics Policy in 2018 as it previously committed to do so. An Ethics Policy or similar guiding document is a best practice but it is not the only mechanism for addressing ethics and conflict of interests issues.

F 1.3 The adoption of an Ethics Policy will provide the Tracy City Council with a tool to hold fellow members accountable for their actions.

The California Political Reform Act and Fair Political Practices Commission (FPPC) regulations serve as additional tools to hold elected officials accountable for abiding by ethical standards.

2.0 CITY COUNCIL CONDUCT

F 2.1 The petty bickering between Tracy City Council members during Council meetings has diminished their ability to effectively conduct the public's business and has undermined the public's trust in the Council.

Members of the public have made statements consistent with this finding.

F 2.2 The lack of an Ethics Policy restricts the ability of Tracy City Council members to hold one another accountable for violating established ethical standards.

The absence of an Ethics Policy limits the Council's ability to independently hold its Council members accountable to certain ethical standards.

F 2.3 The discord amongst Tracy City Council members is obvious to viewers of Council meetings, although the Council members themselves seemingly fail to recognize this reality.

Members of the public have made statements consistent with this finding. The City notes that various Council members have made public statements acknowledging that Council relations are a challenge and a collective growth area.

F 2.4 Unethical conduct during the 2018 election campaign further damaged Council members' ability to work together.

This finding is directed to non-City activities because it relates to political campaign activities carried out by individual Council members.

3.0 COUNCIL VACANCY APPOINTMENT PROCESS

F.3.1 The appointment process used by the Tracy City Council to fill Council vacancies has fostered loyalty, allegiance, and personal obligation by appointed Council members and has resulted in consistent voting blocs and facilitated divisiveness amongst the Council members.

The existing Council appointment process has been in effect since 2014 and amended in 2017.

F3.2 The appointment process used by the Tracy City Council to fill Council vacancies does not take into account the will of the voters and has not been endorsed by Tracy's electorate.

The City Council vacancy process was established by Council resolution and not by a vote of Tracy's electorate. The current vacancy appointment process grants Council, who are elected by the voters, with the discretion to select appointees to fill Council vacancies.

4.0 IMPACT OF EXECUTIVE STAFF SEPARATIONS

F4.1 The rapid succession of executive staff terminations and forced resignations created an unstable work environment for the City of Tracy's staff as department leadership was dismantled. The instability created an unnecessarily stressful work environment which was compounded by fear of job loss.

In the case of Tracy, internal staff were assigned to interim roles to mitigate the negative impact of employee transitions and to ensure continuity in City service delivery.

F4.2 The Tracy City Council's lack of transparency further eroded the public trust and caused many to speculate that power politics was the catalyst for unexplained departures of the City's professional leadership team.

The City of Tracy, like all employers, is restricted in what information it can share regarding personnel matters. The City takes seriously its responsibility to respect the privacy rights of its current and former employees. The City acknowledges that many members of the public requested information or details following the departure of department leadership staff and the City, in accordance with state law, did not respond to those requests.

F4.3 The City of Tracy's reputation as a desirable employer was damaged by the series of unexplained terminations and forced resignations. This unstable environment made recruiting for open positions substantially more difficult.

Employment terminations and resignations are not subject to public discourse due to confidentiality laws. A City's ability to attract candidates may be impacted by a wide range of factors.

5.0 COUNCIL INTRUSIONS IN CITY OPERATIONS

F.5.1 The Tracy City Council has failed to follow their policy by intruding into the responsibilities of City staff. This has negatively impacted staff morale and the effective operations of City business.

Chapter 2.08 of the Tracy Municipal Code establishes that the City of Tracy subscribes to a Council-Manager form of government and governs the roles and responsibilities of the Council and City Manager.

F.5.2 Individual Council members have intimidated staff by giving orders that are in direct opposition to departmental procedures.

This finding was informed by confidential testimony heard by the Grand Jury. The City takes any allegation of intimidation, whether by an employee or a Council member, very seriously and would investigate any claim presented on this matter. To date, the City has not received any claim of Council intimidation from an employee.

F 5.3 The professional recommendations of City of Tracy staff may be tempered by the potential consequences of disapproving Council members due to fear of potential job loss.

This finding was informed by confidential testimony heard by the Grand Jury.

RESOLUTION NO. 2019 - _____

APPROVING RESPONSE LETTER TO THE SAN JOAQUIN COUNTY GRAND JURY FINAL REPORT 2018-2019 (CASE NO. 0418) AND AUTHORIZING THE CITY MANAGER TO EXECUTE LETTER

WHEREAS, On June 6, 2019, the San Joaquin Civil Grand Jury released a report titled "Tracy City Council: Restore the Public Trust " (2018-2019 Case No. 0418), and

WHEREAS, State law requires that the City Council respond to the findings and recommendations contained in the report, and

WHEREAS, The City Council reviewed the findings and recommendations and provided direction on the responses at its meeting on July 2, 2019;

NOW, THEREFORE, BE IT RESOLVED, That the City Council of the City of Tracy hereby approves the response letter to the San Joaquin County Civil Grand Jury's report "Tracy City Council: Restore the Public Trust " (2018-2019 Case No. 0418), and authorizes the City Manager to execute the response letter.

The foregoing Resolution _____ was adopted by the Tracy City Council on the 2nd day of July, 2019 by the following votes:

AYES: COUNCIL MEMBERS:

NOES: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

Mayor

ATTEST:

City Clerk