

PRELIMINARY OFFICIAL STATEMENT DATED DECEMBER ___, 2017**NEW ISSUE - FULL BOOK-ENTRY**

RATINGS: S&P “___”
Moody’s: “___”
See “Ratings”

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Series 2017A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. Interest on the Taxable Series 2017A-T Bonds is not intended to be excluded from gross income for federal income tax purposes. In the further opinion of Bond Counsel, interest on the 2017 Bonds is exempt from California personal income taxes. See “TAX MATTERS.”

\$ _____ *
City of Sunnyvale
Wastewater Revenue Refunding
Bonds, Series 2017A

\$ _____ *
City of Sunnyvale
Taxable Wastewater Revenue Refunding
Bonds, Series 2017A-T

Dated: Date of Delivery

Due: April 1, as shown on inside cover

Authority for Issuance. The bonds captioned above (the “Series 2017A Bonds” and the “Taxable Series 2017A-T Bonds” and together, the “2017 Bonds”) are being issued by the City of Sunnyvale (the “City”) under (i) a resolution adopted by the City Council of the City, (ii) the provisions of Chapter 3.70 (commencing with Section 3.70.010) of the Sunnyvale Municipal Code, enacted pursuant to the charter of the City and Ordinance No. 2917-10, adopted April 6, 2010, (and (iii) an Indenture of Trust dated as of December 1, 2017 (the “Indenture”), by and between the City and U.S. Bank National Association, as trustee. See “THE 2017 BONDS – Authority for Issuance.”

Security for the 2017 Bonds. The 2017 Bonds are special obligations of the City, payable solely from “Net Revenues” of the City’s facilities for the collection, treatment, disposal and reuse of wastewater within the service area of the City (the “Wastewater System”), and amounts on deposit in certain funds and accounts established under the Indenture as and to the extent provided in the Indenture. The City will not fund a debt service reserve fund for the 2017 Bonds. See “SECURITY FOR THE 2017 BONDS.”

Parity Debt. Upon the issuance of the 2017 Bonds, there will be no outstanding bonds or other debt payable from Net Revenues on a parity with the 2017 Bonds other than the 2016 State Loan (defined herein). In addition, additional series of bonds or other debt may be issued in the future that is payable from Net Revenues on a parity with the 2017 Bonds, subject to the conditions contained in the Indenture. See “SECURITY FOR THE 2017 BONDS – Parity Debt.”

Use of Proceeds. The 2017 Bonds are being issued to provide funds to (i) pay, defease, and redeem, on an advance basis, the City’s bonds captioned “\$35,380,000 City of Sunnyvale Wastewater Revenue Bonds, Series 2010” (the “2010 Bonds”), and (ii) pay the costs of issuing the 2017 Bonds. See “FINANCING PLAN.”

Bond Terms; Book-Entry Only. The 2017 Bonds will bear interest at the rates shown on the inside cover, payable semiannually on April 1 and October 1 of each year, commencing on April 1, 2018, and will be issued in fully registered form without coupons in the denomination of \$5,000 or any integral multiple of \$5,000. The 2017 Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”). Purchasers of the 2017 Bonds will not receive certificates representing their interests in the 2017 Bonds. Payments of the principal of, premium, if any, and interest on the 2017 Bonds will be made to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the 2017 Bonds. See “THE 2017 BONDS – General Bond Terms.”

Redemption. The 2017 Bonds are subject to redemption prior to maturity. See “THE 2017 BONDS – Redemption.”

NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE 2017 BONDS OR INTEREST THEREON. THE 2017 BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, OR LIEN, OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE CITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE NET REVENUES OF THE WASTEWATER SYSTEM AND AMOUNTS ON DEPOSIT IN CERTAIN FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE AS AND TO THE EXTENT PROVIDED IN THE INDENTURE.

MATURITY SCHEDULE
(see inside cover)

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE OF BONDS. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE PURCHASE OF THE 2017 BONDS. INVESTMENT IN THE 2017 BONDS INVOLVES RISKS THAT MAY NOT BE APPROPRIATE FOR SOME INVESTORS. SEE “BOND OWNERS’ RISKS.”

The 2017 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. Certain legal matters will also be passed upon for the City by

Jones Hall, A Professional Law Corporation, as Disclosure Counsel, and by the City Attorney, and will be passed upon for the Underwriter by its counsel, Stradling, Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. It is anticipated that the 2017 Bonds, in book-entry only form, will be available through the facilities of DTC on or about _____, 2017.

[LOGO OF JP MORGAN]

The date of this Official Statement is: _____, 2017.

* Preliminary; subject to change.

MATURITY SCHEDULE*

Series 2017A Bonds
\$_____ Serial Bonds
(Base CUSIP†: _____)

Maturity (April 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP†
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\$ ____ % Term Bond due April 1, 20____, Yield: ____%, Price: ____%, CUSIP† No. ____

Taxable Series 2017A-T Bonds
\$_____ Serial Bonds
(Base CUSIP†: _____)

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

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

* Preliminary; subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services ("CGS"), managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. Neither the City nor the Underwriter takes any responsibility for the accuracy of such numbers.

CITY OF SUNNYVALE

CITY COUNCIL

Glenn Hendricks, *Mayor, Seat #2*
Gustav Larsson, *Vice Mayor, Seat #1*
Jim Griffith, *Councilmember, Seat #3*
Larry Klein, *Councilmember, Seat #4*
Nancy Smith, *Councilmember, Seat #6*
Russ Melton, *Councilmember, Seat #5*
Michael S. Goldman, *Councilmember, Seat #7*

CITY OFFICIALS

Kent Steffens, *Interim City Manager*¹
Teri Silva, *Interim Assistant City Manager*
Timothy J. Kirby, *Director of Finance*
Craig Mobeck, *Interim Director of Public Works*
John Nagel, *City Attorney*

Bond Counsel and Disclosure Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Municipal Advisor

Ross Financial
San Francisco, California

Underwriter's Counsel

Stradling Yocca Carlson & Rauth, a Professional Corporation
Newport Beach, California

Trustee

U.S. Bank National Association
San Francisco, California

Verification Agent

Causey Demgen & Moore P.C.
Denver, Colorado

¹ The City has hired a recruitment firm to manage a national recruitment process for a permanent city manager. Initial Interviews occurred in November 2017 with additional interviews planned in December 2017.

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 2017 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 2017 Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the City or the Wastewater System since the date of this Official Statement.

Use of this Official Statement. This Official Statement is submitted in connection with the sale of the 2017 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 2017 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.

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

Involvement of Underwriter. The following statement has been included in this Official Statement on behalf of the Underwriter: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Stabilization of and Changes to Offering Prices. The Underwriter may over allot or take other steps that stabilize or maintain the market price of the 2017 Bonds at a level above that which 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 2017 Bonds to certain dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the 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 2017 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 CITY 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.

Internet Site. The City maintains an internet site; however, none of the information contained on that internet site is incorporated by reference in this Official Statement.

[REGIONAL MAP]

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OFFICIAL STATEMENT

\$ _____ *
City of Sunnyvale
Wastewater Revenue Refunding
Bonds, Series 2017A

\$ _____ *
City of Sunnyvale
Taxable Wastewater Revenue Refunding
Bonds, Series 2017A-T

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. Capitalized terms used but not defined in this Official Statement have the meanings given in the Indenture (as defined below). See "APPENDIX A – Summary of Certain Provisions of the Indenture."

Authority for Issuance. The bonds captioned above (the "**Series 2017A Bonds**" and the "**Taxable Series 2017A-T Bonds**" and together, the "**2017 Bonds**") are being issued by the City of Sunnyvale (the "**City**") under (i) a resolution adopted by the City Council of the City, (ii) the provisions of Chapter 3.70 (commencing with Section 3.70.010) of the Sunnyvale Municipal Code, enacted pursuant to the charter of the City and Ordinance No. 2917-10, adopted April 6, 2010 (the "**Bond Law**"), and (iii) an Indenture of Trust dated as of December 1, 2017 (the "**Indenture**"), by and between the City and U.S. Bank National Association, as trustee (the "**Trustee**"). See "THE 2017 BONDS – Authority for Issuance."

Security for the 2017 Bonds. The 2017 Bonds are special obligations of the City, payable solely from "Net Revenues" of the City's facilities for the collection, treatment, disposal and reuse of wastewater within the service area of the City (the "**Wastewater System**"), and amounts on deposit in certain funds and accounts established under the Indenture as and to the extent provided in the Indenture. "**Net Revenues**" are generally defined in the Indenture as the "Gross Revenues" received from the Wastewater System, less the amount of "Maintenance and Operation Costs" of the Wastewater System (as those terms are defined in the Indenture). See "SECURITY FOR THE 2017 BONDS."

Parity Debt. Upon the issuance of the 2017 Bonds, there will be no outstanding bonds or other debt payable from Net Revenues on a parity with the 2017 Bonds other than the 2016 State Loan (defined below). The 2017 Bonds are payable on a parity with an Installment Sale Agreement entitled "Headworks and Primary Treatment, Phase 1(A), Clean Water State Revolving Fund Project No. C-06-8153-110, Agreement No. D16-01024," in the original principal amount of \$127,068,522, dated as of December 9, 2016, between the City and the State of California Water Resources Control Board (the "**2016 SWRCB Installment Sale Agreement**" or the "**2016 State Loan**").

* Preliminary; subject to change.

Additional series of bonds or other debt may be issued in the future that is payable from Net Revenues on a parity with the 2017 Bonds and the 2016 State Loan, subject to the conditions contained in the Indenture. See "SECURITY FOR THE 2017 BONDS – Parity Debt."

Purpose of the 2017 Bonds. The 2017 Bonds are being issued to provide funds to (i) pay, defease, and redeem, on an advance basis, the City's bonds captioned "City of Sunnyvale Wastewater Revenue Bonds, Series 2010," which were issued in the original principal amount of \$35,380,000 (the "**2010 Bonds**"), and (ii) pay the costs of issuing the 2017 Bonds. See "FINANCING PLAN."

Rate Covenants. Under the Indenture, the City is obligated to fix, prescribe, revise, and collect charges for the Wastewater System during each Fiscal Year that are sufficient to yield Net Revenues of at least 120% of Debt Service on the 2017 Bonds, the 2016 State Loan and any other Parity Debt (if any) in that Fiscal Year (as such capitalized terms are defined in the Indenture).

The City must also fix, prescribe, revise, and collect charges for the Wastewater System during each Fiscal Year to pay all Maintenance and Operation Costs of the Wastewater System estimated by the City to become due and payable in such Fiscal Year, the Debt Service on the 2017 Bonds, all other payments required for compliance with the Indenture, and all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues of the Wastewater System or the Net Revenues of the Wastewater System on a parity basis to the 2017 Bonds (as such capitalized terms are defined in the Indenture).

See "SECURITY FOR THE 2017 BONDS – Rate Covenants."

No Reserve Fund. The City will not fund a debt service reserve fund for the 2017 Bonds.

Risks of Investment. For a discussion of some of the risks associated with the purchase of the 2017 Bonds, see "BOND OWNERS' RISKS."

NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE 2017 BONDS OR INTEREST THEREON. THE 2017 BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, OR LIEN, OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE CITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE NET REVENUES OF THE WATER SYSTEM AND AMOUNTS ON DEPOSIT IN CERTAIN FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE AS AND TO THE EXTENT PROVIDED IN THE INDENTURE.

FINANCING PLAN

The 2017 Bonds are being issued to provide funds to (i) pay, defease, and redeem the City's 2010 Bonds, on an advance basis, and (ii) pay the costs of issuing the 2017 Bonds.

Payment, Defeasance, and Redemption of the 2010 Bonds

The City previously issued the 2010 Bonds in the original principal amount of \$35,380,000 to construct and acquire certain improvements to the Wastewater System, prepay a portion of the City's obligation to make installment payments to the Sunnyvale Financing Authority relating to the Wastewater System, and fund a debt service reserve account for the 2010 Bonds. The 2010 Bonds are currently outstanding in the principal amount of \$_____.

Pursuant to an Escrow Deposit and Trust Agreement (the "**Escrow Agreement**"), between the City and U.S. Bank National Association, as escrow agent (the "**Escrow Agent**"), the City will deliver a portion of the proceeds of the 2017 Bonds to the Escrow Agent for deposit in the escrow fund established under the Escrow Agreement (the "**Escrow Fund**").

The Escrow Agent will invest certain amounts deposited in the Escrow Fund in federal securities as set forth in the Escrow Agreement and hold the remainder in cash uninvested. Amounts on deposit in the Escrow Fund will be applied to (i) pay the principal amount of the 2010 Bonds maturing on and prior to April 1, 2020 (the "**Redemption Date**") together with accrued interest thereon to their respective maturity dates, and (ii) redeem in full on the Redemption Date the principal amount of the 2010 Bonds maturing on and after April 1, 2021.

Sufficiency of the deposits in the Escrow Fund for those purposes will be verified by Causey Demgen & Moore P.C., Denver, Colorado (the "**Verification Agent**"). See "VERIFICATION OF MATHEMATICAL ACCURACY" herein. As a result of the deposit of funds with the Escrow Agent on the date of issuance of the 2017 Bonds, the 2010 Bonds will be legally defeased and will be payable solely from amounts held for that purpose under the Escrow Agreement, and will cease to be secured by a pledge of the Net Revenues of the Wastewater System.

The amounts held by the Escrow Agent in the Escrow Fund are available solely to prepay and redeem the 2010 Bonds. The funds deposited in the Escrow Fund will not be available for the payment of debt service with respect to the 2017 Bonds.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds relating to the 2017 Bonds are as follows:

<u>Sources:</u>	Series 2017A	Taxable Series 2017A-T	Total 2017 Bonds
Principal Amount of 2017 Bonds	\$	\$	\$
Plus Net Original Issue Premium			
Plus Funds Related to the 2010 Bonds			
<i>TOTAL SOURCES</i>	\$	\$	\$
<u>Uses:</u>			
Deposit to Escrow Fund			
Costs of Issuance ⁽¹⁾			
<i>TOTAL USES</i>	\$	\$	\$

(1) Costs of Issuance include legal fees, municipal advisor's fee, Underwriter's discount, printing costs, rating agency fees, and other expenses related to the issuance of the 2017 Bonds.

THE 2017 BONDS

This section provides summaries of the 2017 Bonds and certain provisions of the Indenture. See APPENDIX A for a more complete summary of the Indenture. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

Authority for Issuance

The 2017 Bonds are being issued by the City under a Resolution adopted by the City Council of the City on December 12, 2017; the Bond Law; and the Indenture.

General Bond Terms

Bond Terms. The 2017 Bonds will be dated their date of delivery and issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple of \$5,000. The 2017 Bonds will mature in the amounts and on the dates, and bear interest at the rates per annum, set forth on the inside cover page of this Official Statement.

Payments. Interest on the 2017 Bonds will be payable on April 1 and October 1 of each year to maturity (each an “**Interest Payment Date**”), commencing April 1, 2018.

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

If there exists a default in payment of interest due on such Interest Payment Date, such interest will be payable on a payment date established by the Trustee to the persons in whose names the 2017 Bonds are registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Trustee to the registered Owners of the 2017 Bonds not less than 15 days preceding such special record date.

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

*However, as long as Cede & Co. is the registered owner of the 2017 Bonds, as described below, payments of the principal of, premium, if any, and interest on the 2017 Bonds will be made directly to Depository Trust Company (“**DTC**”), or its nominee, Cede & Co.*

Calculation of Interest. The 2017 Bonds will be dated their date of delivery and bear interest based on a 360-day year comprised of twelve 30-day months from the Interest Payment Date next preceding its date of authentication, unless said date of authentication is an Interest Payment Date, in which event such interest is payable from such date of authentication, and unless said date of authentication is prior to March 15, 2018, in which event such interest is payable from their date of delivery; provided, however, that if, as of the date of authentication of

any 2017 Bond, interest thereon is in default, such 2017 Bond will bear interest from the date to which interest has previously been paid or made available for payment thereon in full.

Record Date. The Indenture defines the “**Record Date**” for the 2017 Bonds as the 15th calendar day of the month immediately preceding an Interest Payment Date.

Book-Entry Only System. The 2017 Bonds will be registered in the name of Cede & Co., as nominee of DTC, New York, New York, as the initial securities depository for the 2017 Bonds. Ownership interests in the 2017 Bonds may be purchased in book-entry form only. Purchasers of the 2017 Bonds will not receive physical bonds representing their ownership interests in the 2017 Bonds purchased.

Principal and interest payments with respect to the 2017 Bonds are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the 2017 Bonds. See “APPENDIX F – DTC and the Book-Entry Only System.”

So long as the 2017 Bonds are registered in the name of Cede & Co., as nominee of DTC, references in this Official Statement to the “owners” mean Cede & Co., and not the purchasers or Beneficial Owners of the 2017 Bonds. See “APPENDIX F – DTC and the Book-Entry Only System.”

Redemption*

Optional Redemption (Series 2017A Bonds). The Series 2017A Bonds maturing on or before April 1, 20____, are not subject to optional redemption prior to maturity. The Series 2017A Bonds maturing on or after April 1, 20____, are subject to redemption prior to their respective maturity dates, at the option of the City, as a whole or in part, as to maturities as determined by the City (and if partial maturities, then by lot), on any date on or after April 1, 20____, from any source of available funds, at the principal amount of the Series 2017A Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

Optional Redemption (Taxable Series 2017A-T Bonds). [The Series 2017A-T Bonds maturing on or before April 1, 20____, are not subject to optional redemption prior to maturity. The Series 2017A-T Bonds maturing on or after April 1, 20____, are subject to redemption prior to their respective maturity dates, at the option of the City, as a whole or in part, as to maturities as determined by the City (and if partial maturities, then by lot), on any date on or after April 1, 20____, from any source of available funds, at the principal amount of the Series 2017A-T Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.] [OR]

[The Taxable Series 2017A-T Bonds may be redeemed, in whole or in part, at the option of the City, at any time at a redemption price equal to the greater of

(i) 100% of the principal amount of the Taxable Series 2017A-T Bonds to be redeemed, or

(ii) the sum of the present values of the applicable remaining scheduled payments of principal and interest on the Taxable Series 2017A-T Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on

* Preliminary; subject to change.

which such Taxable Series 2017A-T Bonds are to be redeemed, discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus ____ basis points,

plus in each case, accrued and unpaid interest on the Taxable Series 2017A-T Bonds being redeemed to the date fixed for redemption.

For purposes of the foregoing, the following definitions shall apply:

“Treasury Rate” means, with respect to any redemption date, with respect to the Taxable Series 2017A-T Bonds of a particular maturity, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue with respect thereto, computed as of the second business day immediately preceding that redemption date, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price with respect thereto for that redemption date.

“Comparable Treasury Issue” means, with respect to the Taxable Series 2017A-T Bonds of a particular maturity, the United States Treasury security selected by the Independent Investment Banker which has an actual maturity comparable to the remaining average life of the Taxable Series 2017A-T Bonds of such maturity to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Taxable Series 2017A-T Bonds of such maturity to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date, with respect to the Taxable Series 2017A-T Bonds of a particular maturity, (A) the average of the applicable Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (B) if the Independent Investment Banker for the Taxable Series 2017A-T Bonds obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such Quotations.

“Independent Investment Banker” means one of the Reference Treasury Dealers as designated by the City.

“Reference Treasury Dealer” means each of four firms, as designated by the City, and their respective successors; provided, however, that if any of them ceases to be a primary U.S. Government securities dealer in the City of New York (a “Primary Treasury Dealer”), the City will substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotation” means, with respect to each Reference Treasury Dealer and any redemption date for the Taxable Series 2017A-T Bonds of a particular maturity, the average, as determined by the Independent Investment Banker and communicated to the City, of the bid and asked prices for the applicable Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker and communicated to the Trustee by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day preceding that redemption date.

"Business Day" means any day, other than a Saturday or Sunday, and other than a day on which the Trustee is required, or authorized or not prohibited, by law (including without limitation, executive orders) to close and is closed.]

Mandatory Sinking Redemption — Series 2017A Bonds. The Series 2017A Bonds maturing on April 1, 20__ and April 1, 20__ (the "Series 2017A Term Bonds") are subject to mandatory redemption in whole, or in part by lot, from Sinking Fund Installments made under the Indenture, at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest to the date of redemption, in the aggregate respective principal amounts and on April 1 in the years as set forth in the following tables:

Series 2017A Term Bonds Maturing April 1, 20__

Sinking Fund Redemption Date (April 1)	Principal Amount
--	---------------------

(Maturity)

Series 2017A Term Bonds Maturing April 1, 20__

Sinking Fund Redemption Date (April 1)	Principal Amount
--	---------------------

(Maturity)

If some but not all of the Series 2017A Term Bonds have been redeemed under the optional redemption provisions set forth above, the total amount of all future sinking fund payments will be reduced by the aggregate principal amount of such Series 2017A Term Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis as determined by the City.

Notice of Redemption. Unless waived by the Owner of any 2017 Bonds to be redeemed, notice of any redemption of 2017 Bonds will be given, at the expense of the City, by the Trustee by mailing a copy of a redemption notice by first class mail at least 30 days and not more than 60 days prior to the date fixed for redemption to the Owner of the 2017 Bond or 2017 Bonds to be redeemed at the address shown on the Bond Registration Books; provided, that neither the failure to receive such notice nor any immaterial defect in any notice will affect the sufficiency of the proceedings for the redemption of the 2017 Bonds. Any such notice also will be given to the Securities Depositories and the Information Services on the same date that it is given to the Owner of the 2017 Bonds.

However, while the 2017 Bonds are subject to DTC's book-entry system, the Trustee 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 2017

Bonds to be redeemed. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any 2017 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 Indenture.

Rescission of Redemption and Cancellation of Redemption Notice. The City has the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any such notice of optional redemption shall be canceled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Outstanding Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under this Indenture.

The City and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of redemption.

Selection of Series 2017A Bonds of the Same Maturity for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Series 2017A Bonds of a single maturity, the Trustee shall select the Series 2017A Bonds of such maturity to be redeemed by lot in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, all Series 2017A Bonds will be deemed to be comprised of separate \$5,000 denominations and such separate denominations will be treated as separate Series A Bonds which may be separately redeemed.

Selection of Taxable Series A-T Bonds for Redemption. If less than all of the Taxable Series 2017A-T Bonds are to be redeemed, the particular maturities of Taxable Series 2017A-T Bonds to be redeemed at the option of the City will be determined by the City in its sole discretion.

If the Taxable Series 2017A-T Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of such Taxable Series 2017A-T Bonds, if less than all of the Taxable Series 2017A-T Bonds of a maturity are called for prior redemption, the particular Taxable Series 2017A-T Bonds or portions thereof to be redeemed shall be allocated on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Taxable Series 2017A-T Bonds are held in book-entry form, the selection for redemption of such Taxable Series 2017A-T Bonds shall be made in accordance with the operational arrangements of DTC then in effect, and, if the DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, the Taxable Series 2017A-T Bonds will be selected for redemption, in accordance with DTC procedures, by lot.

The City intends that redemption allocations made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, neither the City nor the Underwriter can provide any assurance that DTC, DTC's direct and indirect participants or any other intermediary will allocate the redemption of Taxable Series 2017A-T Bonds on such basis.

In connection with any repayment of principal, including payments of scheduled mandatory sinking fund payments, the Trustee will direct DTC to make a pass-through distribution of principal to the holders of the Taxable Series 2017A-T Bonds. A Pro Rata Pass-Through Distribution of Principal table is included as APPENDIX G and reflects the current schedule of mandatory sinking fund redemptions applicable to the Taxable Series 2017A-T Bonds and the factors applicable to such redemption amounts and remaining bond balances, which is subject to change upon certain optional redemptions.

For purposes of calculation of the “pro rata pass-through distribution of principal,” “pro rata” means, for any amount of principal to be paid, the application of a fraction to each denomination of the respective Taxable Series 2017A-T Bonds where (a) the numerator of which is equal to the amount due to the respective bondholders on a payment date, and (b) the denominator of which is equal to the total original par amount of the respective Taxable Series 2017A-T Bonds.

If the Taxable Series 2017A-T Bonds are no longer registered in book-entry-only form, each owner will receive an amount of Taxable Series 2017A-T Bonds equal to the original face amount then beneficially held by that owner, registered in such investor's name. Thereafter, any redemption of less than all of the Taxable Series 2017A-T Bonds of any maturity will continue to be paid to the registered owners of such Taxable Series 2017A-T Bonds on a pro-rata basis, based on the portion of the original face amount of any such Taxable Series 2017A-T Bonds to be redeemed.

Selection of Bonds for Partial Redemption. If only a portion of any Bond is called for redemption, then upon surrender of such Bond redeemed in part only, the City will execute and the Trustee shall authenticate and deliver to the Owner, at the expense of the City, a new Bond or Bonds, of the same maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

Effect of Redemption. From and after the date fixed for redemption, if notice of redemption has been duly mailed and funds available for the payment of the principal of and interest (and premium, if any) on the 2017 Bonds so called for redemption have been duly provided, such 2017 Bonds so called shall cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest shall accrue thereon from and after the redemption date specified in such notice.

Registration, Transfer and Exchange

Bond Registration Books. The Trustee will keep or cause to be kept at its trust office sufficient Bond Registration Books for the registration and transfer of the 2017 Bonds, which will at all times during regular business hours, and upon reasonable notice, be open to inspection by the City; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as provided in the Indenture.

Transfer of 2017 Bonds. Any 2017 Bond may, in accordance with its terms, be transferred upon the Bond Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such 2017 Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed.

Whenever any 2017 Bond is surrendered for transfer, the City will execute and the Trustee will thereupon authenticate and deliver to the transferee a new Bond or Bonds of like tenor, series, maturity and aggregate principal amount. No 2017 Bonds the notice of redemption of which has been mailed pursuant to the Indenture will be subject to transfer under this provision of the Indenture.

Exchange of 2017 Bonds. 2017 Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee, for 2017 Bonds of the same tenor, series and maturity and of other authorized denominations. No 2017 Bonds the notice of redemption of which has been mailed pursuant to the Indenture will be subject to exchange under this provision of the Indenture.

DEBT SERVICE SCHEDULE

Annual debt service (including scheduled sinking payments, if any) on the 2017 Bonds is presented below.

Period Ending April 1	Series 2017A Bonds Principal	Series 2017A Bonds Interest	Taxable Series 2017A-T Bonds Principal	Taxable Series 2017A-T Bonds Interest	Total Annual Debt Service
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Total:

SECURITY FOR THE 2017 BONDS

This section provides summaries of the security for the 2017 Bonds, and certain provisions of the Indenture. Unless the context otherwise requires, "Bonds" refers to the 2017 Bonds and any Parity Debt outstanding under the Indenture. See APPENDIX A for a more complete summary of the Indenture. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

General; Pledge of Net Revenues

Transfer and Pledge of Net Revenues. Under the Indenture, the 2017 Bonds are secured by a first pledge of all of the Net Revenues, on a parity with the pledge which secures all outstanding Parity Debt. In addition, the 2017 Bonds are secured by a pledge of all of the moneys in the Bond Service Fund, including all amounts derived from the investment of such moneys. So long as any of the 2017 Bonds are Outstanding, the Net Revenues and such moneys may not be used for any other purpose; except that out of the Net Revenues there may be apportioned such sums, for such purposes, as are expressly permitted by the Indenture.

Limited Obligation of the City. The City is not required to advance any moneys derived from any source of income other than the Net Revenues for the payment of the principal of or interest on the 2017 Bonds, or any premiums upon the redemption thereof, or for the performance of any covenants contained in the Indenture (except to the extent any such covenants are expressly payable from the Gross Revenues under the Indenture). The general fund of the City is not liable, and the credit of the City is not pledged, for the payment of the interest on or principal of the 2017 Bonds. The Owners of the 2017 Bonds have no right to compel the forfeiture of any property of the City. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE 2017 BONDS OR INTEREST THEREON. THE 2017 BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, OR LIEN, OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE CITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE NET REVENUES OF THE WATER SYSTEM AND AMOUNTS ON DEPOSIT IN CERTAIN FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE AS AND TO THE EXTENT PROVIDED IN THE INDENTURE.

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

Gross Revenues. The Indenture defines "Gross Revenues," as for any period of computation, all gross charges received for, and all other gross income and revenues derived by the City from, the ownership or operation of the Wastewater System or otherwise arising from the Wastewater System during such period, determined in accordance with generally accepted accounting principles, including but not limited to:

- (a) investment earnings thereon,
- (b) insurance proceeds,
- (c) transfers from (but exclusive of any transfers to) the Revenue Stabilization Fund, and

(d) all moneys received by the City from other public entities whose inhabitants are served pursuant to contracts with the City.

However, "Gross Revenues" exclude (a) the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the City levied for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Wastewater System, (b) any taxes levied for the sole purpose of providing for payment of principal and interest on any voter-approved indebtedness incurred by the City, which would not otherwise be subject to levy but for the issuance of such indebtedness, (c) the proceeds of any state or federal grants with respect to the Wastewater System, and (d) customers' deposits or any other deposits subject to refund until such deposits have become the property of the City.

Operation and Maintenance Costs. The Indenture defines "**Operation and Maintenance Costs**," as the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Wastewater System, determined in accordance with generally accepted accounting principles, including but not limited to:

(a) all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and

(b) all administrative costs of the City that are charged directly or apportioned to the operation of the Wastewater System, such as salaries and wages of employees, and the necessary contribution to retirement of such employees, overhead, taxes (if any) and insurance.

Operation and Maintenance Costs exclude (i) administrative costs which the City is required to pay under the Indenture, (ii) payments of debt service on bonds, notes, installment sale agreements, or other obligations issued by the City with respect to the Wastewater System, (iii) depreciation, replacement and obsolescence charges or reserves therefor, (iv) amortization of intangibles or other bookkeeping entries of a similar nature, and (v) costs and expenses that, under generally accepted accounting principles, are chargeable to a capital account.

No Reserve Fund. The City will not fund a debt service reserve fund for the 2017 Bonds.

Receipt and Deposit of Net Revenues; Allocation of Net Revenues

The City has previously established the Wastewater Fund, which it will continue to hold and maintain for the purposes and uses set forth in the Indenture. Under the Indenture, the City will deposit all Gross Revenues in the Wastewater Fund promptly upon the receipt thereof, and apply amounts in the Wastewater Fund solely for the uses and purposes set forth in the Indenture and purposes set forth in the Parity Debt Documents.

Under the Indenture, the City will withdraw amounts on deposit in the Wastewater Fund and apply such amounts at the times and for the purposes, and in the priority, as follows:

(a) **Bond Service Fund.** Not later than the 3rd Business Day preceding each Interest Payment Date, so long as any Bonds remain Outstanding hereunder, the City will withdraw from the Wastewater Fund and pay to the Trustee for deposit into the Bond Service Fund (which the Trustee will establish and hold in trust under the Indenture) an amount which, together with other available amounts then on deposit in the Bond Service

Fund, is at least equal to the aggregate amount of principal of (including sinking payments) and interest coming due and payable on the 2017 Bonds on such Interest Payment Date.

The Trustee will apply amounts in the Bond Service Fund solely for the purpose of (i) paying the interest on the 2017 Bonds when due and payable (including accrued interest on any Bonds purchased or redeemed under the Indenture), (ii) paying the principal of (including sinking payments) the 2017 Bonds at the maturity thereof. Upon the payment or discharge in full of all 2017 Bonds then Outstanding, the Trustee shall transfer any moneys remaining in the Bond Service Fund to the City for deposit into the Wastewater Fund.

(b) *Redemption Fund.* If the City elects to redeem Outstanding 2017 Bonds under the Indenture, the City will transfer to the Trustee for deposit into the Redemption Fund (which the Trustee will thereupon establish and hold in trust under the Indenture) an amount at least equal to the redemption price of the 2017 Bonds, excluding accrued interest, which is payable from the Bond Service Fund. Amounts in the Redemption Fund will be applied by the Trustee solely for the purpose of paying the redemption price of Bonds to be redeemed under the Indenture. Following any such redemption of the 2017 Bonds, any moneys remaining in the Redemption Fund will be transferred by the Trustee to the City for deposit into the Wastewater Fund.

The City will manage, conserve and apply moneys in the Wastewater Fund in such a manner that all deposits required to be made under Indenture and under the Parity Debt Documents will be made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default has occurred and is continuing, the City may at any time use and apply moneys in the Wastewater Fund for any one or more of the following purposes:

- (i) the acquisition and construction of improvements to the Wastewater System;
- (ii) the redemption of any of the 2017 Bonds, Parity Debt or other obligations of the Wastewater System, as the City in its discretion may determine; or
- (iii) any other lawful purpose of the City relating to the Wastewater System.

Nothing herein is intended or will be construed to impair the ability of the City to apply amounts on deposit in the Wastewater Fund to pay Operation and Maintenance Costs when and as the same become due and payable.

Revenue Stabilization Fund

Under the Indenture, the City has the right at any time to establish a Revenue Stabilization Fund (the “**Revenue Stabilization Fund**”) to be held by it and administered in accordance with the Indenture, for the purpose of stabilizing the rates and charges imposed by the City with respect to the Wastewater System. From time to time the City may deposit amounts in the Revenue Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues that are released from the pledge and lien, which secures the 2017 Bonds, as the City may determine.

The City may, but is not required to, withdraw from any amounts on deposit in a Revenue Stabilization Fund and deposit such amounts in the Wastewater Fund in any Fiscal Year for the

purpose of paying principal of and interest on the 2017 Bonds and any outstanding Parity Debt coming due and payable in such Fiscal Year. Amounts so transferred from a Revenue Stabilization Fund to the Wastewater Fund will constitute Gross Revenues for such Fiscal Year (except as otherwise provided in the Indenture), and will be applied for the purposes of the Wastewater Fund. Amounts on deposit in a Revenue Stabilization Fund will not be pledged to or otherwise secure the 2017 Bonds or any Parity Debt.

To the extent that the City appropriates funds from Gross Revenues into the Revenue Stabilization Fund for the Wastewater System, a deduction will be made from Gross Revenues of the Wastewater System in the Fiscal Year during which said transfer occurred for purposes of calculations to be made under the Indenture. To the extent that the City appropriates funds from the Revenue Stabilization Fund into the Wastewater Fund, the City may count the funds so transferred as Gross Revenues in the Fiscal Year in which said transfer occurs, for purposes of the Indenture.

All interest or other earnings on deposit in a Revenue Stabilization Fund will be retained therein or, at the option of the City, be applied for any other lawful purposes. The City has the right at any time to withdraw any or all amounts on deposit in a Revenue Stabilization Fund and apply such amounts for any lawful purposes of the City.

The City does not currently have any amounts set aside in a Revenue Stabilization Fund.

Rate Covenants under Indenture

Covenant Regarding Gross Revenues. The City will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year which (together with other funds transferred from the Revenue Stabilization Fund or other funds which are lawfully available to the City for payment of any of the following amounts during such Fiscal Year) are at least sufficient, after making allowances for contingencies and error in the estimates, to pay the following amounts in the following order:

- (i) all Operation and Maintenance Costs estimated by the City to become due and payable in such Fiscal Year;
- (ii) the principal of and interest on all outstanding Bonds and Parity Debt as they become due and payable during such Fiscal Year, without preference or priority;
- (iii) all amounts, if any, required to restore the balances in any reserve funds established for outstanding Parity Debt to their respective required levels;
- (iv) all payments coming due and payable during the Fiscal Year and required for compliance with the Parity Debt Documents; and
- (v) all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues or Net Revenues during the Fiscal Year.

Covenant Regarding Net Revenues. In addition, under the Indenture, the City will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year which, taking into account allowances for contingencies, are sufficient to yield estimated Net Revenues which are at least equal to 120% of

the aggregate amount of principal of and interest on all outstanding Bonds and Parity Debt coming due and payable during such Fiscal Year. The provisions of this covenant are subject to the adjustments made for any transfers made from a Revenue Stabilization Fund under the Indenture. Notwithstanding the foregoing provisions, if the actual collection of Net Revenues based on such rates, fees and charges is insufficient to yield Net Revenues which meet the requirements of the Indenture, such event will not constitute an Event of Default unless it has continued uncured for a period of at least 12 months.

Parity Debt

The City may issue additional Parity Debt from time to time in such principal amount as it determines, subject to the following conditions precedent:

(a) No Event of Default (or no event with respect to which notice has been given and which, once all notice of grace periods has passed, would constitute an Event of Default) has occurred and is continuing.

(b) The amount of such Net Revenues, calculated in accordance with generally accepted accounting principles, as shown by the books of the City for the latest Fiscal Year or as shown by the books of the City for any more recent 12-month period selected by the City, in either case verified by a certificate or opinion of an Independent Accountant, plus (at the option of the City) the Additional Revenues, are at least equal to 120% of the amount of Maximum Annual Debt Service on all outstanding Bonds and Parity Debt, including the proposed issuance of Parity Debt.

(c) The issuance of such Parity Debt must comply with all conditions to the issuance thereof as set forth in the applicable provisions of the Parity Debt Documents.

(d) The City will deliver to the Trustee a Certificate of the City certifying, and an opinion of Bond Counsel stating, that the conditions precedent to the issuance of such Parity Debt set forth in this Section have been satisfied.

“Additional Revenues” means, with respect to any issuance of Parity Debt:

(i) an allowance for Net Revenues from any additions to or improvements or extensions of the Wastewater System to be made with the proceeds of such Parity Debt, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source, but in any case which, during all or any part of such Fiscal Year or such 12-month period, were not in service, all in an amount equal to 90% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is respectively to be in operation, all as shown in the written report of an Independent Accountant or Financial Consultant engaged by the City; and

(ii) an allowance for earnings arising from any increase in the rates and charges made for service from the Wastewater System which has become effective prior to the incurring of such additional indebtedness but which, during all or any part of such Fiscal Year or such 12-month period, was not in effect, in an amount equal to the amount by which the Net Revenues would have been increased if such increase in

such rates and charges had been in effect during the whole of such Fiscal Year or such 12-month period.

For so long as the 2016 State Loan is outstanding, the City must also comply with the parity debt test set forth therein, which similarly requires that the Net Revenues in the most recent fiscal year, be a minimum of 120% of the maximum annual debt service for existing and proposed additional debt. For additional information on the 2016 State Loan, see "THE WASTEWATER SYSTEM – Outstanding and Anticipated Wastewater System Obligations – 2016 SWRCB Installment Sale Agreement.

Subordinate Obligations

The Indenture does not prohibit or impair the authority of the City to issue bonds or other obligations secured by a lien on Net Revenues which is subordinate to the lien established under the Indenture ("**Subordinate Bonds**"), upon such terms and in such principal amounts as the City may determine. However, the issuance of Subordinate Bonds is subject to compliance with the conditions precedent set forth in the Indenture related thereto. See "APPENDIX A – Summary of Certain Provisions of the Indenture."

Casualty Insurance and Eminent Domain Proceeds

Covenant to Maintain Insurance. The City covenants in the Indenture that it will at all times maintain such insurance on the Wastewater System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties.

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

Insurance Proceeds. If any useful part of the Wastewater System is damaged or destroyed, such part will be restored to usable condition. All amounts collected from insurance against accident to or destruction of any portion of the Wastewater System will be used to repair or rebuild such damaged or destroyed portion of the Wastewater System, and to the extent not so applied, will be applied to redeem the 2017 Bonds or any Parity Debt in accordance with the Indenture and the related Parity Debt Documents, respectively. The City will also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the City, the Trustee and the Owners of the 2017 Bonds.

Eminent Domain Proceeds. Any amounts received as awards as a result of the taking of all or any part of the Wastewater System by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the City, will either (a) be used for the acquisition or construction of improvements to the Wastewater System, or (b) be applied to redeem the 2017 Bonds or any Parity Debt in accordance with the Indenture and the related Parity Debt Documents, respectively.

THE CITY UTILITY ENTERPRISES

The City's utility enterprises consist of the Wastewater System, a water treatment and distribution system (the "**Water System**"), and a solid waste collection system (the "**Solid Waste System**"). In addition, the City owns and operates a solid waste materials recovery and transfer station (the "**SMaRT Station**"). The Water System, Wastewater System, Solid Waste System and SMaRT Station are collectively referred to as the "**Utility Enterprises.**"

Enterprise Management

The operation of the Utility Enterprises is administered and managed by Melody Tovar, Interim Director of Environmental Services. Ms. Tovar is a registered civil engineer with a B.S. in civil engineering, with emphasis on water resources and the environment. She has worked for 22 years in the environmental services field in various areas of water management, including water conservation, industrial water efficiency, water pollution prevention, sanitary engineering, private development review, stormwater program management, environmental lab oversight, environmental enforcement, and regulatory oversight. For the last six years, she has served the leadership team for Sunnyvale's Environmental Services Department as Regulatory Programs Division Manager and was recently appointed Interim Director for Environmental Services. Her previous experience includes 16 years with the City of San José also in the environmental services department.

The Environmental Services Department manages the operations for the Utility Enterprises as well as leading the City's sustainability initiatives. Capital project administration is led by the Public Works Department.

Enterprise Funds

The City accounts for the deposit of revenues and the payment of expenses relating to each of Utility Enterprises in the following enterprise funds (each an "**Enterprise Fund**" and, collectively, the "**Enterprise Funds**"):

- (i) the Water Supply and Distribution Fund (the "**Water Fund**")
- (ii) the Wastewater Management Fund (the "**Wastewater Fund**")
- (iii) the Solid Waste Management Fund
- (iv) the SMaRT Station Fund which includes an Operating Sub-Fund and
- (v) an Equipment Replacement Sub-Fund

Although each Enterprise Fund constitutes an independent enterprise, the accounting, budgeting and rate-setting procedures are common to the operation of each. Common elements of each Enterprise Fund are described below.

Contingency Reserve, Rate Stabilization Reserve and Capital and Infrastructure Reserve

In accordance with the City's Twenty Year Resource Allocation Plan (as described below; see "–Budgeting and Planning Process"), the City has established as separate reserves: a contingency reserve, a rate stabilization reserve, and a capital and infrastructure reserve for the Water Fund, the Wastewater Fund and the Solid Waste Management Fund. The SMaRT Station Equipment Replacement Sub-Fund includes an equipment replacement reserve.

Contingency Reserve. Council Fiscal Policy requires each Utility Enterprise to maintain a contingency reserve to be used only in case of disasters or other emergencies. The amount that must be maintained in the contingency reserve for the Water Enterprise and the Wastewater Enterprise in any year equals 25% of budgeted direct operating costs for the respective Enterprise for that year (including, for the Water Enterprise, the cost of purchasing wholesale water). This level of funding is intended to provide the cash resources needed to operate the respective Enterprise for three months.

Unexpended monies in the Contingency Reserve are carried over to the subsequent Fiscal Year. To the extent the required contingency reserve amount increases for an Enterprise in a given year, the additional amount is paid from the revenues of that Enterprise.

The currently planned Fiscal Year 2017-18 contingency reserve amount for the Wastewater Fund is approximately \$4.8 million.

Rate Stabilization Reserve. The rate stabilization reserves in each of the Water Fund, Wastewater Fund and Solid Waste Fund represent the projected resources in excess of those needed to fund that Enterprise's anticipated operating costs, capital expenditures, deposits to the contingency reserve fund and other expenditures in each year. Monies in the rate stabilization reserve may be used for any purpose of the related Enterprise. The rate stabilization reserve enables each Utility Enterprise to maintain a generally consistent pattern of rate increases over a rolling 20-year period, rather than experience volatile swings in rates that may occur due to unanticipated cost increases in a particular year. Amounts in the rate stabilization reserve for each System are anticipated to fluctuate each year.

The currently planned Fiscal Year 2017-18 rate stabilization reserve amount for the Wastewater Fund is approximately \$5.4 million.

The City's rate stabilization reserve is separate and apart from the Revenue Stabilization Fund that may be established under the Indenture. See "SECURITY FOR THE 2017 BONDS – Revenue Stabilization Fund."

Capital and Infrastructure Reserve. The City has capital and infrastructure reserves in the Water Fund and Wastewater Fund. These reserves represent the projected resources needed to fund anticipated costs related to planned revenue-funded capital and infrastructure improvements to each system. Monies in the capital and infrastructure reserve may be used for any purpose related to the enterprise, but are intended to help maintain a consistent pattern of rate increases instead of increasing rates inconsistently to fund anticipated capital or infrastructure costs in a particular year.

The currently planned Fiscal Year 2017-18 capital and infrastructure reserve amount for the Wastewater Fund is approximately \$3.7 million.

Utility Rate Setting

The City adjusts rates for each of its utilities annually. Each year, as part of the budget process, staff analyzes the current condition of and long-term outlook for each of the City's Utility Enterprises. This includes a review of available fund balances, state and federal environmental requirements, revenues, anticipated capital, infrastructure and operational requirements, debt service, and a detailed inspection of significant expenditure areas (e.g. the anticipated cost of purchased water, environmental regulations related to wastewater discharge, the cost of the City's

solid waste collection contract, etc.). The results of these analyses lead to proposed annual adjustments to rates that will generate the revenues necessary to meet planned expenditures. Throughout this review, staff attempts to keep utility rates as stable as possible, while maintaining high quality, reliable, and efficient services through long-term planning.

Approximately every five years, staff reviews the pricing structure of each utility in detail. This cost of service review includes each utility's costs, customer rate classifications, usage patterns by customer group, and current rate design. The goal of the review is to equitably allocate the revenue requirement of each utility between the various customer classes of service, and to design a rate for each class of service that meets the revenue needs of the utility, along with any other rate design goals or objectives.

The practice of long-term planning and the use of rate stabilization reserves have enabled the City to maintain relatively stable (albeit increasing) utility rates and avoid significant rate increases by spreading the effects of anticipated operating and infrastructure costs over twenty years in accordance with each year's adopted Resource Allocation Plan. See "—Budgeting and Planning Process" and "THE WASTEWATER SYSTEM – Wastewater Rates, Fees and Charges."

Utility Billing and Collection Procedures

Billing Procedure. The City issues a combined bill to each of its customers for fees and charges related to water, wastewater, and garbage and recycling collection and disposal services, as applicable. The majority of the City's customers are billed every two months with the exception of commercial customers, which are billed monthly.

Collection of Delinquent Utility Charges. The City's Utilities Division begins the process of collecting delinquent billings if no payment is received 30 days after the billing date, after which the bill is considered delinquent and a 5% penalty is applied. At 35 days of non-payment, any customer whose balance is \$10 or more is sent a reminder notice stating that utility service could be terminated within the next 30 days and listing the fees for the delivery of the final demand (or 48-hour notice of service interruption) and the fees to restore interrupted service.

At 61 days of delinquency, if no disputes have been lodged or alternate payment arrangements have been made, the delinquent customer is hand-delivered a 48-hour notification of water service interruption. At 68 days of delinquency, the delinquent customer's water is shut-off. In order to have their service restored, the customer is responsible for the delinquent balance and a restoration fee.

Sewer and garbage services cannot be interrupted for public health reasons, however, garbage service is reduced to the minimum service and no additional services (such as recycling services) are provided to customers whose water service has been interrupted for non-payment. Restoration of these services also occurs once the delinquent balance has been collected.

Shortfalls in the receipt of utility revenues are allocated pro rata among the Enterprises. The City has historically collected approximately 99% of its utility charges each year.

Budgeting and Planning Process

Budgeting and planning for the Utility Enterprises occur within the framework of the City's planning and management system. Key elements include:

- Long-term financial planning (includes projections over a twenty-year Resource Allocation Plan for revenues, operations, projects, debt and reserves)
- Short-term allocation of resources (the two-year action budget)
- Performance measurement of service delivery

This integrated framework has enabled the City, over time, to accomplish the long-range strategic goals established by the Council in the General Plan Elements and in Council Policy. This approach has assisted the City in maintaining, and even expanding, services during times of numerous Federal/State mandates and revenue restrictions or reductions because the focus is on long-term fiscal management. The City's planning and management systems have also served as a valuable tool in producing and capturing gains in efficiency and productivity, supporting the City's mission of providing the highest possible quality services at the lowest possible cost to its community.

The City uses long-term financial planning to ensure stability through ups and downs in economic cycles. The City Charter requires that the City Manager annually submit a budget which is balanced for ten years, and City Council fiscal policy requires that the budget be balanced for the entire Twenty-Year Resource Allocation Plan. A Twenty-Year Resource Allocation Plan is developed each year for each of the Utility Enterprises as part of the utility rate setting process.

The long-term nature of the City's financial planning system allows decision-makers to better understand the true effect of policy decisions and effectively requires that decisions made today guarantee that the resources will be available to provide quality services in the future. This long-term planning horizon prevents significant swings in service levels during the upturns and downturns of economic cycles by enabling the recognition of trends over time. The long-term financial planning process also includes an update of the twenty-year project budget. This also includes a review of project operating costs which are those ongoing costs that will need to be included in future years upon completion of a given project.

The long-term financial planning process provides the opportunity to begin consideration of the necessary steps to alter the long-term forecasted position of a particular fund should that appear necessary.

The performance based management system is an important part of the City's planning and management process. The City began to implement this management concept in the late 1970s and has consistently refined the system over the years. In recognition of the effort needed to develop operating budgets under a performance management system, the City implemented a two-year operating budget concept in the early 1980s. The City's two-year operating budget focuses on identifying and quantifying the value created from the efficient and effective provision of City services. This allows decisions to be made by Council on levels of service desired and allows staff to measure and evaluate performance. Annual results of the City's efforts are reported to Council and the citizens so they are aware of what they are receiving for their tax dollars.

THE WASTEWATER SYSTEM

History

The City has provided wastewater collection and wastewater treatment service to the residents of the City since 1912, the year of its incorporation. An engineering study conducted in that year concluded that a sewer system should be installed and that treatment and disposal of the collected sewage could be accomplished through dilution in the waters of the Guadalupe Slough and South San Francisco Bay. The first sewers and outfall lines were installed shortly thereafter.

Throughout its early years the City was an agriculturally based community, but by the 1940s the City had developed into an industrial and residential city. By 1952, the City's population had grown from an initial population of approximately 1,500 to approximately 10,000. In 1951, an engineering study indicated that the City was in need of a city-wide sewage treatment system. In 1953 the Regional Water Quality Control Board issued regulations prohibiting discharges into the San Francisco Bay or its tributaries (including Guadalupe Slough) that would cause: grease, scum or any other floating material originating from sewage or industrial waste; sludge deposits; odors of sewage or industrial waste; toxic concentrations of substances deleterious to fish or wildlife; or a reduction in dissolved oxygen content in the surface water of Guadalupe Slough of less than 0.5 parts per million.

To address these stricter water quality requirements, the City completed construction of a primary water treatment plant in 1956. The plant included three sedimentation tanks and two digesters. In 1958, the City completed construction of a 200 million gallon holding pond for treatment of industrial waste.

By 1960, the City determined that, in order to continue to meet the requirements of the Regional Water Quality Control Board, it would need to double the primary treatment capacity of the Water Pollution Control Plant. The City also determined that secondary treatment facilities were needed. By 1962 the City completed additions to the Water Pollution Control Plant that included expanding its capacity to 15 million gallons per day, and adding an additional digester and three sedimentation tanks.

In 1969, City residents approved a \$3,290,000 revenue bond issue to finance major improvements to and expansion of the Water Pollution Control Plant, which was required in light of increasingly stringent water quality regulations. Before the expansion was completed, regulatory requirements were again tightened. By 1978, with the aid of Federal and State grants, the City designed, constructed, and placed in operation tertiary facilities at the Water Pollution Control Plant. These facilities consist of dissolved air floatation units, fixed growth reactors, dual media filters, and chlorination and dechlorination.

Today, the Water Pollution Control Plant is a Grade V tertiary treatment facility with a 29.5 million gallon per day capacity. In 2016, the City entered into the 2016 State Loan to finance various improvements to the WPCP. See “— Outstanding and Anticipated Wastewater System Obligations – 2016 SWRCB Installment Sale Agreement” and “—Sunnyvale Clean Water Program” for additional details on the 2016 State Loan and the project it will finance.

The Wastewater System is currently staffed by 73 full-time equivalent City employees.

Service Area

The City is the sole and exclusive provider of wastewater service within its corporate limits, which encompasses approximately 25 square miles and an estimated population of 140,450. The City also offers service to approximately 1,870 customers in the cities of San Jose and Cupertino.

For additional background and demographic information regarding the area in and around the City, see “APPENDIX D – General Demographic Information Regarding the City of Sunnyvale and Santa Clara County.”

Management

Under the direction of the Director of Environmental Services, the Wastewater System is administered and managed by Mansour Nasser, the Water and Sewer Systems Division Manager, and Bhavani Yerrapotu, the Water Pollution Control Division Manager.

Mr. Nasser has worked in the municipal services field for over 36 years. He is a licensed professional civil engineer in the state of California. He also holds a Water Distribution Certificate Grade D5, and Water Treatment Operator Certificate Grade T4, both issued by the California State Water Board. Before joining the City in January 2012, Mr. Nasser was employed with the City of San José for over thirty years, from April 1981 to January 2012. Starting in 1984 and until he left in 2012, Mr. Nasser served in various capacities in the San Jose Municipal Water System (SJMWS) ranging from Junior Engineer to Deputy Director of the Environmental Services Department. As a Senior Engineer in San José, Mr. Nasser managed the Engineering Section and was responsible for the capital improvement program for the water utility. As the Water Utility Manager, Mr. Nasser oversaw the SJMWS and was responsible for operations, maintenance, engineering and customer service for a period of thirteen years. As Deputy Director of the Environmental Service Department for Water Resources, Mr. Nasser oversaw the SJMWS, South Bay Water Recycling Program and Water Conservation.

Ms. Yerrapotu is responsible for the management of the City's Water Pollution Control Plant and is also the key technical lead on the Clean Water Program, a \$450 Million Capital Improvement program aimed at rebuilding the facility. Ms. Yerrapotu is a registered Civil Engineer with B.S. and M.S. Degrees in Civil and Environmental Engineering. She is a Board Certified Environmental Engineer and is a key representative for Sunnyvale on the Bay Area Clean Water Agencies (BACWA) consortium negotiating the regional watershed permit related to nutrient discharges into the bay. She has worked in the field of water/wastewater and engineering for over 23 years. Previous experience included six years as the Division Manager/Deputy Director for the Engineering and Technical Support Division of the San Jose/Santa Clara Regional Wastewater Facility, overseeing their \$40 Million/Year capital improvement program, IT/SCADA, regulatory, and process engineering sections.

Wastewater Collection and Treatment System

The Wastewater System has an average nominal flow capacity of 29.5 million gallons per day, with current flows averaging 12 to 15 million gallons per day. The fixed assets controlled by the Wastewater System include the wastewater collection system and Water Pollution Control Plant, which is the City's primary wastewater treatment facility.

Wastewater Collection System. The wastewater collection system consists of approximately 327 miles of sewer mains, including pipes ranging from six inches to 48 inches in diameter constructed of PVC pipe, and pre-cast concrete manholes.

The City was incorporated as a city in 1912, and the first sanitary sewers were installed shortly thereafter in the downtown area. Gravity flow patterns are generally from south to north and west to east. Five major interceptors, referred to as the Borregas, Lawrence, Cannery, Lockheed and Moffett Interceptors, convey all sewer flow to the WPCP for treatment and disposal. The sanitary sewer collection system includes approximately 310 miles of active City-owned gravity pipelines ranging in size from 4 to 48-inches in diameter, approximately 6,000 manholes, five sewer lift stations, and two miles of sewer force main. Approximately 15 miles of gravity pipelines are located south of the City boundary in an area known as Rancho Rinconada. In addition to City-owned gravity pipelines, there are many private sewer pipelines that the City does not maintain, including an extensive system of private sewers serving industrial development in the northwest portion of the City.

Over 93% of the gravity pipelines are constructed of Vitrified Clay Pipe (VCP), and most were constructed in the 1950s and 1960s. Maintenance activities for the gravity pipelines and manholes include cleaning (hydro-flushing), closed-circuit television (CCTV) video inspection, and root control. The City maintains a robust pay-as-you-go capital program for its collection system, jump started by the issuance of the 2010 Wastewater Bonds. The current budget and long term financial plan includes an ongoing annual allocation for pipeline lining and replacements, as well as the maintenance of other collection system infrastructure.

Water Pollution Control Plant (WPCP). The City's Water Pollution Control Plant is a Grade V Treatment Facility, and the Water Pollution Control Operations Supervisor is a Grade V certified by the State of California Water Resources Control Board. The Water Pollution Control Plant has a fully equipped laboratory under the direction of a qualified chemist. A team of industrial waste inspectors oversee an industrial/commercial pretreatment program to ensure that toxic, hazardous, or untreatable wastes are not discharged to the Wastewater System.

The Water Pollution Control Plant includes a mechanical screen, aerated grit tanks, primary sedimentation tanks, a roughing trickling filter, a secondary clarifier, an equalization basin, nitrification aeration basins, nitrification clarifiers, and chlorination. Effluent is normally pumped to evaporation/percolation ponds. Sludge is processed using a floatation thickener followed by anaerobic digestion and sludge drying beds or a centrifuge for dewatering. The Water Pollution Control Plant uses three distinct processes to treat wastewater, as described below:

Primary Treatment. Wastewater enters the plant 30 feet below ground. Large debris is ground up before the wastewater is pumped up to the ground level, where solids are removed in aerated grit tanks and sedimentation basins. (Sludge that is removed is processed using a floatation thickener followed by anaerobic digestion in anaerobic digesters and then on to sludge drying beds for dewatering.)

Secondary Treatment. The primary effluent then flows to the oxidation ponds, where bacteria consume the remaining solid materials.

Tertiary Treatment. The effluent is then pumped up and over nitrification clarifiers, also known as fixed growth reactors. Next the wastewater is transferred to the aerated floatation tanks, where polymer and air are injected causing algae to flocculate and rise to the top. The algae is collected and sent to the digesters or back to the ponds. The wastewater is sent through dual media filters to remove the remaining algae and then to the chlorine contact channels, where chlorine is used as a disinfectant.

Following tertiary treatment, the effluent is 95% free of any pollutants, and with the addition of sulfur dioxide to render the chlorine harmless the water can be discharged to the San Francisco Bay as highly treated wastewater, or used as recycled water (based on the level of treatment).

The Water Pollution Control Plant has consistently met all National Pollutant Discharge Elimination System discharge requirements, and has been highly reliable.

In 1998 the City installed a new power generation facility at the Water Pollution Control Plant that currently meets the electrical needs of the plant, and exports excess power to the electricity grid. The \$4 million power generation facility currently uses waste gases produced by the Sunnyvale Landfill and as a by-product of wastewater treatment as fuel for engine generators. The power generation facility saves approximately \$800,000 in energy costs per year.

The Sunnyvale Clean Water Program. The Sunnyvale Clean Water Program is working to rebuild the existing Water Pollution Control Plant (WPCP or Plant), which was initially built in 1956. With additions over the subsequent 15-20 years it has grown to a tertiary treatment facility with an average dry weather flow rate of 12 million gallons per day (MGD) and a permitted average dry weather flow rate of 29.5 MGD. An asset condition assessment conducted in 2006 identified several critical Plant structures as at-risk and in need of immediate rehabilitation. Based on this assessment, the City began implementing several rehabilitation projects and also developed a long-term Strategic Infrastructure Plan (SIP) to serve as a road map for the physical improvements and process enhancements needed to maintain a high level of treatment and to meet current and expected regulatory requirements and stewardship objectives. In 2013, to help implement the SIP, the City secured the professional services of Carollo Engineers to develop a comprehensive Master Plan, which included the “basis of design” development for the various process areas to be rebuilt and a programmatic environmental impact report (PEIR). The Master Plan was adopted by City Council in 2016.

The Master Plan consists of more than 30 capital improvement projects. The City anticipates awarding multiple consulting contracts over the next several years. A Program Management Consultant (PMC) will be required to coordinate this work with the City and other City Consultants for the life of the project, which is expected to continue for the next 15 to twenty years at a total cost of approximately \$462 million.

Phase one, which builds new primary treatment facilities and headworks, is currently underway. It is being funded through the \$127 million 2016 State Loan, which is payable on parity with the 2017 Bonds. See “–Outstanding and Anticipated Wastewater System Obligations” below.

As part of phase one, the City has awarded a \$100 million contract for the primary treatment and headworks project, which has begun construction, funded by the 2016 State Loan (which is also funding the design and construction management services). This phase of the project is anticipated to be completed by Fiscal Year 2021-22. Due to the environmentally friendly features of the project, the City obtained \$4 million in principal forgiveness from the State in connection with the 2016 State Loan. To date, with the project just underway, the City has drawn approximately \$3 million of the funds, with the principal forgiveness coming first.

Capital Improvement Program

The City’s Recommended FY 2017-18 Twenty-Year Resource Allocation Plan projects capital improvements to the Wastewater System for Fiscal Years 2017-18 through 2036-37 in the aggregate amount of approximately \$790.8 million. Of that amount, \$676.4 million is attributable

to the new or renovated Water Pollution Control Plant, which the City expects to finance through a combination of pay-as-you-go revenues, loans from the State Revolving Fund program and bonds.

Table 1
WASTEWATER SYSTEM
Five Year Capital Improvement Program Summary

Projects	2017-18	2018-19	2019-20	2020-21	2021-22	Total
WPCP Electronic Operations & Maintenance Manual	\$306,000	\$208,080	\$0	\$0	\$0	\$514,080
Sanitary and Storm System Hydraulic Model Update	765,000	0	0	0	0	765,000
Storm System Trash Control Devices	183,600	712,674	0	487,094	596,204	1,979,572
Green Streets for Stormwater	425,000	500,000	0	0	0	925,000
Repairs to WPCP Support Facilities	0	100,000	100,000	0	0	200,000
SCWP Secondary Treatment Improvements-Split Flow CAS Stage 1		0	0	10,000,000	0	10,000,000
SCWP Administration and Lab Building			6,000,000	0	0	6,000,000
WPCP Biosolids Processing - Program Funded	1,683,000	2,080,800	2,122,416	2,164,864	2,208,162	10,259,242
WPCP Waste Gas Burner Replacement	175,000	460,000	60,000	0	0	695,000
Adjust Utilities in Support of Paving Projects	81,600	83,232	84,897	86,595	88,326	424,650
Storm Trash Reduction Programs	357,000	312,120	318,362	324,730	331,224	1,643,436
WPCP Oxidation Pond Levee Rehab	306,000	468,180	344,893	378,851	358,826	1,856,750
Sewer Emergency Repair and Replacement	204,000	208,080	212,242	216,486	55,204	896,012
Replacement/Rehab of Sewer Pipes	0	208,080	1,273,450	216,486	1,324,897	3,022,913
Replacement/Rehab of Storm Drain Pipes	51,000	260,100	318,362	757,703	0	1,387,165
Lawrence Expressway Sanitary Sewer Rehab	1,428,000	0	0	0	0	1,428,000
Existing Secondary Process Rehab	165,000	130,000	80,000	0	0	375,000
Repairs to Power Generation and Distribution	0	0	100,000	500,000	100,000	700,000
Existing Tertiary Process Rehab	0	390,150	397,953	162,365	165,612	1,116,080
Wastewater Cost of Service Study	20,400	0	0	0	0	20,400
SCVURPPP Contracting and Fiscal Agent	50,000	50,000	50,000	50,000	50,000	250,000
Annual Digester Cleaning	81,600	166,464	84,897	86,595	176,653	596,209
<i>Sub-total</i>	<i>\$6,282,200</i>	<i>\$6,337,960</i>	<i>\$11,547,472</i>	<i>\$15,431,769</i>	<i>\$5,455,108</i>	<i>\$45,054,509</i>
Design and Construction of Water Pollution Control Plant	\$53,600,000	\$51,676,399	\$45,610,000	\$68,440,000	\$84,390,000	\$303,716,399
Total	\$59,882,200	\$58,014,359	\$57,157,472	\$83,871,769	\$89,845,108	\$348,770,908

Source: City of Sunnyvale, Department of Finance.

As shown in the table above, a major component of the City's planned Wastewater System improvements is the renovation program for the Water Pollution Control Plant. See "– Wastewater Collection and Treatment System" above.

Wastewater Rates, Fees and Charges

Wastewater Rate Setting. Wastewater rates are based entirely on the City's costs for operating and maintaining its Wastewater System. Rates are broken into customer classification and type of use. Periodically, the City conducts a study and revises estimates for flows and treatment parameters. This information is used to ensure proper cost recovery from the different classes of customers. The next wastewater cost of service rate study is planned for Fiscal Year 2017-18. See "THE CITY UTILITY ENTERPRISES – Utility Rate Setting" for a further discussion of rate-setting procedures common to all City Utility Enterprises.

Wastewater Rate Structure. The following table summarizes the current rate structure for the Wastewater System. Rates shown represent bi-monthly charges.

Table 2
WASTEWATER SYSTEM
Summary of Rate Structure by User Type
Fiscal Year 2017-18

<u>User Type</u>	<u>Rate</u>	<u>Basis for Calculation</u>
Single-Family Residences	\$47.18	Flat rate per residence
Apartments/Mobile Homes	30.45	Flat rate per unit
<u>Commercial:</u>		
Standard Strength (most common users)	\$4.20	Per hundred cubic feet of water consumed
Low Strength	4.65	Per hundred cubic feet of water consumed
High strength	7.96	Per hundred cubic feet of water consumed
Significant Industrial Users		Significant Industrial Users are sampled individually each year and a rate is calculated based on their actual discharge of suspended solids, total organic carbon, ammonia nitrogen and total flow
	\$4,399.69	per 1,000,000 gallons of flow
	1,601.19	per 1000 pounds of suspended solids
	2,076.50	per 1000 pounds of total organic carbon
	6,318.62	per 1000 pounds of ammonia nitrogen

Source: City of Sunnyvale, Department of Finance.

Historical Wastewater Rate Increases. The City has historically increased wastewater rates for each customer class each year. The most recent increase was adopted in 2017, for Fiscal Year 2017-18. Rate increases in recent years have been designed to address capital upgrades to facilities and the Water Pollution Control Plant.

The following table sets forth a five-year history of wastewater rate increases.

Table 3
WASTEWATER SYSTEM
Historic Wastewater Rate Increases for all Customer Classes

<u>Year</u>	<u>Increase</u>
2013-14	6.5%
2014-15	9%
2015-16	8%
2016-17	8%
2017-18	10%

Source: City of Sunnyvale Department of Finance.

Projected Rate Increases. The Resource Allocation Plan for the Wastewater Fund makes provisions for the long-term cost of infrastructure renovation and replacement, supply costs and other factors that affect the Wastewater Fund.

The Fiscal Year 2017-18 Resource Allocation Plan that was approved by the City Council on June 20, 2017, projects that wastewater rates will increase by 10.0% in Fiscal Year 2018-19, 9.0% annually in Fiscal Year 2019-20, Fiscal Year 2020-21 and Fiscal Year 2021-22. Increases between 1.0% and 6.0% per year are planned for Fiscal Years 2022-23 through 2026-27, with increases between 1.0% and 8.0% per year for the remaining ten years of the planning period.

All of these projected rate increases are dependent on approval by the City Council following the notice and protest procedures required under Proposition 218. See “BOND OWNERS’ RISKS – Proposition 218.” No assurance can be given that the City Council will approve any or all of the projected rate increases in the amounts or at the times set forth in the Resource Allocation Plan (but subject, however, to the City’s covenant to maintain the debt service coverage ratios set forth in the Indenture; see “SECURITY FOR THE 2017 BONDS – Covenants Regarding Water System Rates and Charges” above), or that the City Council’s approval of any proposed rate increase will not be precluded by a successful protest brought by ratepayers under Proposition 218 (see “BOND OWNERS’ RISKS – Proposition 218” below). In addition, these projected rate increases could change depending on future Resource Allocation Plans, and will largely depend on the timing of the work on the Water Pollution Control Plant and future operation and maintenance costs of the Wastewater System.

Comparative Monthly Wastewater Service Charges. The following table compares the City's residential wastewater service charges to neighboring Santa Clara County cities and agencies.

Table 4
WASTEWATER SYSTEM
Comparative Rates
Fiscal Year 2016-17

<u>Community</u>	<u>Monthly Residential Rate</u>
Fremont	\$31.67
Mountain View	34.30
Palo Alto	34.83
San Jose	35.60
Cupertino	37.04
Santa Clara	41.65
Sunnyvale	42.89
Milpitas	45.14

Source: City of Sunnyvale Department of Finance.

Connection Fees. The City charges various connection fees for new connections to the Wastewater System. For Fiscal Year 2017-18, for a residential unit (standard occupancy unit), the fee is \$7,887 and for a residential unit (low occupancy unit), the fee is \$5,127. Commercial and industrial users are charged a connection fee based on the characteristics of the waste and the estimated discharge amount.

Customer Base

The following table summarizes the number of customers served as of June 30, 2017, by the Wastewater System, grouped by customer type.

Table 5
WASTEWATER SYSTEM
Summary of Sewer Accounts and Usage by User Type
As of June 30, 2017

<u>User Type</u>	<u>Number of Accounts</u>	<u>Revenues</u>	<u>Billings as a Percent of Total</u>
Single-Family Residences	26,504	\$13,664,392	40%
Apartments/Mobile Homes	1,720	10,883,850	32
Industrial	39	2,990,787	9
Commercial	1,688	6,333,022	19
Other	62	303,505	1
Total	30,013	34,175,556	100%

Source: City of Sunnyvale, Department of Finance.

The following table sets forth a five-year history of the number of accounts for the Wastewater System.

Table 6
WASTEWATER SYSTEM
Number of Accounts
Fiscal Years 2012-13 through 2016-17

<u>Fiscal Year</u>	<u>Number of Accounts [1]</u>
2012-13	29,145
2013-14	29,368
2014-15	28,197
2015-16	28,164
2016-17	30,013

[1] As of June 30 each year.

Source: City of Sunnyvale Department of Finance.

Largest Wastewater Customers. The following are the ten largest Wastewater System customers for the current Fiscal Year to date, which currently represent approximately 14% of the Wastewater System service charges received by the City.

Table 7
WASTEWATER SYSTEM
Ten Largest Customers
Fiscal Year 2016-17

<u>Customer</u>	<u>Land Use</u>	<u>Primary Business Activity</u>	<u>Percent of Total Revenues</u>
Applied Materials	Commercial	Semiconductor and Related	3.86%
NASA/Ames Research	Commercial	Space Research and Technology	2.22
Northrop Grumman	Commercial	Transportation Equipment Manufacturing	2.17
Casa De Amigos	Multi-unit Dwelling	Mobile Home Park	0.92
Spieker Companies	Multi-unit Dwelling	Apartment	0.84
ERP Operating LP	Multi-unit Dwelling	Apartment	0.83
Plaza Del Rey	Multi-unit Dwelling	Mobile Home Park	0.81
Prometheus Real Estate	Multi-unit Dwelling	Apartment	0.77
Avalon Bay Communities	Multi-unit Dwelling	Homeowners Association	0.72
BRE Properties	Multi-unit Dwelling	Apartment	0.68
Total Top Ten:			13.82%

Source: City of Sunnyvale, Department of Finance.

Outstanding and Anticipated Wastewater System Obligations

2016 SWRCB Installment Sale Agreement. The City entered into the 2016 SWRCB Installment Sale Agreement in December 2016 in the original principal amount of \$127,068,522, in order to finance certain improvements to the Wastewater System, payments on which are made on a parity with the 2017 Bonds. Debt service payments commence after funds are fully drawn down (expected in Fiscal Year 2021-22) and will be based on 30-year level debt service. The City's current estimated annual payment, starting in Fiscal Year 2021-22, is equal to \$5,270,934.

The 2016 State Loan will finance major upgrades to the headworks and primary sedimentation facilities at the WPCP. The City plans to construct new headworks and primary treatment facilities in the eastern portion of the WPCP. The new facilities will be designed to provide additional capacity for future flows and loads through buildout (estimated to occur by 2035). After the new primary treatment facilities are in service, the existing headworks and primary sedimentation tanks would be decommissioned and no longer used. The new headworks will include: electrical pumps, screening facility and screenings/grit handling building, electrical building, and odor control facility. The new primary treatment facilities will include: 6 primary sedimentation tanks, Chemically Enhanced Primary Treatment facility, new utilities tunnel, new primary effluent pipeline and junction boxes. Other improvements that will be implemented as part of this project include installation of a mechanized dewatering unit, a temporary construction gate, extended fencing to encompass site extension to the south and east, installation of heat recovery system at the power generation facility, and a 12 kV main switchgear and a 2000 kW diesel engine generator. The project includes an energy efficiency component. Energy demand at the plant's pump station will be reduced by replacing three large pumps and biogas fueled engines with new high efficiency pumps and motors.

Consistent with the 2017 Bonds, the 2016 State Loan requires the City to establish rates equal to at least 120% of Net Revenues.

The 2016 State Loan provides that it may be terminated by the SWRCB upon violation by the City of any material provision of the 2016 State Loan (after a reasonable cure period). Following such termination, the City would be required to immediately repay all outstanding amounts under the 2016 State Loan, plus penalties and expenses of SWRCB. In the event of termination, interest will accrue at the highest legal rate of interest from the date that notice of termination is mailed by the SWRCB to the City to the date all monies due have been received by the SWRCB.

Future Indebtedness. The City currently anticipates that it will issue future bonds or other forms of indebtedness to finance all or a portion of the planned WPCP renovations (Sunnyvale Clean Water Program), which is currently estimated to cost approximately \$458 million, over the next 15 to 20 years.

Wastewater System Historical Fund Balances

The following table sets forth the balance sheets for the Wastewater Fund for the last five Fiscal Years.

Table 8
WASTEWATER SYSTEM
Historical Balance Sheets
As of June 30, 2017

	Audited 2012-13	Audited 2013-14	Audited 2014-15	Audited 2015-16	Audited 2016-17
Assets					
<u>Current Assets:</u>					
Cash and Investments Held by City	\$25,515,467	\$30,367,605	\$24,324,645	\$21,658,792	\$14,880,433
Cash and Investments Held by Fiscal Agent	12,124,458	4,560,070	1,443,095	1,442,397	1,439,420
Receivables, Net	3,349,060	4,009,294	3,928,638	4,138,809	4,616,360
Intergovernmental Receivables	2,645	5,363	293,121	873,861	5,332,224
Advances to Other Funds	--	--	404,744	404,744	404,744
Inventories and Prepayments	36,182	40,674	39,572	64,132	30,512
Total Current Assets	\$41,027,812	\$38,983,006	\$30,433,815	\$28,582,735	\$26,703,693
<u>Noncurrent Assets:</u>					
Advances to Other Funds	\$2,184,050	\$2,282,332	\$1,980,293	\$1,682,876	\$1,372,075
<u>Capital Assets:</u>					
Land & Non-Depreciable Assets	7,892,096	12,843,389	25,603,561	35,172,381	51,394,570
Depreciable Assets, Net	39,436,041	42,860,426	44,613,175	45,656,880	43,990,337
Total Noncurrent Assets	\$49,512,187	\$57,986,147	\$72,197,029	\$82,512,137	\$96,756,982
Total Assets	90,539,999	96,969,153	102,630,844	111,094,872	123,460,675
Deferred Outflows of Resources	133,878	124,315	1,637,144	1,801,207	4,207,468
Liabilities					
<u>Current Liabilities:</u>					
Accounts Payable and Accrued Liabilities	\$1,317,541	\$3,289,244	\$4,227,564	\$3,045,798	\$3,324,247
Advances from Other Funds	1,264,380	1,264,380	1,264,379	1,264,379	1,316,438
Refundable Deposits	117,276	170,536	155,320	181,851	202,927
Interest Payable	400,931	388,381	372,069	354,881	336,881
Unearned Revenues	--	--	30,000	30,000	30,000
Long-term Debt - Due Within One Year	1,255,000	1,305,000	1,375,000	1,440,000	1,515,000
Total Current Liabilities	\$4,355,128	\$6,417,541	\$7,424,332	\$6,316,909	\$6,725,493
<u>Noncurrent Liabilities:</u>					
Advances from Other Funds	\$10,298,238	\$9,843,241	\$9,356,394	\$8,835,468	\$8,226,019
Long-term Debt - Due in More than One Year	32,940,496	31,531,218	30,051,940	28,507,663	26,888,385
Net Pension Liability	--	--	15,154,220	15,998,547	19,026,245
Total Noncurrent Liabilities	\$43,238,734	\$41,374,459	\$54,562,554	\$53,341,678	\$54,140,649
Total Liabilities	47,593,862	47,792,000	61,986,886	59,658,587	60,866,142
Deferred Inflows of Resources	--	--	3,044,225	1,447,676	531,348
<u>Net Assets:</u>					
Invested in Capital Assets, Net of Related Debt	25,390,977	27,551,982	40,347,643	52,429,185	68,516,569
Restricted for Debt Service	--	--	--	--	5,270,934
Unrestricted	17,689,038	21,749,486	(1,110,766)	(639,369)	(7,516,850)
TOTAL NET ASSETS	\$43,080,015	\$49,301,468	\$39,236,877	\$51,789,816	\$66,270,653

Source: City of Sunnyvale Comprehensive Annual Financial Reports.

Wastewater System Historical Revenues, Expenses and Debt Service Coverage

Historical Revenues and Expenses. The following table presents historical revenues, expenses and changes in retained earnings of the Wastewater System for the past five Fiscal Years. In this table, retained earnings are portrayed on the full accrual basis of accounting as opposed to the cash basis used in the historical debt service coverage and projected debt service coverage tables presented on the following pages. Examples of the differences between the accrual presentation in the table below and the cash presentation in the debt service coverage tables on the following pages include (a) the treatment of capital or infrastructure assets, which are capitalized under the accrual basis and treated as an expense on a cash basis, and (b) the change in fair value of investments, which have no effect on budgetary fund balance but are included as income or loss on an accrual basis.

Table 9
WASTEWATER SYSTEM
Historical Revenues, Expenses and Changes in Retained Earnings
As of June 30

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
Operating Revenues:						
Charges for Services	\$24,828,630	\$25,936,275	\$27,911,138	\$29,735,512	\$32,497,829	\$34,357,829
Operating Expenses:						
Personnel Services	8,785,717	9,577,616	9,721,463	10,117,150	9,480,742	10,762,197
Contractual Services	2,718,537	3,543,399	3,664,630	3,570,345	4,006,732	4,637,539
Supplies and Materials	2,279,304	2,220,601	2,224,529	2,453,096	2,696,557	2,948,271
Utilities (Gas, Electricity, Water, Phone)	502,011	533,653	592,351	578,112	615,906	780,596
Taxes and Licenses	165,425	181,852	206,164	197,889	225,452	223,127
Equipment and Building Rental	745,486	710,847	699,386	849,909	915,442	912,309
Other Operating Expenses	284,291	327,691	252,428	184,585	253,372	263,951
General Fund Administration [3]	--	--	--	--	2,616,030	2,863,834
Depreciation	<u>1,958,057</u>	<u>2,123,087</u>	<u>2,284,794</u>	<u>2,470,903</u>	<u>2,454,357</u>	<u>2,277,638</u>
Total Operating Expenses	17,438,828	19,218,746	19,645,745	20,421,989	23,264,590	25,669,462
Income from Operations	7,389,802	6,717,529	8,265,393	9,313,523	9,233,239	8,688,367
Non-Operating Revenues (Expenses):						
Investment Income	286,143	217,130	317,779	339,713	375,508	244,736
Sewer Connection Fees	1,217,814	3,316,662	4,166,495	1,751,177	4,572,922	3,362,244
Capital Grants and Contributions	266,900	410,000	247,800	1,416,000	223,600	5,011,782
Interest Expense	<u>(2,263,728)</u>	<u>(1,991,360)</u>	<u>(1,644,209)</u>	<u>(928,098)</u>	<u>(363,543)</u>	<u>260,094</u>
Total Non-Operating Revenues (Expenses)	(492,871)	1,952,432	3,087,865	2,578,792	4,808,487	8,878,856
Income Before Operating Transfers	6,896,931	8,669,961	11,353,258	11,892,315	14,041,726	17,567,223
Operating Transfers In	--	--	18,959	260,654	804,416	223,370
Operating Transfers Out [3]	<u>(4,708,379)</u>	<u>(4,322,882)</u>	<u>(5,150,764)</u>	<u>(5,242,759)</u>	<u>(2,293,203)</u>	<u>(3,309,756)</u>
Net income (Loss)	2,188,552	4,347,079	6,221,453	6,910,210	12,552,939	14,480,837
Retained Earnings at Beginning of Year	36,884,648	39,073,200	43,080,015	49,301,468	39,236,877	51,789,816
Prior Period Adjustment [1] [2]	--	(340,264)	-	(16,974,801)	-	-
Residual Equity Transfer	--	--	--	--	--	--
Retained Earnings at End of Year	<u>\$39,073,200</u>	<u>\$43,080,015</u>	<u>\$49,301,468</u>	<u>\$39,236,877</u>	<u>\$51,789,816</u>	<u>\$66,270,653</u>

[1] Fiscal Year 2012-13: Debt issuance costs (excluding pre-paid insurance) used to be reported as deferred charge. Under GASB 65 the costs have been reclassified as an expense in the period incurred.

[2] Fiscal Year 2104-15: Prior period adjustment due to GASB 68 implementation of new pension standards as defined in Note 20 of the CAFR.

[3] General Fund Administration costs are reflected in total operating expenses beginning 2015-16, they were previously reflected in Operating Transfers Out.

Source: City of Sunnyvale Comprehensive Annual Financial Reports.

Historical Debt Service Coverage. The following table sets forth the historical debt service coverage of the Wastewater System for the past five years based on the “Net Revenues” of the Wastewater System available under the 2010 Installment Purchase Agreement.

Table 10
WASTEWATER SYSTEM
Historical Revenues, Expenses and Debt Service Coverage,
and Reserve Balances

	<u>2012-2013</u>	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
Gross Revenues					
Charges for Services:	\$25,936,275	\$27,911,138	\$29,735,512	\$32,497,829	\$34,357,829
Investment Income/Interest	217,130	317,779	339,713	375,508	244,736
Sewer Connection Fees	3,316,662	4,166,495	1,751,177	4,572,922	3,362,244
Total Gross Revenues	29,470,067	32,395,412	31,826,402	37,446,259	37,964,809
Operation and Maintenance Costs [1]	17,596,350	18,341,302	19,425,241	19,474,965	22,216,329
Net Revenues [2]	11,873,717	14,054,110	12,401,161	17,971,294	15,748,480
Debt Service on Series 2010 Bonds	2,862,125	2,858,725	2,858,525	2,863,275	2,859,525
Debt Service Coverage Ratio	4.15x	4.92x	4.34x	6.28x	5.51x
Rate Stabilization Reserve [3]	\$21,641,582	\$11,635,727	\$7,008,181	\$5,295,457	\$3,022,040
Capital and Infrastructure Reserve [3]	4,248,124	19,809,803	20,000,000	14,410,700	6,282,200
Contingencies Reserve [3]	3,580,813	3,587,344	3,887,180	3,925,457	4,523,285

[1] Represents Operation and Maintenance Costs calculated in accordance with the 2010 Indenture.

[2] Represents Net Revenues available to pay debt service on the 2010 Bonds under the 2010 Indenture.

[3] See “THE CITY UTILITY ENTERPRISES – Contingency Reserve, Rate Stabilization Reserve and Capital and Infrastructure Reserve.”

Source: City of Sunnyvale Department of Finance.

Projected Wastewater System Revenues, Expenses and Debt Service Coverage

Projections. The following table sets forth the projected revenues, expenses and debt service coverage of the Wastewater System for the current Fiscal Year and the next four Fiscal Years based on the Net Revenues available under the Indenture and future debt service on the 2017 Bonds.

Table 11
WASTEWATER SYSTEM
Projected Revenues, Expenses and Debt Service Coverage,
and Reserve Balances

	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2020-21</u>
Gross Revenues					
Charges for Services	\$41,408,350	\$45,982,746	\$48,198,488	\$53,247,101	\$56,921,427
Investment Income/Interest	244,836	416,031	521,672	817,478	822,925
Connection fees	834,000	850,680	867,694	885,047	902,748
Total Gross Revenues:	42,487,186	47,249,457	49,587,853	54,949,626	58,647,100
Operation and Maintenance Costs [1]	23,833,062	23,875,546	24,425,476	24,717,140	25,161,924
Net Revenues [2]	18,654,124	23,373,911	25,162,378	30,232,487	33,485,176
2010 Bonds/2017 Bonds	2,862,525	2,281,775	2,281,275	2,283,275	2,277,522
2016 State Loan	--	--	--	--	5,270,934
Total Debt Service	8,133,459	7,552,709	7,552,209	7,554,209	7,548,459
Debt Service Coverage Ratio:* [3][4]	2.29x	3.09x	3.33x	4.00x	4.44x
Rate Stabilization Reserve [5]	\$5,392,190	\$6,603,676	\$7,445,763	\$9,348,619	\$2,714,757
Capital and Infrastructure Reserve [5]	3,748,783	4,123,661	4,494,790	4,899,321	5,340,260
Contingencies Reserve [5]	4,760,952	4,986,510	5,094,444	5,241,542	5,382,312

*Preliminary; subject to change.

[1] Represents Operation and Maintenance Costs operating expenses calculated in accordance with the Indenture.

[2] Represents Net Revenues available to pay debt service on the 2017 Bonds under the Indenture.

[3] These projections do not incorporate the potential issuance of additional bonds or other indebtedness shown in Table 1 above due to the preliminary and uncertain nature of that component of the capital improvement plan for the Water Pollution Control Plant. See "–Capital Improvement Program" above.

[4] Projections assume full debt service on State Revolving Fund Loan in all five years. First actual debt service payment is not required until Fiscal Year 2012-22.

[5] See "THE CITY UTILITY ENTERPRISES – Contingency Reserve, Rate Stabilization Reserve and Capital and Infrastructure Reserve."
Source: City of Sunnyvale Finance Department.

Assumptions Regarding Projections.

Revenues. Charges for services are projected to increase at a rate of 1% to 10% per year based on the City's current Twenty Year Resource Allocation Plan. See "THE WASTEWATER SYSTEM – Wastewater Rates, Fees and Charges." Growth in revenues includes both growth resulting from utility rate increases and a moderate increase in the customer base of the wastewater enterprise as the City anticipates moderate growth. Connection fees are projected based on longer term averages in order to reflect average development activity over the long run.

Operation and Maintenance Costs. Operation and Maintenance Costs are projected to increase at a rate of 2% to 3% per year based primarily on increases to employee salaries and benefits.

Rate Stabilization Reserve. The Rate Stabilization Reserve is projected to fluctuate to cash fund capital improvements and stabilize rates in anticipation of debt service for the replacement or rehabilitation of the Water Pollution Control Plant.

Debt Service. * Debt Service for Fiscal Years 20__ - __ through 20__ - __ assumes an all-in interest cost with respect to the 2017 Bonds equal to __%, and a principal amount of the 2017 Bonds equal to _____. These projections do *not* incorporate the potential issuance of

* Preliminary; subject to change.

additional bonds or other indebtedness shown in Table 1 above due to the preliminary and uncertain nature of that component of the capital improvement plan for the Water Pollution Control Plant. See “–Capital Improvement Program” above.

ENVIRONMENTAL ISSUES AND REGULATORY MATTERS

Background

In 1969, the State adopted the Porter-Cologne Water Quality Act (the “**Porter-Cologne Act**”), creating the State’s current legal framework for the protection of water quality. This adoption was followed at the federal level by the Water Pollution Control Act Amendments of 1972 (the “**Clean Water Act**”). The Clean Water Act provided an aggressive timetable for eliminating pollution of the nation’s waters and established the basic secondary treatment requirement that 85% of conventional pollutants, as defined in administrative regulations, be removed from sanitary sewage. The Clean Water Act also required the issuance of discharge permits on a nationwide basis and established a federal grant program for construction of publicly-owned wastewater facilities, subsequently replaced by the state revolving fund loan program. Although the federal Environmental Protection Agency (the “**EPA**”) has ultimate responsibility for administering the Clean Water Act, many functions have been delegated to the State. The administration of the current loan program and enforcement of regulations are a joint undertaking of the State of California Water Resources Control Board, the San Francisco Bay Regional Water Quality Control Board (the “**Regional Water Board**”), and EPA Region IX.

Under the Porter-Cologne and Clean Water Acts, the Regional Water Board administers water pollution control programs. The Regional Water Board issues discharge permits under Section 402 of the Clean Water Act, which establishes the National Pollutant Discharge Elimination System (“**NPDES**”) permit system. These permits, issued for a five-year period, are also waste discharge requirements for the purposes of the Porter-Cologne Act and apply to discharges from the City’s Water Pollution Control Plant. Because South San Francisco Bay is shallow, and is subject to minimal freshwater inflows and tidal flushing, treatment requirements for the South Bay wastewater treatment plants, including the Water Pollution Control Plant, are far more stringent than the Clean Water Act’s basic secondary treatment requirements, requiring additional “tertiary” treatment process for ammonia removal and filtration. The regulatory basis for these more stringent requirements can be found in the regional “Basin Plans” required under the Porter-Cologne Act.

The City’s NPDES permit also contains discharge limits on “toxic” pollutants that are derived on the basis of the water quality standards specified in the California Toxics Rule (40 CFR Part 131), which are applied to the South Bay “shallow water” treatment plants without the benefit of a receiving water dilution allowance enjoyed by most other dischargers to San Francisco Bay or the Pacific Ocean.

Currently, the Wastewater System’s discharges are in full compliance with all permit requirements.

Regulatory Trends

General. Regulatory developments at the State and Federal level, as well as ongoing permit reissuance activities, may increase operations costs and capital needs of the Water Pollution Control Plant, and may have an effect on Water Pollution Control Plant operations and

the net revenues of the Wastewater System. City staff is actively engaged with regulatory officials and the public in the development of these regulatory matters.

Impaired Water Bodies and Total Maximum Daily Loads. The Clean Water Act requires states to identify all water bodies that do not achieve designated water quality standards or objectives. Such water bodies are designated as “impaired,” and states are required to identify all sources contributing to the impairment under the Total Maximum Daily Load (“**TMDL**”) program. States are required to designate wasteload allocations to each contributing source, including the Water Pollution Control Plant, in order to promote the recovery of the water body. South San Francisco Bay is currently listed as impaired for several legacy pesticides, dioxin and furan compounds, PCBs and dioxin-like PCBs, mercury, selenium and exotic species. The Regional Water Board has completed San Francisco Bay TMDLs for mercury and PCBs, as further described below, and is developing a selenium TMDL.

- The San Francisco Bay Mercury TMDL was adopted in August 2006. The Mercury TMDL is implemented through a separate NPDES “Watershed Permit” that was adopted by the Regional Water Board and contains individual and group effluent wasteload allocations for all Bay Area municipal and industrial dischargers, including the Water Pollution Control Plant. The Mercury Watershed Permit has a 20-year implementation plan that requires loading reductions every 10 years.

- The San Francisco Bay PCBs TMDL, also adopted in February 2008. The PCB TMDL is also implemented through the same Watershed Permit as Mercury. The permit establishes effluent limitations and requires ongoing monitoring and maintenance of optimal Water Pollution Control Plant treatment performance. The implementation plan also requires the implementation of PCBs risk reduction programs, similar to the risk reduction program for mercury.

The Water Pollution Control Plant currently complies with the applicable waste load allocations and permit requirements for mercury and PCBs.

Possible Future Regulatory Drivers. Future regulatory actions that could impact Water Pollution Control Plant NPDES permit requirements include more stringent limitations of the discharge of nutrients, expanded regulation of chemical by-products produced during wastewater disinfection, new limitations regulating pharmaceuticals and other emerging “pollutions of concern” in wastewater discharges, and changes in the designation or implementation of existing receiving water “beneficial uses.” Such actions could result in the need for new or enhanced wastewater treatment processes, and could significantly increase the operating costs of the Wastewater System or require the City to make unanticipated capital expenditures on the Wastewater System.

Other Regulatory Agencies and Laws Affecting the Wastewater System

Other regulatory agencies with approval or oversight responsibilities over the siting, construction or operational impacts of the water pollution control plant on air, water and natural resources include the Bay Area Air Quality Management District, the Bay Conservation and Development Commission, the California Coastal Commission, the California Department of Public Health, the National Marine Fisheries Service, the United States Fish and Wildlife Service, and the U.S. Army Corps of Engineers.

As a public agency, the City's actions must be consistent with CEQA and, where Federal approvals or funding is involved, the National Environmental Policy Act. The Federal Clean Air Act and the California Clean Air Act of 1988 also regulate emissions from the treatment facilities. All of the City's treatment facilities meet present Bay Area Air Quality Management District standards.

CITY FINANCES

The information in this Section is included solely as background regarding the City's finances and the Wastewater System, which is a utility enterprise of the City. The 2017 Bonds are payable from a pledge of Net Revenues of the Wastewater System, and are not a debt or obligation of the City's general fund. For additional information about the City's finances, see the audited financial statements of the City attached as APPENDIX B.

The City

The City of Sunnyvale was incorporated December 24, 1912, and the original City charter became effective on May 18, 1949.

The City operates under a Council-Manager form of government. Policy-making and legislative authority are vested with the City Council. There are seven Council Members elected by seat number for staggered four-year terms, with a two-term limit. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of various departments. The City Manager and City Attorney are appointed by the City Council.

The City provides the full range of municipal services contemplated by its charter. These include police and fire protection, library services, construction and maintenance of streets, parks, storm drains and other infrastructure, human services, recreational programs and community development activities. The City also operates water, wastewater, and solid waste municipal utilities.

For additional background and demographic information regarding the area in and around the City, see "APPENDIX D – General Demographic Information Regarding the City of Sunnyvale and Santa Clara County."

Budgeting and Planning Process

The City's approach to budget preparation is a central part of the City's planning and management system, which includes long-term financial planning over a 20-year time frame, short-term allocation of resources (the two-year action budget), and performance measurement of service delivery. For additional information on PAMS and the City budgeting and planning process, see "THE CITY UTILITY ENTERPRISES – Budgeting and Planning Process."

Accounting Policies

Accounting Policies. The accounting policies of the City conform to generally accepted accounting principles as applied to governmental agencies. The City's annual financial reports are prepared in accordance with the Governmental Accounting Standards Board ("GASB") Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis –

for State and Local Governments." Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on requirements for financial reporting for all governmental agencies in the United States.

Basis of Accounting and Measurement Focus. The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. City resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

The government-wide financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Financial Statements

Attached as APPENDIX B are the audited financial statements of the City (the "Financial Statements") for Fiscal Year 2016-17, which include financial statements for the Wastewater Fund and the other Enterprise Funds, prepared by the City Department of Finance and audited by Macias, Gini & O'Connell, LLP (the "Auditor").

The Auditor's letter concludes that the Financial Statements present fairly, in all material respects, the financial position of the City as of June 30, 2017, and the results of its operations and the cash flows of its proprietary fund types for the Fiscal Year then ended in conformity with generally accepted accounting principles.

The Financial Statements should be read in their entirety. *The City has not requested nor did the City obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the City. In addition, the Auditor has not reviewed or performed any procedures relating to this Official Statement.*

Investment Policy and Investment Portfolio

The City Council adopted an Investment and Cash Management Policy (the "**Investment Policy**") on July 30, 1985, which has been revised or reaffirmed by the City Council on at least an annual basis, most recently on October 4, 2017. Pursuant to the Investment Policy, the cash management system of the City is designed to accurately monitor and forecast expenditures and revenues, enabling the City to invest funds to the fullest extent possible. Funds of the City are to be invested in accordance with sound treasury management, the provisions of the California Government Code Section 53600 et. seq. and the Investment Policy. Under the Investment Policy, the City's Director of Finance (or his/her designee) are authorized to manage the investment portfolio.

At November 7, 2017, the City's investment portfolio consisted of the following:

U.S. Government Treasury and Agency securities	52.1%
Managed pool accounts	15.8%
Supranationals	6.4%

Medium Term Notes	21.4%
Municipal Bonds	4.3%

No funds were invested in commercial paper. The City's Finance Director manages the City's investment portfolio and provides a current market valuation of the investment portfolio on a monthly basis. Current market valuations are prepared by FT Interactive Data, the major operating division of Interactive Data Corporation, a leading provider of global securities data.

Employee Relations

The City employs 917 full-time and regular part-time employees, and approximately 458 casual or seasonal employees. The City directly provides municipal services including police and fire protection, libraries, solid waste, water and wastewater utility services, parks and recreation, traffic engineering, street maintenance and other public infrastructure, land use planning and general administrative services. There are six employee associations, as shown in the following table.

<u>Labor Organization</u>	<u>Number of Employees</u>	<u>Contract Expiration Date</u>
International Federation of Professional and Technical Engineers (formerly the Sunnyvale Employees' Association)	515	June 30, 2019
Public Safety Officers' Association	190	December 31, 2020
Communication Officers' Association	20	December 31, 2017
Service Employees' International Union - Local #715	51	June 30, 2021
Sunnyvale Managers Association	83	June 30, 2019
Public Safety Managers Association	10	December 21, 2021

Insurance

The City has established various self-insurance programs and maintained contracts with various insurance companies to manage excessive risks.

The City has \$40,000,000 in excess general liability coverage, subject to \$500,000 self-insured retention (for each occurrence), through California Joint Powers Risk Management Authority, a risk-sharing pool.

The City's excess workers' compensation coverage is provided through the California State Association of Counties Excess Insurance Authority ("**CSAC-EIA**"), with statutory limits subject to a \$500,000 self-insured retention as follows:

- \$4,500,000 excess of \$500,000: coverage provided by CSAC-EIA and reinsured by Wesco Insurance Company;
- \$45,000,000 excess of \$5,000,000: coverage provided by CSAC-EIA and reinsured by ACE American Insurance Company; and
- Statutory excess of \$50,000,000: coverage provided by National Union Fire Insurance Co. of Pittsburgh, PA.

Unemployment claims paid by the State are reimbursed dollar-for-dollar by the City.

Employee Retirement System

Plan Description. All permanent City employees participate in the California Public Employees' Retirement System ("**PERS**") per the City charter.

PERS is an agent multiple-employer defined benefit pension plan that acts as a common investment and administrative agent for participating public entities within California. PERS provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries.

Employees vest after five years of service and are eligible to receive benefits at age 50 for safety and miscellaneous (non-safety) employees. State statutes and City ordinance establish benefit provisions, which are reflected in a contract between the City and PERS. For additional information, see the Note 17 of the City's Comprehensive Annual Financial Report, attached hereto as Appendix B.

Copies of PERS's annual financial report may be obtained from its executive office in Sacramento.

Funding Policy. Miscellaneous participants are required to contribute 8% of annual covered salary, and safety participants were required to contribute 11.25% of their annual covered salary. The City made the contributions required of City employees on their behalf and for their account for 4% of annual salary for miscellaneous participants and the 6% for safety participants. The total contribution on behalf of employees amounted to \$4,355,501 for Fiscal Year 2016-17.

The City is required to make actuarially determined employer contributions necessary to fund the benefits for its members. For Fiscal Year 2016-17, the City contribution was 26.3% for miscellaneous employees and 45.3% for safety employees. In FY 2016-17 the City elected to make an annual lump sum prepayment to PERS; the contribution was \$15,147,763 for miscellaneous employees and \$13,837,982 for safety employees. The contribution requirements of the plan members are established by State statute.

Annual Pension Cost. For Fiscal Year 2016-17, the City's annual pension cost of \$28,985,745 was equal to the City's required and actual contributions. Originally the required employer contribution was determined as part of the June 30, 2014, actuarial valuation using the entry age normal actuarial cost method. The required employer contribution using a lump sum payment method was later amended at the City's request to avoid negative amortization of the unfunded actuarial accrued liability.

Pension Cost History. Information on City pension funding for the most recent three Fiscal Years is shown in the following tables.

GASB 68 Reporting						
	Measurement <u>Date</u>	Fiscal Yr <u>Ended</u>	Total Pension <u>Liability</u>	Plan Fiduciary <u>Net Position</u>	Plan Net Pension <u>Liability</u>	Pension <u>Expense</u>
SAFETY PLAN	2014	2015	\$479,589,721	\$353,926,821	\$125,662,900	\$10,771,561
	2015	2016	489,708,809	352,415,022	137,293,787	8,206,674
	2016	2017	509,519,270	343,286,462	166,232,808	15,193,526
MISC PLAN	2014	2015	\$500,852,018	\$371,009,864	\$129,842,154	\$10,484,240
	2015	2016	509,929,954	372,974,401	136,955,553	6,653,938
	2016	2017	530,613,227	367,486,410	163,126,817	12,063,842
ALL PLANS	2014	2015	\$980,441,739	\$724,936,685	\$255,505,054	\$21,255,801
	2015	2016	999,638,763	725,389,423	274,249,340	14,860,612
	2016	2017	1,040,132,497	710,772,872	329,359,625	27,257,368

Funding Basis Contributions				
	Fiscal Yr <u>Ended</u>	Actuarially Determined <u>Contribution (ARC)</u>	Actual <u>Contribution</u>	Contribution Deficiency <u>(Excess)</u>
SAFETY PLAN	2015	\$10,812,835	\$11,312,835	\$(500,000)
	2016	11,934,254	12,634,254	(700,000)
	2017	13,837,982	13,837,982	--
MISC PLAN	2015	\$12,759,494	\$13,259,494	\$ (500,000)
	2016	13,917,203	14,617,203	\$ (700,000)
	2017	15,147,763	15,147,763	--
ALL PLANS	2015	\$23,572,329	\$24,572,329	\$(1,000,000)
	2016	25,851,457	27,251,457	(1,400,000)
	2017	28,985,745	28,985,745	--

Projected Future Increases in Pension Costs. The City contracts with a consulting actuary annually to address pension costs. The actuary provides a twenty-year projection on the costs for pension that is then included in the City's 20-year financial plans. Currently, the City has projected and is planning for continued substantial increases in retirement costs, especially within the next ten years.

Other Post-Employment Benefits

Plan Description. The City's retiree healthcare plan is a single-employer defined benefit healthcare plan. The plan provides healthcare benefits to eligible retirees and their dependents through the PERS healthcare program ("PEMHCA"). Benefit provisions are established and may be amended through agreements and memorandums of understanding between the City, its non-represented employees, and the bargaining units representing City employees.

The City provides a retiree healthcare stipend equal to the lesser of the medical premium or a dollar limit that varies by employee group (\$297 to \$796 per month for Fiscal Year 2016-17). The City pays 100% of the medical premium for management employees who retired on or before December 31, 2007 and 100% of the medical premium up to a dollar cap for management employees who retire after December 31, 2007. Management employees appointed on or after July 1, 2007 are subject to a vesting schedule ranging from 50% after 5 years of management service to 100% after 15 years of management service. There were 776 retired plan participants as of June 30, 2016.

Funding Policy. The contribution requirements of the other post-employment benefits (“OPEB”) plan participants and the City are established and may be amended by the City. The annual required contribution (“ARC”) is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Since 2007, the City has set aside funds in the Employee Benefits Internal Service Fund for future OPEB obligations. On July 20, 2010, the City Council approved the City entering into an Investment Advisory Agreement with PFM Asset Management, LLC (“PFM”) as investment manager for the City’s OPEB Trust (RTC No. 10-187). On December 7, 2010, the City Council approved a Trust Agreement with PFM as Trust Administrator and U.S. National Bank Association as Trustee for the OPEB Trust (RTC No. 10-326). The Investment Policy Statement for the OPEB Trust was also approved at that time.

Since inception the City has deposited a total of \$59.5 million into the trust. As of June 30, 2017, the market value of the trust was \$83 million, which includes earnings. As of its last actuarial valuation (June 30, 2016), the City’s retiree medical plan is 55% funded.

The Employee Benefits Internal Service Fund has accumulated such resources in past years through internal service charges and transfers from the General Fund. Additional resources will be added on an ongoing basis until the Trust is fully funded. This retiree medical trust is not considered a component unit of the City and is excluded from the City’s financial statements.

Annual OPEB Cost and Net OPEB Obligation. For Fiscal Year 2017-18, the City’s ARC was projected at \$10,035,000.

In the June 30, 2016 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 6.5% investment rate of return and 3% annual general inflation. Premiums were assumed to increase with a pre-Medicare medical cost increase rate of 6.5% for 2018, grading down to 5% for 2021 and thereafter. The post-Medicare cost increases were 6.7% for 2018, grading down to 5% for 2021 and thereafter. The projected June 30, 2017 unfunded actuarial accrued liability (“UAAL”) is being amortized as a level percentage of projected payroll over 20 years for Fiscal Year 2017-18. It is assumed that the City’s payroll will increase 3.25% per year.

The following table shows the components of the City’s annual OPEB costs for Fiscal Year 2016-17, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation.

	<u>June 30, 2017</u>
Annual required contribution (ARC)	\$ 8,135,000
Interest on net OPEB obligation	(370,000)
Amortization of Net OPEB Obligation	387,000
Annual OPEB cost (expense)	8,152,000
Contributions made	9,842,000
Increase (Decrease) in net OPEB obligation	(1,690,000)
Net OPEB obligation - beginning of year	(5,695,000)
Net OPEB obligation - end of year	(7,385,000)

The City contributed \$5,599,000 on a pay-as-you-go basis for current benefit payments and \$4,243,000 in trust prefunding. Starting 2007, the City has set aside funds in the Employee Benefits Internal Service Fund for future OPEB obligations and has since established an OPEB Trust in Fiscal Year 2010-11. The Trust has \$83 million in Plan Fiduciary Net Position as of June 30, 2017, and it is funded at 49.7% of total OPEB liability.

Wastewater System's Estimated Share of Retirement Obligations. The City estimates that the Wastewater System is responsible for approximately 7.3% of the city's pension and OPEB costs (based on the Wastewater System's share of annual budgeted City salaries), which is treated as an Operation and Maintenance Cost for purposes of the Indenture.

BOND OWNERS' RISKS

The following describes certain special considerations and risk factors affecting the payment of and security for the 2017 Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and the order presented does not necessarily reflect the relative importance of the various risks. Potential investors in the 2017 Bonds are advised to consider the following special factors along with all other information in this Official Statement in evaluating the 2017 Bonds. There can be no assurance that other considerations will not materialize in the future.

Net Revenues; Rate Covenant

Net Revenues are dependent upon demand for wastewater service, which can be affected by population changes, drought, economic conditions, and other factors. There can be no assurance that wastewater service demand will be consistent with the levels contemplated in this Official Statement. A decrease in the demand for wastewater service could require an increase in rates or charges in order to comply with the rate covenants contained in the Indenture. The City's ability to meet its rate covenants is dependent upon its capacity to increase rates without driving down demand to a level insufficient to meet debt service on the 2017 Bonds and any existing and future Parity Debt.

No Debt Service Reserve Fund

The City will not fund a debt service reserve fund for the 2017 Bonds. In the event Net Revenues are insufficient for the City to pay debt service on the 2017 Bonds when due, no debt service reserve account funds will be available under the Indenture for the City to make such payments.

Operation and Maintenance Expenses

There can be no assurance that expenses of the City will be consistent with the levels contemplated in this Official Statement. Changes in technology, changes in quality standards, and increases in the cost of operation or other expenses could require substantial increases in rates or charges in order to comply with the rate covenants in the Indenture. Such rate increases could drive down demand for wastewater services or otherwise increase the possibility of nonpayment of the 2017 Bonds.

Limitations on Remedies Available to Bond Owners

The ability of the City to comply with its covenants under the Indenture and to generate Net Revenues sufficient to pay principal of and interest on the 2017 Bonds and Parity Bonds may be adversely affected by actions and events outside of the control of the City, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. Furthermore, any remedies available to the owners of the 2017 Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on Bondholder remedies contained in the Indenture, the rights and obligations under the 2017 Bonds and the Indenture may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization,

moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the 2017 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

Seismic and Environmental Considerations

The City is located in a seismically active area of California. If there were to be an occurrence of severe seismic activity in the area of the City, there could be an interruption in the service provided by the Wastewater System, resulting in a temporary reduction in the amount of Net Revenues available to pay debt service when due on the 2017 Bonds.

Other environmental conditions, such as flooding, landslides or wildfires, could also affect or interrupt the service provided by the Wastewater System, resulting in a temporary reduction in the amount of Net Revenues available to pay debt service when due on the 2017 Bonds.

California Drought Conditions

California is subject to droughts from time-to-time. On April 1, 2015, for the first time in California's history, Governor Edmund G. Brown directed the State Wastewater Resources Control Board to implement mandatory water reductions in cities and towns across California to reduce water usage by 25%, which in many cases led to declines in wastewater flows as well. Following a wet winter in 2016-17, most of the mandatory water reductions have been lifted.

However, there can be no assurance that drought conditions would not re-appear in the future, leading to decreased usage of the Wastewater System, and a potential decline in Net Revenues available to pay debt service on the 2017 Bonds.

Loss of Tax-Exemption

As discussed under the caption "TAX MATTERS," interest on the Series 2017A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Series 2017A Bonds were issued, as a result of future acts or omissions of the City in violation of its covenants in the Indenture. Should such an event of taxability occur, the Series 2017A Bonds are not subject to special redemption and will remain Outstanding until maturity or until redeemed under other provisions set forth in the Indenture.

Proposition 218

General. On November 5, 1996, California voters approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, limited local governments' authority to impose or increase property-related "fee" or "charge," which is defined as "any levy other than an ad

valorem tax, a special tax or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service” (and referred to in this section as a “property-related fee or charge”).

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

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

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

Judicial Interpretation of Proposition 218. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General’s opinion initially indicated that fees and charges for water and wastewater services, which are based on the amount of services consumed, would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIID. However, numerous subsequent court cases have held that certain types of water and wastewater charges could be subject to the requirements of Proposition 218. These cases include, for example, *Capistrano Taxpayers Assoc., Inc. v. City of San Juan Capistrano* (186 Cal. Rptr. 3d 362 (Cal. App. 4th Distr. 2015)), *Bighorn-Desert View Water Agency v. Verjil* (46 Cal. Rptr. 3d 73 (Cal. 2006)), and *Howard Jarvis Taxpayers Assoc. v. City of Fresno* (26 Cal. Rptr. 3d 153 (Cal. App. 5th Distr. 2005)).

Under the *Bighorn* case, for example, the court held that under Article XIIC, local voters could adopt an initiative measure that reduces or repeals the City’s rates and charges, though it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness, as is the case with respect to the 2017 Bonds.

Under the *City of San Juan Capistrano* case, the court held that tiered or inclined rates that go up progressively in relation to usage must correspond to the actual cost of providing water service at each tier (level of usage), and accordingly the pricing for any tier cannot exceed the cost of service to that tier.

City’s Current Practice Regarding Rates and Charges. The City’s practice in implementing increases in wastewater rates and charges has been to comply with the requirements of Article XIID, including the practice of providing property owners with a 45-day mailed notice and public hearing before the City Council approves rate increases.

Conclusion. It is not possible to predict how courts will further interpret Article XIII C and Article XIII D in future judicial decisions, and what, if any, further implementing legislation will be enacted. As noted above, under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the City's rates and charges, though it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness, as is the case with respect to the 2017 Bonds. Under the *City of San Juan Capistrano* case, tiered or inclined rates that go up progressively in relation to usage must correspond to the actual cost of providing water service at each tier (level of usage), and accordingly the pricing for any tier cannot exceed the cost of service to that tier. ***There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIII C and Article XIII D to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for wastewater, or to call into question previously adopted wastewater rate increases.***

Environmental Regulation

The kind and degree of wastewater treatment is regulated, to a large extent, by the federal government and the State of California. Treatment standards set forth in federal and State law control the operations of the Wastewater System and mandate its use of technology. If the federal government, acting through the Environmental Protection Agency, or the State of California, acting through the Department of Health Services, or additional federal or State legislation, should impose stricter water quality standards upon the Wastewater System, the City's expenses could increase accordingly and rates and charges would have to be increased to offset those expenses.

It is not possible to predict the direction which federal or State regulation will take with respect to wastewater quality standards, although it is likely that both will impose more stringent standards with attendant higher costs.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the 2017 Bonds or, if a secondary market exists, that any 2017 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

In particular, future changes in the law could impact the second market for the 2017 Bonds. For example, the Tax Cuts and Jobs Act ("H.R. 1"), which was passed by the United States House of Representatives on November 16, 2017, would, if enacted into law in its current form, include in gross income the interest on (i) any "qualified" private activity bond and (ii) any advance refunding bond. Such amendments would only apply to bonds issued after December 31, 2017. H.R. 1 would also impact (and generally lower) the current income tax rates for individuals and corporations. On December 2, 2017, the United States Senate passed its own version of H.R. 1, that would also prohibit the issuance of tax-exempt advance refunding bonds after December 31, 2017, but would not change the current tax treatment of qualified private activity bonds. The House Bill would eliminate the alternative minimum tax on individuals and corporations for tax years beginning after December 31, 2017. The Senate Bill would retain the alternative minimum

tax on individuals and corporations with increased income thresholds at which the alternative minimum tax will apply to individuals for taxable years beginning after December 31, 2017 and before January 1, 2026. The future of the tax reform legislative efforts is uncertain at this time, as is the impact (if any) on the 2017 Bonds. See "TAX MATTERS."

Existing and Future Parity Obligations; Cross-Defaults

The 2017 Bonds are payable from Net Revenues on a parity with the 2016 State Loan. See "THE WASTEWATER SYSTEM – Outstanding and Anticipated Wastewater System Obligations."

The Indenture permits the City to issue Parity Debt in the future that is payable on a parity with the payment of debt service of the 2017 Bonds, upon the conditions contained in the Indenture. See "SECURITY FOR THE 2017 Bonds – Parity Debt." In the event of a decline in Net Revenues, the existence of Parity Debt could adversely affect the City's ability to pay debt service on the 2017 Bonds.

Under the Indenture, an event of default under any Parity Debt constitutes an Event of Default. See APPENDIX A -Summary of Certain Provisions of the Indenture. The 2016 State Loan contains remedies that include acceleration upon default. See "THE WASTEWATER SYSTEM – Outstanding and Anticipated Wastewater System Obligations – 2016 SWRCB Installment Sale Agreement."

TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Series 2017A Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. Interest on the Taxable Series 2017A-T Bonds is not intended to be excluded from gross income for federal income tax purposes.

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 Series 2017A Bonds. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series 2017A Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Series 2017A Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Series 2017A Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Series 2017A Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Series 2017A Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Series 2017A Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Series 2017A Bonds who purchase the Series 2017A Bonds after the initial offering of a substantial amount of such maturity. Owners of such Series 2017A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2017A Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Series 2017A Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Series 2017A Bond (said term being the shorter of the Series 2017A Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Series 2017A Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Series 2017A Bond is amortized each year over the term to maturity of the Series 2017A Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Series 2017A Bond premium is not deductible for federal income tax purposes. Owners of premium Series 2017A Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Series 2017A Bonds.

In the further opinion of Bond Counsel, interest on the 2017 Bonds is exempt from California personal income taxes.

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the 2017 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 2017 Bonds. Prospective purchasers of the 2017 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.

General. Owners of the 2017 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2017 Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the ownership, sale or disposition of the 2017 Bonds, or the amount, accrual or receipt of interest on the 2017 Bonds, other than as expressly described above.

CERTAIN LEGAL MATTERS

Jones Hall, A Professional Law Corporation, Bond Counsel, will render an opinion with respect to the validity of the 2017 Bonds, the form of which opinion is set forth in APPENDIX E. Certain legal matters will also be passed upon for the City by Jones Hall, as Disclosure Counsel and by the City Attorney. Certain legal matters will be passed upon for the Underwriter by its counsel, Stradling, Yocca Carlson & Rauth, a Professional Corporation. The fees of Bond Counsel, Disclosure Counsel and Underwriter's counsel are contingent on the sale and closing of the 2017 Bonds.

LITIGATION

No litigation is pending or threatened concerning the validity of the 2017 Bonds. The City is not aware of any litigation pending or threatened questioning the political existence of the City or contesting the City's power to fix wastewater rates and charges, or the power of the City Council or in any way questioning or affecting: (i) the proceedings under which the 2017 Bonds are to be issued; (ii) the validity of any provision of the 2017 Bonds or the Indenture; (iii) the pledge of Net Revenues by the City under the Indenture; or (iv) the titles to office of the present members of the City Council.

There are a number of suits and claims pending against the City, which may include personal injury, wrongful death and other suits and claims against which the City may self-insure. The aggregate amount of the self-insured liabilities of the City which may result from such suits and claims will not, in the opinion of the City, materially impair the ability of the City to pay principal of or interest on the 2017 Bonds as the same become due.

There is no litigation pending, with service of process having been accomplished, against the City which if determined adversely to the City would, in the opinion of the City, materially impair the ability of the City to pay principal of and interest on the 2017 Bonds as they become due.

RATINGS

Moody's Investors Service ("**Moody's**") has assigned its municipal bond rating of "___" to the 2017 Bonds. S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("**S&P**") has assigned its municipal bond rating of "___" to the 2017 Bonds.

These ratings reflect only the views of Moody's and S&P, and an explanation of the significance of these ratings, and any outlook assigned to or associated with these ratings, should be obtained from Moody's and S&P.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The City has provided certain additional information and materials to Moody's and S&P (some of which does not appear in this Official Statement).

There is no assurance that these ratings will continue for any given period of time or that these ratings will not be revised downward or withdrawn entirely by Moody's and S&P, if in the judgment of Moody's or S&P, circumstances so warrant. Any such downward revision or withdrawal of any rating on the 2017 Bonds may have an adverse effect on the market price or marketability of the 2017 Bonds.

CONTINUING DISCLOSURE

The City will covenant for the benefit of owners of the 2017 Bonds to provide certain financial information and operating data relating to the City and the Wastewater System by not later than nine months after the end of the City's fiscal year, or March 31, of each year (based on the City's current fiscal year-end of June 30), commencing March 31, 2018, with the report for the 2016-17 fiscal year (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 by the City is set forth in "APPENDIX C – Form of Continuing Disclosure Certificate."

The City and its related governmental entities have previously entered into numerous disclosure undertakings under the Rule in connection with the issuance of long-term obligations. The City is not aware of any failures to comply in all material respects with the previous undertakings entered into by the City or any of its related entities.

UNDERWRITING

JP Morgan Securities LLC (the "**Underwriter**") has agreed to purchase the 2017 Bonds from the City at a purchase price of \$_____, which represents the aggregate principal amount of the 2017 Bonds, plus net original issue premium of \$_____, less Underwriter's discount of \$_____.

The purchase contract under which the Underwriter is purchasing the 2017 Bonds provides that the Underwriter will purchase all of the 2017 Bonds if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the contract of purchase.

The public offering prices of the 2017 Bonds may be changed from time to time by the Underwriter. The Underwriter may offer and sell the 2017 Bonds to certain dealers and others at a price lower than the offering price stated on the cover page of this Official Statement.

The Underwriter has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("**CS&Co.**") and LPL Financial LLC ("**LPL**") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase 2017 Bonds from the Underwriter at the original issue price less a negotiated portion of the selling concession applicable to any 2017 Bonds that such firm sells.

MUNICIPAL ADVISOR

The City has retained Ross Financial, San Francisco, California, as its Municipal Advisor (the "**Municipal Advisor**") in connection with the authorization and delivery of the 2017 Bonds. The Municipal Advisor assumes no responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the 2017 Bonds, or the possible impact of any present, pending or future actions taken

by any legislative or judicial bodies. The Municipal Advisor's fee is contingent on the sale and closing of the 2017 Bonds.

EXECUTION

The execution of this Official Statement and its delivery have been authorized by the City Council of the City.

CITY OF SUNNYVALE

By: _____
Timothy J. Kirby,
Director of Finance

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY
FOR FISCAL YEAR ENDED JUNE 30, 2017**

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$ _____
City of Sunnyvale
Refunding Wastewater Revenue
Bonds, Series 2017A

\$ _____
City of Sunnyvale
Taxable Refunding Wastewater Revenue
Bonds, Series 2017A-T

This Continuing Disclosure Certificate (this “**Disclosure Certificate**”) is executed and delivered by the City of Sunnyvale (the “**City**”) in connection with the issuance of the above-captioned bonds (collectively, the “**2017 Bonds**”). The 2017 Bonds are being issued pursuant to that certain Indenture of Trust, dated as of December 1, 2017 (the “**Indenture**”) by and between the City and U.S. Bank National Association, as trustee (the “**Trustee**”). The City 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 2017 Bonds and in order to assist the Participating Underwriter in complying with the Rule (defined herein).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4.

“*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 initially the City, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

“*Listed Events*” means any of the events listed in Section 5(a).

“*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, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement dated _____, 2017, executed by the City in connection with the issuance of the 2017 Bonds.

“*Participating Underwriter*” means JP Morgan Securities LLC, as the original underwriter of the 2017 Bonds required to comply with the Rule in connection with offering of the 2017 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, 2018, with the report for the 2016-17 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. 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 15 Business Days prior to 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; 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). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, 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 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:

(a) Audited Financial Statements of the City 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. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed under the preceding clause (a), the Annual Report shall contain information showing the following information for the most recently completed fiscal year:

(i) Table 5, WASTEWATER SYSTEM, Summary of Sewer Accounts and Usage by User Type,

(ii) Table 9, WASTEWATER SYSTEM, Historical Revenues, Expenses and Changes in Retained Earnings, and

(iii) Table 10, WASTEWATER SYSTEM, Historical Revenues, Expenses and Debt Service Coverage, and Reserve Balances.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material 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 Significant 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 2017 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 security, or other material events affecting the tax status of the security.
- (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 obligated person.

Note: For the purposes of the event identified in subparagraph (12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

- (13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, and, if the Listed Event is described in subsections (a)(2), (a)(6), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13) or (a)(14) above, the City determines that knowledge of the occurrence of that Listed Event would be material under applicable Federal securities law, 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 subsections (a)(8) and (9) 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 2017 Bonds under the Indenture.

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 2017 Bonds. If such termination occurs prior to the final maturity of the 2017 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 Dissemination Agent, with or without appointing a successor Dissemination Agent. Any Dissemination Agent may resign by providing 30 days' written notice to the City.

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 2017 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 2017 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 2017 Bonds in the manner provided in the Indenture for amendments to the Indenture 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 2017 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 Report 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 this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report 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 any amendment made pursuant to this Section 9 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. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the 2017 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 Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent (if other than the City), the Participating Underwriter and the holders and beneficial owners from time to time of the 2017 Bonds, and shall create no rights in any other person or entity.

Section 13. 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: December __, 2017

CITY OF SUNNYVALE

By _____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Sunnyvale

Name of Issue: \$_____ City of Sunnyvale Refunding Wastewater Revenue Bonds,
Series 2017

Date of Issuance: _____, 2017

NOTICE IS HEREBY GIVEN that the City of Sunnyvale has not provided an Annual Report with respect to the above-named bonds as required by the Continuing Disclosure Certificate dated as of _____, 2017, executed by the City of Sunnyvale. The City anticipates that the Annual Report will be filed by _____.

Dated:_____

CITY OF SUNNYVALE

By_____

Name:

Title:

APPENDIX D

GENERAL DEMOGRAPHIC INFORMATION OF THE CITY OF SUNNYVALE AND SANTA CLARA COUNTY

The following information concerning the City of Sunnyvale (the “City”), the County of Santa Clara (the “County”), and surrounding areas is included only for the purpose of supplying general information regarding the community. The 2017 Bonds are not a debt of the City, 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, except the City to the limited extent set forth in the Indenture.

General

The City. Incorporated December 24, 1912, the City is one of the major cities that makes up Silicon Valley and is the seventh most populous city in the San Francisco Bay Area. The City is bordered by portions of San Jose to the north, Moffett Federal Airfield to the northwest, Mountain View to the west, Los Altos to the southwest, Cupertino to the south, and Santa Clara to the east. The City operates under a Council-Manager form of government. Policy-making and legislative authority are vested with the City Council, which is composed of seven Council Members elected by seat number for staggered four-year terms, with a two-term limit. The City provides police and fire protection, library services, construction and maintenance of streets, parks, storm drains and other infrastructure, human services, recreational programs and community development activities.

The County. Situated northeast of San Francisco, the County of Contra Costa (the “County”) is bounded by San Francisco and San Pablo Bays, the Sacramento River Delta, and by Alameda County on the south. Ranges of hills effectively divide the County into three distinct regions. The western portion, with its access to water, contains much of the County's heavy industry. The central section is rapidly developing from a suburban area into a major commercial and financial headquarters center. The eastern part is also undergoing substantial change, from a rural, agricultural area, to a suburban region. The County has extensive and varied transportation facilities-ports accessible to ocean-going vessels, railroads, freeways, and rapid transit lines connecting the area with Alameda County and San Francisco.

Population

The following table lists population figures for the City, the County, and the State for the last five calendar years.

CITY OF SUNNYVALE, SANTA CLARA COUNTY AND STATE OF CALIFORNIA
Population Estimates
Calendar Years 2013 Through 2017

Year	City of Sunnyvale	Contra Costa County	State of California
2013	145,245	1,840,895	37,984,138
2014	146,000	1,868,038	38,357,121
2015	147,388	1,889,638	38,714,725
2016	148,948	1,922,619	39,189,035
2017	149,831	1,938,180	39,523,613

Source: California Department of Finance for January 1.

Employment and Industry

The City is part of the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area (“MSA”), which is comprised of Santa Clara and San Benito Counties. The unemployment rate in the MSA was 3.0% in October 2017, down from a revised 3.3% in September 2017, and below the year-ago estimate of 3.9%. This compares with an unadjusted unemployment rate of 4.3% for the State and 3.9% for the nation during the same period. The unemployment rate was 4.8% in San Benito County, and 3.0% in the County.

SAN JOSE-SUNNYVALE-SANTA CLARA MSA Civilian Labor Force, Employment and Unemployment Calendar Years 2012 through 2016 March 2016 benchmark

	2012	2013	2014	2015	2016
Civilian Labor Force ⁽¹⁾	987,000	1,000,700	1,021,000	1,039,100	1,056,300
Employment	907,900	934,800	967,200	994,900	1,015,700
Unemployment	79,000	65,900	53,800	44,200	40,600
Unemployment Rate	8.0%	6.6%	5.3%	4.3%	3.8%
<u>Wage and Salary Employment:</u>					
Agriculture	4,900	5,000	5,300	5,500	6,000
Mining and Logging	200	300	300	200	300
Construction	34,800	37,500	39,700	43,900	48,900
Manufacturing	156,400	156,300	159,500	162,400	163,600
Wholesale Trade	35,000	36,400	37,200	37,200	37,800
Retail Trade	84,100	84,900	86,400	87,800	87,700
Transportation, Warehousing, Utilities	12,800	13,800	14,400	14,600	15,300
Information	54,200	58,700	65,700	70,500	74,600
Financial Activities	33,200	33,700	34,100	34,600	35,600
Real Estate and Rental and Leasing	12,900	13,000	13,300	13,500	14,000
Professional and Business Services	178,200	191,200	203,000	216,300	225,200
Educational and Health Services	136,800	143,800	150,000	156,300	162,100
Leisure and Hospitality	82,500	87,500	91,900	95,800	98,900
Other Services	24,800	25,400	26,400	26,900	27,400
Federal Government	9,800	9,900	9,900	9,900	10,000
State Government	6,400	6,300	6,400	6,700	6,700
Local Government	75,200	75,600	77,100	76,400	77,400
Total all Industries ⁽²⁾	942,200	979,300	1,020,600	1,058,500	1,091,500

(1) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Totals may not add due to rounding.

Source: State of California Employment Development Department.

Principal Employers

The following table shows the principal employers in the City, as shown in the City's Comprehensive Annual Financial Report for fiscal year ending June 30, 2016.

CITY OF SUNNYVALE Principal Employers

Employer	Number of Employees	Percent of Total Employment
Lockheed Martin Space Systems	5,045	5.81%
Apple	4,000	4.60
Yahoo!	3,993	4.59
Juniper Networks	3,180	3.66
Google	3,176	3.65
NetApp	3,081	3.55
LinkedIn	1,840	2.12
A2Z Development Center	1,834	2.11
Northrup Grumman Marine Systems	1,198	1.38
West Valley Engineering	1,056	1.22

Source: City of Sunnyvale, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016.

Major Employers

The table below lists the major employers in the County, listed alphabetically.

CONTRA COSTA COUNTY Major Employers November 2017

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
Adobe Systems Inc	San Jose	Publishers-Computer Software (Mfrs)
Advanced Micro Devices Inc	Sunnyvale	Semiconductor Devices (Mfrs)
Apple Inc	Cupertino	Computer & Equipment Dealers
Applied Materials Inc	Santa Clara	Semiconductor Manufacturing Equip (Mfrs)
Avaya Inc	Santa Clara	Telecommunications Services
Christopher Ranch LLC	Gilroy	Garlic (Mfrs)
Cisco Systems Inc	San Jose	Computer Peripherals (Mfrs)
E Bay Inc	San Jose	E-Commerce
Fujitsu Laboratories	Sunnyvale	Venture Capital Companies
Great America Pavilion	Santa Clara	Amusement & Theme Parks
Hcl Technologies Ltd	Sunnyvale	Computer Software
Hp Inc	Palo Alto	Computers-Electronic-Manufactu
Intel Corp	Santa Clara	Semiconductor Devices (Mfrs)
Lockheed Martin Corp	San Jose	Aerospace Industries (Mfrs)
Lockheed Martin Space Systems	Sunnyvale	Satellite Equipment & Systems-Mfrs
Lumileds Lighting Co	San Jose	Lighting Fixtures-Supplies & Parts-Mfrs
Microsoft Corp	Mountain View	Computer Software-Manufacturers
Nasa	Mountain View	Government Offices-Us
Net App Inc	Sunnyvale	Computer Storage Devices (Mfrs)
Nsg Technology Inc	San Jose	Computer Peripherals (Mfrs)
Prime Materials	San Jose	Semiconductors & Related Devices (Mfrs)
Sap Center	San Jose	Stadiums Arenas & Athletic Fields
Stanford Children's Health	Palo Alto	Hospitals
Stanford School of Medicine	Stanford	Schools-Medical
US Veterans Medical Ctr	Palo Alto	Hospitals

Source: State of California Employment Development Department, extracted from the America's Labor Market Information System (ALMIS) Employer Database, 2018 1st Edition.

Commercial Activity

Summaries of the 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. Annual figures for calendar years 2016 and 2017 are not yet available.

Total taxable sales during the first three quarters of calendar year 2016 in the City were reported to be \$1.98 billion, a 0.80% increase over the total taxable sales of \$1.96 billion reported during the first three quarters of calendar year 2015.

CITY OF SUNNYVALE
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
2011	1,789	\$1,441,306	3,092	\$2,577,659
2012	1,833	1,536,691	3,039	2,761,825
2013	1,841	1,515,938	3,008	2,647,742
2014	1,878	1,549,308	3,031	2,583,844
2015 ⁽¹⁾	1,842	1,533,135	3,248	2,606,920

(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: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Total taxable sales during the first three quarters of calendar year 2016 in the County were reported to be \$30.68 billion, a 1.59% increase over the total taxable sales of \$30.20 billion reported during the first three quarters of calendar year 2015.

COUNTY OF SANTA CLARA
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
Calendar Years 2011 through 2015 (Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2011	27,252	\$19,419,542	43,390	\$33,431,217
2012	28,109	21,116,708	43,980	36,220,445
2013	29,535	22,424,642	45,310	37,621,606
2014	30,058	23,271,753	45,852	39,628,655
2015 ⁽¹⁾	20,057	23,700,907	50,573	41,231,759

(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: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Construction Activity

The following tables show a five-year summary of the valuation of building permits issued in the City and the County.

CITY OF SUNNYVALE Building Permit Valuation For Calendar Years 2012 through 2016 (Dollars in Thousands)⁽¹⁾

	2012	2013	2014	2015	2016
<u>Permit Valuation</u>					
New Single-family	\$47,049.2	\$47,784.6	\$7,713.1	\$39,308.4	\$54,469.0
New Multi-family	0.0	64,276.6	125,884.5	129,326.9	416.4
Res. Alterations/Additions	<u>49,650.8</u>	<u>62,108.9</u>	<u>40,202.9</u>	<u>75,182.7</u>	<u>64,799.4</u>
Total Residential	\$96,700.00.0	\$174,170.10	\$173,800.50	\$243,818.00	\$119,684.80
New Commercial	175,775.5	93,042.8	140,277.6	71,552.8	521,582.9
New Industrial	0.0	0.0	5,082.1	0.0	0.0
New Other	0.0	2,912.9	32,964.4	31,923.3	378.0
Com. Alterations/Additions	<u>325,110.1</u>	<u>141,434.2</u>	<u>325,723.9</u>	<u>341,798.5</u>	<u>417,194.3</u>
Total Nonresidential	500,885.6	237,389.9	504,048.0	445,274.6	939,155.2
<u>New Dwelling Units</u>					
Single Family	211	226	31	183	242
Multiple Family	<u>0</u>	<u>375</u>	<u>796</u>	<u>670</u>	<u>2</u>
TOTAL	211	601	827	853	244

(1) Totals may not foot due to rounding.

Source: Construction Industry Research Board, Building Permit Summary.

SANTA CLARA COUNTY Building Permit Valuation For Calendar Years 2012 through 2016 (Dollars in Thousands)⁽¹⁾

	2012	2013	2014	2015	2016
<u>Permit Valuation</u>					
New Single-family	\$678,168.8	\$694,884.6	\$594,472.7	\$653,970.2	\$660,301.6
New Multi-family	558,544.1	941,420.4	1,196,127.8	706,781.1	564,761.0
Res. Alterations/Additions	<u>288,105.1</u>	<u>423,739.6</u>	<u>439,747.1</u>	<u>505,844.7</u>	<u>484,820.1</u>
Total Residential	1,524,818.0	2,060,044.6	2,230,347.6	1,866,596.0	\$1,709,882.7 0
New Commercial	745,468.8	1,217,647.4	818,913.3	1,258,808.7	2,327,643.2
New Industrial	22,481.5	72,222.0	10,172.2	100,301.2	44,268.9
New Other	19,197.3	1,749,161.2	292,113.9	533,644.5	282,966.1
Com Alterations/Additions	<u>1,115,633.3</u>	<u>1,293,656.1</u>	<u>1,534,213.1</u>	<u>1,697,046.2</u>	<u>2,072,862.8</u>
Total Nonresidential	1,902,780.9	4,332,686.8	2,655,412.5	3,589,800.6	4,727,741.0
<u>New Dwelling Units</u>					
Single Family	1,432	1,859	1,602	1,710	1,608
Multiple Family	<u>4,245</u>	<u>6,009</u>	<u>8,310</u>	<u>3,906</u>	<u>3,297</u>
TOTAL	5,677	7,868	9,912	5,616	4,905

(1) Totals may not foot due to rounding.

Source: Construction Industry Research Board, Building Permit Summary.

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and non-tax 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), non-tax 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 total effective buying income for the City, the County, the State and the United States for the period 2012 through 2016.

CITY OF SUNNYVALE, CONTRA COSTA COUNTY, AND THE STATE OF CALIFORNIA Effective Buying Income As of January 1, 2012 through 2016

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2012	City of Sunnyvale	\$5,039,793	\$71,495
	Santa Clara County	61,464,868	68,852
	California	864,088,828	47,307
	United States	6,737,867,730	41,358
2013	City of Sunnyvale	\$5,429,928	\$75,312
	Santa Clara County	61,802,913	70,595
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	City of Sunnyvale	\$5,813,108	\$80,323
	Santa Clara County	66,130,110	75,008
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2015	City of Sunnyvale	\$6,539,580	\$85,185
	Santa Clara County	73,637,380	79,345
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2016	City of Sunnyvale	\$7,104,322	\$88,797
	Santa Clara County	77,917,425	81,466
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043

Source: The Nielsen Company (US), Inc.

APPENDIX E
FORM OF OPINION OF BOND COUNSEL

APPENDIX F

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 to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Bonds (the “Issuer”) nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the “Agent”) take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned

subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *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.