

**Council Meeting: May 25, 2010****SUBJECT: Authorize the Issuance and Sale of Water Revenue Bonds and Wastewater Revenue Bonds and Approve Related Documents and Actions****BACKGROUND**

From time to time, the City has issued debt, directly or through the Sunnyvale Financing Authority (the "Authority"), to refund outstanding obligations and/or to finance substantial capital and infrastructure projects for its water and wastewater utilities. The last bond transaction for the water and wastewater utilities was the Authority's Water and Wastewater Revenue Bonds, Series 2001 (the "2001 Bonds"), which refunded prior utility revenue bonds and raised new funds to finance certain additions and improvements to the wastewater utility.

The FY 2009/2010 Adopted Budget reflects the need for significant capital improvements to both water and wastewater facilities over the next several years. In the current market, the City's water and wastewater revenue bonds can be issued at very attractive long-term rates. The issuance of revenue bonds for these projects will allow the City to accelerate their construction and achieve construction cost savings by taking advantage of a favorable bidding environment. In addition, the issuance of bonds will allow the City to minimize the impact on utility rates by spreading project costs on an equitable, long-term basis to users who will benefit from the improvements. The current favorable market conditions will also allow the City to refinance the 2001 Bonds at lower rates and achieve financial savings.

On April 6, 2010, the City Council approved the financing team and authorized staff to proceed with the refunding of the 2001 Bonds, the issuance of Water Revenue Bonds in an amount not to exceed \$30 million, and the issuance of Wastewater Revenue Bonds in an amount not to exceed \$40 million.

EXISTING POLICY

Fiscal Sub-Element Policy I.1b.1 Capital improvements associated with the existing infrastructure of a utility should be primarily funded from two sources: rate revenue and debt financing.

DISCUSSION

Staff is recommending that the Council adopt a resolution authorizing the issuance of Water Revenue Bonds (the “2010 Water Bonds”) in an amount not to exceed \$30,000,000 and Wastewater Revenue Bonds (the “2010 Wastewater Bonds”) in an amount not to exceed \$40,000,000. Issuance of the 2010 Water Bonds and the 2010 Wastewater Bonds (together, the “2010 Bonds”) will:

- Refund approximately \$21.7 million of outstanding 2001 Bonds.
- Finance approximately \$18 million in water infrastructure projects.
- Finance approximately \$23 million in wastewater infrastructure projects.
- Fund separate debt service reserve funds for each of the 2010 Bonds.
- Pay for the costs of issuance incurred in connection with the 2010 Bonds.

The resolution also provides for the execution and delivery of the legal documents necessary to issue the 2010 Bonds (including separate Indentures of Trust) and to refund the 2001 Bonds (including an Escrow Agreement).

Approval of a Negotiated Sale

On April 6, 2010, Council approved the negotiated sale of the 2010 Bonds to the underwriting firm of De La Rosa & Co. (the “Underwriter”). Benefits of this approach include greater flexibility as to timing the sale and the ability to pre-market the 2010 Bonds. The pre-marketing provides the underwriter with an opportunity to explain the complexities of each transaction, such as matters relating to the future price and availability of water, and the impact of the proposed expansion of the City’s wastewater plant. The 2010 Bonds will be sold to the Underwriter under the terms of two separate Bond Purchase Agreements, between the City and the Underwriter.

Documents to be Approved

Indentures of Trust

The 2010 Bonds will be issued under separate Indentures of Trust between the City and U.S. Bank Trust National Association, as Trustee. Each Indenture reflects the specific terms of the 2010 Water Bonds and 2010 Wastewater Bonds, as the case may be. The Indentures are similar in the following important respects:

Revenue Pledge

The 2010 Water Bonds and 2010 Wastewater Bonds are secured by a pledge of the “Net Revenues” of the respective Water or Wastewater systems. Net Revenues is defined as “Gross Revenues” (all revenues received by the City

from charges levied for water use, in the case of the Water System, or the collection, treatment and disposal of wastewater, in the case of the Wastewater System), less all costs of operating and maintaining each system.

Rate Covenant

To assure bondholders that the City will have adequate Net Revenues to pay debt service on the Bonds, the City covenants to set rates for both the Water System and Wastewater System which will yield Net Revenues equal to at least 120% of annual debt service on the 2010 Water Bonds and 2010 Wastewater Bonds, as the case may be, and any parity obligations.

Parity Bonds Provision

The City is permitted to issue additional bonds on parity with the 2010 Bonds (i.e., additional bonds that are paid on the same basis as the 2010 Bonds) under certain restrictions. The most important restriction is that at the time of issuance of such parity bonds, historical Net Revenues, with certain adjustments, must equal at least 120% of the aggregate maximum debt service on outstanding 2010 the Bonds and the new proposed parity debt issue.

Tax Covenants

The Indentures contain covenants that require the City to take all actions necessary to ensure the continued tax-exempt status of the Bonds.

Continuing Disclosure Requirements

Under federal securities laws, the City is obligated to file annual reports with an electronic national repository selected by the Securities and Exchange Commission (the "S.E.C."), updating information on the Systems and other important relevant information on the City's finances.

Escrow Agreement

The Escrow Deposit and Trust Agreement is a three party agreement among the City, U.S. Bank as escrow agent (the "Escrow Agent"), and the Financing Authority. Under the Escrow Agreement, the City agrees to deposit a portion of the proceeds of the 2010 Bonds in an irrevocable refunding escrow held by the Escrow Agent. The Escrow Agent will apply those funds to pay debt service on the 2001 Bonds through October 1, 2011, at which time the 2001 Bonds will be called and redeemed. Because of this arrangement, the 2001 Bonds are considered legally "defeased."

Official Statements

The 2010 Bonds will be marketed to potential investors by means of separate Official Statements. Each Official Statement contains information on the terms of the 2010 Bonds, the security and sources of repayment, the Water System and Wastewater System, as applicable, and Bond owner risks. Prior to the sale

of the Bonds, the Official Statements will be distributed by the Underwriter in “Preliminary” form. Following to the pricing of the Bonds and the inclusion of final pricing information, the Official Statements will become “final”.

The Preliminary Official Statements are the most important documents for Council to review. The Official Statements are viewed by the S.E.C. as the City’s documents, not the Underwriter’s, and the City Council is required to deem the Preliminary Official Statement as “final”, in that except for pricing information on the Bonds, the Preliminary Official Statement is complete in its description of the City, the applicable System, and the Bonds.

The members of the City’s financing team were heavily involved in the preparation and review of the Preliminary Official Statement. However, the ultimate responsibility for the Preliminary Official Statements rests with the City Council. Staff has attached a memo from the City’s Disclosure Counsel describing the importance of this review and the unique role the City Council plays in this process.

A number of the documents associated with this transaction are not included with this report due to their length, but are available for review in the Council Conference Room or can be provided upon request. However the Preliminary Official Statements and cover memos from the City’s Disclosure Counsel to the City Council describing the importance of these documents are included.

FISCAL IMPACT

The 2010 Bonds will refinance the 2001 Bonds to their original term, and finance \$18 million of water and \$23 million of wastewater utility capital projects over 30 years at current interest rates. The refinancing of the 2001 Bonds will create cash flow savings, whereas the financing of the new projects will add debt service to be paid from the revenues of the water and wastewater utilities.

Based on current market conditions plus a cushion of 0.15% (15 basis points), the refunding of the 2001 Bonds are expected to generate aggregate cash flow savings of approximately \$2.48 million and present value savings of approximately \$764,000. These savings are allocated between the two utilities as follows: (a) \$1.09 million of cash flow savings for water (\$287,000 present value savings or 4% of the water portion of the refunded 2001 Bonds) and (b) \$1.39 million of cash flow savings for wastewater (\$477,000 of present value savings or 3.3% of the wastewater portion of the refunded 2001 Bonds).

The financing of \$18 million of new water capital projects will add approximately \$900,000 per year in debt service costs through fiscal year 2017-18 and approximately \$1.34 million from for remainder of the bonds.

The financing of \$23 million of new wastewater capital projects will add approximately \$1.48 million of debt service per year for each year of the financing.

The Water Revenue Bonds will be issued in an amount not to exceed \$30 million (including a refunding portion of approximately \$7 million), will have a final maturity of no more than thirty years from the date of issuance, and will bear interest at rates not in excess of 6.5 percent. Based on current market conditions, the all-in interest borrowing cost (including the underwriter's discount and issuance costs) will be approximately 4.56 percent.

The Wastewater Revenue Bonds will be issued in an amount not to exceed \$40 million (including a refunding portion of approximately \$14 million), will have a final maturity of thirty years from the date of issuance, and will bear interest at rates not in excess of 6.5 percent. Based on current market conditions, the all-in interest cost would be approximately 4.41 percent.

Staff had estimated the fiscal impact prior to issuing notices for the FY 2010/2011 proposed water and wastewater utility rates. These assumptions accurately reflect the anticipated utility rate impact given current market conditions. In addition, the issuance of bonds allows the City to minimize the impact of financing these projects on utility rates by spreading the cost on an equitable, long-term basis to users who will benefit from the improvements. For the FY 2010/2011 proposed wastewater rates, this allowed staff to lower the planned increase by three percentage points. With regards to the water rates, financing of projects allowed the fund to absorb the impact of lower sales and increases the cost of purchased water.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's Web site.

ALTERNATIVES

1. Approve a resolution authorizing the proceedings relating to the refunding of the 2001 Installment Sale Agreement, Financing of Capital improvements for the City's Water and Wastewater Systems, authorizing the issuance and sale of water revenue bonds and wastewater revenue bonds, and approving related documents and actions.

2. Do not approve the resolution authorizing staff to proceed with the issuance of Water Revenue Bonds and Wastewater Revenue Bonds.

RECOMMENDATION

Staff recommends Alternative 1, approve a resolution authorizing the proceedings relating to the refunding of the 2001 Installment Sale Agreement, Financing of Capital improvements for the City's Water and Wastewater Systems, authorizing the issuance and sale of water revenue bonds and wastewater revenue bonds, and approving related documents and actions.

Reviewed by:

Mary J. Bradley, Director, Finance

Prepared by: Timothy J. Kirby, Revenue Systems Supervisor

Approved by:

Gary M. Luebbers

City Manager

Attachments

- A. Transmittal Letter from Disclosure Counsel – Water
- B. Preliminary Official Statement – Water Revenue Bonds Series 2010
- C. Transmittal Letter from Disclosure Counsel – Wastewater
- D. Preliminary Official Statement – Wastewater Revenue Bonds Series 2010
- E. Resolution of the City Council of the City of Sunnyvale Authorizing Proceedings Relating to the Refunding of 2001 Installment Sale Agreement and Financing of Capital Improvements for the City's Water and Wastewater Systems, Authorizing Issuance and Sale of Water Revenue Bonds, and Approving Related Documents and Actions



650 California Street
18th Floor
San Francisco, CA 94108
t. 415.391.5780
f. 415.391.5784

May 3, 2010

Members of the City Council
City of Sunnyvale

Re: CITY OF SUNNYVALE
Water Revenue Bonds, Series 2010

Ladies and Gentlemen:

In connection with proposed issuance of the bonds captioned above by the City of Sunnyvale, a Preliminary Official Statement and other documents will be presented to your Council for your consideration and approval.

The Preliminary Official Statement for the Bonds is the most important document for the members of the Council to review. The Preliminary Official Statement discloses information with respect to, among other things,

- (i) the estimated sources and uses of funds relating to the Bonds,
- (ii) the purposes for which the proceeds of the Bonds will be used (contributing toward the refinancing of the outstanding 2001 water and wastewater bonds, and financing new improvements to the water system),
- (iii) the terms relating to the Bonds (interest rates, redemption terms, etc.),
- (iv) the security for repayment of the Bonds (here, debt service on the Bonds is payable solely from water system revenues), and
- (v) information regarding the water system, the water system's financial condition, and the City's finances.

The members of the City's financing team have participated in the preparation and review of the Preliminary Official Statement and the other documents and provided their input and comments, where applicable, in order that the documents comply with applicable securities laws requirements. The securities laws require that a Preliminary Official Statement (i) not contain any misleading information and (ii) not omit any material information. While it is important that the City's staff members and the financing team have assisted in the preparation and review of the Preliminary Official Statement, the Preliminary Official Statement is the City's document, and ultimate responsibility for the Preliminary Official Statements rests with the City Council.



The Securities and Exchange Commission has emphasized the obligations of public officials to review the Preliminary Official Statements prepared for their bond issues. In a written report following the Orange County bankruptcy, the SEC stated in a report that “public officials of the issuer who have ultimate authority to approve the issuance of securities and related disclosure documents have responsibilities under the federal securities laws as well. In authorizing the issuance of securities and related disclosure documents, a public official may not authorize disclosure that the official knows to be false; nor may a public official authorize disclosure while recklessly disregarding facts that indicate that there is a risk that the disclosure may be misleading.” While the members of the financing team have discussed a range of topics relating to this bond financing, there is the possibility that, as elected officials, you might be aware of something, or have a different perspective on something, that should be considered and disclosed in the Preliminary Official Statement.

Some of the questions members of the City Council should ask themselves in reviewing the Preliminary Official Statement include:

1. Is there information about the water system and its financial condition, or the City and its financial condition, that is not disclosed in the Preliminary Official Statement but would be important for an investor to know before purchasing the Bonds?
2. Is there any pending or threatened litigation against the City that could have a negative impact on the water system or its financial condition?

Since you have a different perspective and knowledge base than members of the financing team, it is important that you review the Preliminary Official Statement and that your input and questions be considered in finalizing the documents. The City’s staff and the financing team are available to review and respond to questions and comments you may have with respect to information included in the Preliminary Official Statement. Please note that the proposed resolutions approving the Preliminary Official Statement delegate authority to the City staff to make changes to the Preliminary Official Statement following approval by your Council but before the Preliminary Official Statement is printed and distributed to investors.

If you have any questions or suggestions, please do not hesitate to contact me at 415-391-5780.

Respectfully submitted,

/s/ Scott R. Ferguson
JONES HALL,
A Professional Law Corporation

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2010**NEW ISSUE - FULL BOOK-ENTRY****RATINGS: Standard & Poor's: "____"**
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 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, and such interest is exempt from California personal income taxes; 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. See "TAX MATTERS."

[CITY LOGO]

\$ _____*
CITY OF SUNNYVALE
Water Revenue Bonds,
Series 2010

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

Authority for Issuance. The bonds captioned above (the "Bonds") are being issued by the City of Sunnyvale (the "City") under a resolution adopted by the City Council on _____, 2010, and an Indenture of Trust dated as of June 1, 2010 (the "Indenture"), between the City and U.S. Bank National Association, as trustee for the Bonds (the "Trustee"). Under this authority, the Bonds may be issued in a principal amount not to exceed \$30,000,000. See "THE BONDS – Authority for Issuance."

Use of Proceeds. The Bonds are being issued to provide funds to (i) construct and acquire certain improvements to the City's municipal water system (the "Water System"), (ii) prepay a portion of the City's obligation to make installment payments under an Installment Sale Agreement dated as of December 1, 2001, by and between the Sunnyvale Financing Authority (the "Authority") and the City, relating to the Water System; the Authority will use these amounts to refund and defease on an advance basis the portion of the outstanding Authority bonds captioned "Sunnyvale Financing Authority Water and Wastewater Revenue Bonds, Series 2001" relating to the Water System (iii) provide a debt service reserve account for the Bonds, and (iv) pay the costs of issuing the Bonds. See "FINANCING PLAN."

Security for the Bonds. Under the Indenture, the Bonds are payable from and secured by a first pledge of and lien on "Net Revenues" of the Water System, which are generally defined as "Gross Revenues" received from the Water System minus the amount required to pay all "Operation and Maintenance Costs" of the Water System. The Bonds are also secured by certain funds on deposit under the Indenture. See "SECURITY FOR THE BONDS."

Bond Terms; Book-Entry Only. The Bonds will bear interest at the rates shown on the inside cover page, payable semiannually on April 1 and October 1 of each year, commencing on October 1, 2010, and will be issued in fully registered form without coupons in the denomination of \$5,000 or any integral multiple of \$5,000. The Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the Bonds will not receive certificates representing their interests in the Bonds. Payments of the principal of, premium, if any, and interest on the 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 Bonds. See "THE BONDS – General Provisions."

Redemption. The Bonds are subject to optional redemption, mandatory redemption from insurance, sale or condemnation proceeds, and mandatory sinking fund redemption prior to maturity. See "THE BONDS – Redemption."

NEITHER THE BONDS, NOR THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF OR INTEREST THEREON, CONSTITUTE A DEBT OR A LIABILITY OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE BONDS ARE SECURED SOLELY BY THE PLEDGE OF REVENUES AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE CITY.

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 BONDS.

The Bonds are offered when, as and if issued and received by the Underwriter and subject to the 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. Certain legal matters will be passed upon for the City by the City Attorney and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California. It is anticipated that the Bonds will be delivered in book-entry form through the facilities of DTC on or about June __, 2010.

De La Rosa

The date of this Official Statement is: May ____, 2010.

* Preliminary; subject to change.

MATURITY SCHEDULE*

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

<u>Maturity</u> (<u>October 1</u>)	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP†</u>
---	-----------------------------------	--------------------------------	--------------	--------------	---------------

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

† Copyright 2010, American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. Neither the City nor the Underwriter assume any responsibility for the accuracy of these CUSIP data.

* Preliminary; subject to change

CITY OF SUNNYVALE

CITY COUNCIL

Melinda Hamilton, *Mayor*
Christopher R. Moylan, *Vice Mayor*
Otto Lee, *Councilmember*
Ron Swegles, *Councilmember*
Anthony Spitaleri, *Councilmember*
David Whittum, *Councilmember*
Jim Griffith, *Councilmember*

CITY OFFICIALS

Gary Luebbers, City Manager
Mary J. Bradley, Director of Finance
Marvin A. Rose, Director of Public Works
David E. Kahn, City Attorney

BOND COUNSEL AND DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

FINANCIAL ADVISOR

Ross Financial
San Francisco, California

UNDERWRITER'S COUNSEL

Stradling Yocca Carlson & Rauth, a Professional Corporation
Sacramento, California

TRUSTEE

U.S. Bank National Association
San Francisco, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the 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 to be construed as a contract with the purchasers of the Bonds.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the City, in any press release and in any oral statement made with the approval of an authorized officer of the City, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the City since the date hereof.

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Limited Scope of Information. The City has obtained certain information set forth herein from sources which are believed to be reliable. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. All summaries of or references to the documents referred to in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All capitalized terms used herein, unless noted otherwise, have the meanings given in the Indenture.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Stabilization of Prices. In connection with this offering, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

TABLE OF CONTENTS

INTRODUCTION	1	Water Rates, Fees and Charges	28
FINANCING PLAN	3	Customer Base	32
The 2010 Water Project	3	Outstanding Water System Obligations	34
Refunding Plan	3	Water System Historical Fund Balances	35
Estimated Sources and Uses of Funds	5	Water System Historical Revenues, Expenses and Debt Service Coverage	36
DEBT SERVICE SCHEDULE	6	Projected Revenues, Expenses and Debt Service Coverage	38
THE BONDS	7	CITY FINANCES	40
Authority for Issuance	7	The City	40
General Provisions	7	Budgeting and Planning Process	40
Transfer, Registration and Exchange	8	Accounting Policies	40
Redemption	8	Financial Statements	41
Book-Entry Only System	9	Investment Policy and Investment Portfolio	41
SECURITY FOR THE BONDS	10	Employee Relations	42
Revenues; Pledge of Net Revenues	10	Insurance	42
Limited Obligation	11	Employee Retirement System	42
Receipt and Deposit of Gross Revenues	11	Other Post-Employment Benefits	44
Reserve Account	13	BOND OWNERS' RISKS	46
Revenue Stabilization Fund	14	Net Revenues; Rate Covenant	46
Covenants Regarding Water System Rates and Charges	14	Operation and Maintenance Expenses	46
Issuance of Additional Debt	15	Limitations on Remedies Available to Bond Owners	46
THE CITY UTILITY ENTERPRISES	17	Seismic Considerations	47
Enterprise Management	17	Loss of Tax-Exemption	47
Enterprise Funds	17	Proposition 218	47
Contingency Reserve and Rate Stabilization Reserve	17	Environmental Regulation	49
Utility Rate Setting	18	Secondary Market for Bonds	49
Utility Billing and Collection Procedures	19	Future Parity Obligations	50
Budgeting and Planning Process	19	TAX MATTERS	50
THE WATER SYSTEM	21	CERTAIN LEGAL MATTERS	51
History	21	LITIGATION	52
Management	21	RATINGS	52
Service Area	21	CONTINUING DISCLOSURE	52
Water Storage and Distribution System	22	UNDERWRITING	53
Sources of Water Supply	22	PROFESSIONAL SERVICES	53
Environmental Issues Relating to the Water System	25	VERIFICATION OF MATHEMATICAL COMPUTATIONS	53
Water Demand and Demand Management	25		
Long-Term Forecasting	26		
Demand Based Water Pricing	27		
Capital Improvement Program	27		
APPENDIX A:	SUMMARY OF INDENTURE		
APPENDIX B:	AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2009		
APPENDIX C:	FORM OF CONTINUING DISCLOSURE CERTIFICATE		
APPENDIX D:	GENERAL INFORMATION REGARDING THE CITY OF SUNNYVALE AND SANTA CLARA COUNTY		
APPENDIX E:	FORM OF OPINION OF BOND COUNSEL		
APPENDIX F:	DTC AND THE BOOK-ENTRY ONLY SYSTEM		

OFFICIAL STATEMENT

\$ _____ *

CITY OF SUNNYVALE
Water Revenue Bonds,
Series 2010

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. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

Capitalized terms used but not defined in this Official Statement have the meanings set forth in the Indenture (as defined below). See "APPENDIX A."

Authority for Issuance. The City of Sunnyvale (the "**City**") is issuing the bonds captioned above (the "**Bonds**") under the following:

- (a) the City of Sunnyvale Municipal Utilities Revenue Bond Law (the "**Bond Law**"), which was enacted by the City Council (the "**City Council**") on April 6, 2010,
- (b) a resolution adopted by the City Council on _____, 2010 (the "**City Resolution**"), and
- (c) an Indenture of Trust dated as of June 1, 2010 (the "**Indenture**"), between the City and U.S. Bank National Association, as trustee (the "**Trustee**").

Form of Bonds; Book-Entry Only. The Bonds will be issued in fully registered form, registered in the name of The Depository Trust Company, New York, New York ("DTC"), or its nominee, which will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing the Bonds that are purchased. See "THE BONDS – Book-Entry Only System" and "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Purpose of the Bonds. The Bonds are being issued to provide funds to:

- (i) construct and acquire certain improvements to the City's municipal water system (the "**Water System**"),

* Preliminary; subject to change.

(ii) make a deposit in escrow to prepay a portion of the City's obligation to make installment payments under an Installment Sale Agreement dated as of December 1, 2001, by and between the Sunnyvale Financing Authority (the "**Authority**") and the City (the "**2001 Installment Sale Agreement**"), relating to the Water System; the Authority will use these amounts to refund and defease on an advance basis the portion of the outstanding bonds captioned "Sunnyvale Financing Authority Water and Wastewater Revenue Bonds, Series 2001" (the "**2001 Bonds**") relating to the Water System (the "**2001 Water Bonds**"),

(iii) provide a debt service reserve account for the Bonds, and

(iv) pay the costs of issuing the Bonds.

See "FINANCING PLAN."

Security for the Bonds and Pledge of Net Revenues. Under the Indenture, the Bonds are payable from and secured by a first pledge of and lien on "Net Revenues" of the Water System, which are generally defined as "Gross Revenues" received from the Water System minus the amount required to pay all "Operation and Maintenance Costs" of the Water System. The Bonds are also secured by certain funds on deposit under the Indenture. See "SECURITY FOR THE BONDS."

Rate Covenants. The City will make the certain covenants in the Indenture with respect to rates and charges for the Water System, all as further described under "SECURITY FOR THE BONDS – Rate Covenants."

Future Parity Obligations. The City may issue or incur additional obligations and bonds on a parity with or subordinate to the Bonds, provided that the conditions set forth in the Indenture are met. See "SECURITY FOR THE BONDS – Issuance of Additional Debt."

Reserve Account. A Reserve Account will be established and available if there are insufficient amounts in the Bond Fund to make payment on the Bonds. Upon delivery of the Bonds, the City will meet the "**Reserve Requirement**" (described herein) by depositing a portion of the proceeds of the Bonds with the Trustee at closing. See "SECURITY FOR THE BONDS – Reserve Account."

Risks of Investment. The Bonds are repayable only from certain money available to the City from the Water System. For a discussion of some of the risks associated with the purchase of the Bonds, see "BOND OWNERS' RISKS."

NEITHER THE BONDS, NOR THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF OR INTEREST THEREON, CONSTITUTE A DEBT OR A LIABILITY OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE BONDS ARE SECURED SOLELY BY THE PLEDGE OF REVENUES AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE CITY.

FINANCING PLAN

The 2010 Water Project

The City intends to use a portion of the proceeds of the Bonds to finance the cost of the **“2010 Water Project,”** which is defined in the Indenture as (i) the improvements to be financed with the proceeds of the Bonds deposited in the Project Fund, and (ii) any other capital project of direct benefit to the Water System designated by the City.

The City currently anticipates that the 2010 Water Project will consist generally of water main and lateral improvements, water well improvements, water storage tank improvements, water valve and turnout upgrades, and other improvements to the Water System.

The 2010 Water Project is being carried out as part of the City’s capital improvement program. See **“THE WATER SYSTEM – Capital Improvement Program”** for further information on the planned improvements to the Water System.

Refunding Plan

The 2001 Bonds were issued on December 19, 2001, in the total original principal amount of \$32,115,000, and are currently outstanding in the principal amount of \$21,655,000, of which \$7,195,033 is currently allocated to the Water System and \$14,459,967 is currently allocated to the City’s system for the collection, treatment, disposal or reuse of wastewater (the **“Wastewater System”**). The 2001 Bonds were secured by and payable from installment payments made by the City under the 2001 Installment Sale Agreement.

The City will apply a portion of the proceeds from the sale of the Bonds to establish an irrevocable escrow to prepay the City’s obligation to make the installment payments under the 2001 Installment Sale Agreement allocated to the Water System. These amounts will be used by the Authority to refund and legally defease, on an advance basis, the 2001 Water Bonds, which consist of that portion of the 2001 Bonds relating to the Water System.

Concurrently with the issuance of the Bonds, the City is planning to issue its bonds captioned **“City of Sunnyvale Wastewater Revenue Bonds, Series 2010”** (the **“2010 Wastewater Bonds”**), a portion of the proceeds of which will be used to refund and defease the 2001 Bonds relating to the Wastewater System. Upon the issuance of the Bonds and the 2010 Wastewater Bonds, all of the City’s installment payments under the 2001 Installment Sale Agreement will be prepaid, and all of the 2001 Bonds will be defeased.

A portion of the proceeds of the Bonds will be transferred to U.S. Bank National Association, acting as escrow agent (the **“Escrow Bank”**) for the 2001 Bonds under an Escrow Deposit and Trust Agreement dated as of June 1, 2010 (the **“Escrow Agreement”**) by and among the City, the Authority and the Escrow Bank.

The amounts deposited from the proceeds of the Bonds, together with a portion of the proceeds of the 2010 Wastewater Bonds and certain other available moneys, will be held by the Escrow Bank under the Escrow Agreement and invested in noncallable Federal Securities (as described in the Escrow Agreement) consisting of United States Treasury Securities—State and Local Government Series (SLGS).

The principal of and interest on these deposits, when received, will be sufficient to (a) pay regularly scheduled debt service on the 2001 Bonds on October 1, 2010, and April 1, 2011,

and (b) redeem the 2001 Bonds maturing on and after October 1, 2011, on October 1, 2011, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest thereon, without premium.

The mathematical accuracy of these deposits, and of the sufficiency thereof, will be verified by an independent certified public accountancy firm. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

Estimated Sources and Uses of Funds

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

Sources:

Principal Amount of Bonds	\$
<i>Plus</i> Original Issue Premium/ <i>Less</i> Original Issue Discount	
<i>Plus</i> Funds Related to 2001 Bonds	
<i>Less</i> Underwriter's Discount	
TOTAL SOURCES	\$

Uses:

Deposit to Reserve Account of the Bond Fund [1]	\$
Deposit to Project Fund [2]	
Deposit to Costs of Issuance Fund [3]	
Deposit to Escrow Fund [4]	
TOTAL USES	\$

-
- [1] Equal to the Reserve Requirement with respect the Bonds at Closing. See "SECURITY FOR THE BONDS – Reserve Account."
- [2] Represents funds to be used to finance the costs of the 2010 Water Project. See "– The 2010 Water Project" above.
- [3] Represents funds to be used to pay Costs of Issuance, which include legal fees, financial advisor's fee, printing costs, rating agency fees and other miscellaneous expenses.
- [4] Represents funds to be transferred to the Escrow Bank and deposited under the Escrow Agreement, which will be used to refund and defease the 2001 Water Bonds. See "– Refunding Plan" above.

DEBT SERVICE SCHEDULE

The table below shows annual debt service payments on the Bonds

<u>Year Ending</u> <u>October 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
--	------------------	-----------------	-------------------------------------

Total:

THE BONDS

This section provides summaries of the terms of the Bonds and certain provisions of the Indenture. See "APPENDIX A – Summary of Indenture" 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 Bonds are being issued under the Bond Law, the City Resolution (which was adopted by the City Council on _____, 2010), and the Indenture. Under the City Resolution, the Bonds may be issued in a principal amount not to exceed \$30,000,000.

General Provisions

Bond Terms. The 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 Bonds will mature in the amounts and on the dates, and bear interest at the annual rates, set forth on the inside cover page of this Official Statement.

Payments of Principal and Interest. Interest on the Bonds will be payable on April 1 and October 1 in each year, beginning October 1, 2010 (each an "**Interest Payment Date**").

While the Bonds are subject to the book-entry system, the principal, interest and any prepayment premium with respect to the Bonds will be paid by the Trustee to DTC for subsequent disbursement to beneficial owners of the Bonds. See "– Book-Entry Only System" below.

Interest on the 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 Bonds with respect to which written instructions have been filed with the Trustee prior to the Record Date, by wire transfer, at the address of such Owner as it appears on the Bond Registration Books.

Principal of and premium (if any) on any Bond will be paid upon presentation and surrender thereof at the Trust Office of the Trustee in St. Paul, Minnesota.

Both the principal of and interest and premium (if any) on the Bonds will be payable in lawful money of the United States of America.

Calculation of Interest. Each Bond will bear interest based on a 360-day year comprised of twelve 30-day months from the Interest Payment Date next preceding the date of authentication thereof, unless the date of authentication is an Interest Payment Date, in which event such interest is payable from such date of authentication, and unless the date of authentication is on or before September 15, 2010, in which event such interest is payable from the Closing Date; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond will bear interest from the date to which interest has previously been paid or made available for payment thereon in full.

Transfer, Registration and Exchange

See “APPENDIX A – Summary of Indenture” for a description of the provisions of the Indenture relating to the transfer, registration and exchange of the Bonds.

Redemption*

Optional Redemption. The Bonds maturing on or before October 1, 20__ are not subject to optional redemption prior to maturity. The Bonds maturing on or after October 1, 20__ are subject to redemption prior to their respective maturity dates, at the option of the City, as a whole or in part, on any date on or after October 1, 20__, from any source of available funds, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium. If less than all of the Bonds are redeemed, the maturities of those Bonds to be redeemed will be selected by the City, and within each maturity, the Bonds to be redeemed shall be selected by lot.

Mandatory Sinking Fund Redemption. The Bonds maturing on October 1, 20__ are subject to mandatory redemption in part from Sinking Fund Installments to be made by the City on October 1, 20__ and on each October 1 thereafter up to and including October 1, 20__, at a redemption price equal to 100% of the principal amount thereof plus accrued interest, if any, to the redemption date, without premium, as follows:

Redemption Date (October 1)	<u>Principal Amount</u>
--------------------------------	-------------------------

Notice of Redemption. Unless waived by any Owner of Bonds to be redeemed, notice of any redemption of the 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 Bond or 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 Bonds.

Rescission of Notice of Redemption. The City has the right to rescind any notice of the optional redemption of Bonds given under the Indenture by written notice to the Trustee on or prior to the dated fixed for redemption.

Any notice of optional redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default.

The City and the Trustee have no liability to the Bond Owners or any other party related to or arising from such rescission of notice of redemption. The Trustee will mail notice of such rescission of notice of redemption in the same manner as the original notice of redemption was sent under the Indenture.

* Preliminary; subject to change.

Consequences of Redemption Notice. If notice of redemption has been given as required by the Indenture, the Bonds or portions of Bonds so to be redeemed will, on the redemption date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the City defaults in the payment of the Redemption Price) such Bonds or portions of Bonds will cease to have interest accrue thereon.

Upon surrender of such Bonds for redemption in accordance with the redemption notice, such Bonds will be paid by the Trustee at the Redemption Price. Installments of interest due on or prior to the redemption date will be payable as provided in the Indenture for payment of interest.

Upon surrender for any partial redemption of any Bond, there will be prepared for the Owner a new Bond or Bonds of the same maturity in the amount of the unredeemed principal. All Bonds that have been redeemed will be cancelled and destroyed by the Trustee and will not be redelivered.

Neither the failure of any Bond Owner to receive any notice so mailed nor any defect therein will affect the sufficiency of the proceedings for redemption of any Bonds nor the cessation of accrual of interest thereon.

Purchase of Bonds in lieu of Redemption. In lieu of mandatory sinking fund redemption of any Bonds, amounts on deposit in the Redemption Account may also be used and withdrawn by the City at any time for the purchase of such Bonds at public or private sale as and when and at such prices (including brokerage and other charges and including accrued interest) as the City may in its discretion determine. The par amount of any of such Bonds so purchased by the City in any twelve-month period ending on August 1 in any year will be credited towards and will reduce the par amount of such Bonds required to be redeemed through mandatory sinking fund redemption on the next succeeding October 1.

Book-Entry Only System

The Bonds will be issued as fully registered bonds in book-entry only form, registered in the name of Cede & Co. as nominee of DTC, and will be available to ultimate purchasers under the book-entry system maintained by DTC. While the Bonds are subject to the book-entry system, the principal, interest and any prepayment premium with respect to a Bond will be paid by the Trustee to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the Bonds.

Purchasers of the Bonds will not receive certificates representing their interests therein, which will be held at DTC.

See “APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM” for further information regarding DTC and the book-entry system.

SECURITY FOR THE BONDS

The general fund of the City is not liable and neither the credit nor the taxing power of the City is pledged for the payment of the principal of and interest on the Bonds. The Owners of the Bonds may not compel the exercise of the taxing power by the City or the forfeiture of its property. The principal of and interest on the Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of their income, receipts, or revenues except the Net Revenues and other amounts pledged under the Indenture.

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

Revenues; Pledge of Net Revenues

Pledge of Net Revenues. Under the Indenture, the City pledges to the Trustee, for the benefit of the Owners, the Net Revenues of the Water System. The Net Revenues of the Water System may not be used for any other purpose while any of the Bonds remain Outstanding, except that out of Net Revenues of the Water System there may be apportioned and paid such sums for such purposes, as are expressly permitted by the Indenture.

This pledge will constitute a first, direct and exclusive charge and lien on the Net Revenues of the Water System for the payment of the principal or Redemption Price of and interest on the Bonds.

Definition of Net Revenues. "Net Revenues" are defined in the Indenture, for any period, as all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period.

"Gross Revenues" are defined in the Indenture, for any period of computation, as all Charges received for, and all other income and revenues derived by the City from, the ownership or operation of the Water System or otherwise arising from the Water System during such period, including but not limited to

- (a) all Charges received by the City for use of the Water System,
- (b) all receipts derived from the investment of funds held by the City or the Trustee under the Indenture,
- (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 by the Water System pursuant to contracts with the City.

"Charges" are defined in the Indenture as fees (including connection fees), tolls, assessments, rates and rentals prescribed under the law of the State by the City Council for the services and facilities of the Water System furnished by the City.

The term “Gross Revenues” does *not* include (i) customers’ deposits or any other deposits subject to refund until such deposits have become the property of the City, (ii) the proceeds of any ad valorem property taxes levied to pay general obligation bond indebtedness of the City with respect to the Water System, and (iii) special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Water System.

“Operation and Maintenance Costs” is defined in the Indenture as the reasonable and necessary costs paid or incurred by the City for maintaining and operating the Water 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 Water System in good repair and working order,

(b) the cost of water purchased by the City for delivery to the City’s water customers, and

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

The term “Operation and Maintenance Costs” does *not* include (i) administrative costs which the City is required to pay under the Indenture, (ii) payments of debt service on bonds, notes or other obligations issued by the City with respect to the Water System, (iii) depreciation, replacement and obsolescence charges or reserves therefor, and (iv) amortization of intangibles or other bookkeeping entries of a similar nature.

Limited Obligation

The Net Revenues of the Water System constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the Bonds. The general fund of the City is not liable and the credit or taxing power of the City is not pledged for the payment of the principal or Redemption Price of and interest on the Bonds.

The Owner of the Bonds may not compel the exercise of the taxing power by the City or the forfeiture of its property. The principal or Redemption Price of and interest on the Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Net Revenues of the Water System.

Receipt and Deposit of Gross Revenues

Water Revenue Fund. Under the Indenture, the City covenants and agrees that all Gross Revenues, when and as received, will be held by the City in trust thereunder and will be deposited by the City in the Water Revenue Fund (which has heretofore been created and now exists in the City Treasury) and will be accounted for through and held in trust in the Water Revenue Fund, and the City will only have such beneficial right or interest in any of such money as is provided in the Indenture. All such Gross Revenues will be transferred, disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and will be

accounted for separately and apart from all other money, funds, accounts or other resources of the City.

Allocation of Gross Revenues. All Gross Revenues shall be held in trust by the City in the Water Revenue Fund and shall be applied, transferred, used and withdrawn only for the following purposes:

Operating Costs. The City will first pay from the moneys in the Water Revenue Fund the budgeted Operations and Maintenance Costs as such Costs become due and payable.

Debt Service Fund. On or before the first Business Day prior to each Interest Payment Date, the City will transfer from the Water Revenue Fund to the Trustee for deposit in the Debt Service Fund an amount equal to the aggregate amount of interest to become due and payable on all Outstanding Bonds on the next succeeding Interest Payment Date, pro rata with any deposits required to be made with respect to interest on any other Parity Bonds in accordance with the terms of the Parity Bonds Instrument under which such Parity Bonds are issued.

On or before the first Business Day prior to each Principal Installment Date, the City will transfer from the Water Revenue Fund to the Trustee for deposit in the Debt Service Fund an amount equal to the aggregate amount of Principal Installments (including any Sinking Fund Installments) becoming due and payable on all Outstanding Bonds on the next succeeding Principal Installment Date, pro rata with any deposits required to be made with respect to principal on any other Parity Bonds in accordance with the terms of the Parity Bonds Instrument under which such Parity Bonds are issued.

All interest earnings and profits or losses on the investment of amounts in the Debt Service Fund will be deposited in or charged to the Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Installment Date upon all Outstanding Bonds.

Reserve Account. After making the payments, allocations and transfers described above, if the balance in the Reserve Account is less than the Reserve Requirement, the deficiency will be restored by transfers from the first moneys that become available in the Water Revenue Fund to the Trustee for deposit in the Reserve Account, such transfers to be made from the sources and during the time period specified in the Indenture.

Surplus. As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner described above, any moneys remaining in the Water Revenue Fund may at any time be treated as surplus and applied as provided in the Indenture.

Application of Debt Service Fund. (a) The Trustee will withdraw from the Debt Service Fund, prior to each Interest Payment Date, an amount equal to the Interest Requirement payable on such Interest Payment Date, and will cause the same to be applied to the payment of interest when due.

(b) The Trustee will withdraw from the Debt Service Fund, prior to each Principal Installment Date, an amount equal to the sum of: (i) the principal amount of the Outstanding Serial Bonds, if any, maturing on said Principal Installment Date; and (ii) the Sinking Fund Installments on the Outstanding Term Bonds, if any, scheduled to be paid on Term Bonds on said Principal Installment Date, and will cause the same to be applied to the payment of the principal of and Sinking Fund Installment Payments on the Bonds when due.

(c) All withdrawals and transfers from the Debt Service Fund will be made not earlier than one day prior to the Interest Payment Date or Principal Installment Date to which they relate, and the amount so withdrawn or transferred will, for the purposes of the Indenture, be deemed to remain in and be part of the appropriate Account until such Interest Payment Date or Principal Installment Date.

Reserve Account

Establishment of Reserve Account. On the Closing Date, the City will establish the Reserve Account, as an account of the Debt Service Fund, to be held by the Trustee in trust for the benefit of the City and the Owners of the Bonds, and applied solely as provided in the Indenture. The Reserve Account will be held in trust as a reserve for the payment when due of Debt Service on Bonds on behalf of the City.

The Reserve Account will be funded in an amount equal to the “**Reserve Requirement**,” which is defined in the Indenture as an amount equal to 50% of Maximum Annual Debt Service on the Bonds and any Parity Bonds issued in the future that the City elects to secure, in part, with funds on hand in the Reserve Account (collectively, “**Common Reserve Account Bonds**”); provided that, in no event may such amount exceed the lesser of: (i) 10% of the Outstanding principal amount of the Common Reserve Account Bonds, or (ii) 125% of Average Annual Debt Service on the Common Reserve Account Bonds.

Cross-Collateralization with Future Parity Bonds. In connection with the issuance of any Parity Bonds, the City may (but is not required to) deposit into the Reserve Account an amount of funds required to increase the balance in the Reserve Account and all accounts therein to an amount equal to the Reserve Requirement on the Series 2010 Bonds and the proposed issue of Parity Bonds which are to be secured by the Reserve Account. In that event, amounts in the Reserve Account shall constitute a common reserve for the equal and proportionate security of the Series 2010 Bonds and such issue of Parity Bonds. Any deposit made under this provision of the Indenture may be made into one or more separate accounts within the Reserve Account, all of which will be accounted for as part of a common reserve.

Application of Reserve Account. If at any time there are not sufficient amounts in the Debt Service Fund to make payment of Principal Installments or Redemption Price of or interest on the Common Reserve Account Bonds, the Trustee will provide notice of such fact to the City (by telephone, confirmed in writing, provided that no such notice will be required to be given with respect to a withdrawal of amounts in excess of the Reserve Requirement or of withdrawals in connection with the refunding of the Common Reserve Account Bonds in whole or in part) and withdraw from the Reserve Account and pay into the appropriate Fund or Account the amount of the deficiency.

Any amounts in the Reserve Account in excess of the Reserve Requirement (which are derived from interest on investments) will, on October 2 of each year, be paid by the Trustee to the City for deposit in the Water Revenue Fund.

Revenue Stabilization Fund

The City has the right at any time to establish a 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 Water System. From time to time the City may deposit amounts into the Revenue Stabilization Fund from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien securing the Bonds and any Parity Bonds, as the City may determine.

The City may, but is not required to, withdraw from any amounts on deposit in the Revenue Stabilization Fund and deposit such amounts in the Water Revenue Fund in any Fiscal Year for the purpose of paying Debt Service coming due and payable in such Fiscal Year. Amounts so transferred from the Revenue Stabilization Fund to the Water Revenue 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 Water Revenue Fund. Amounts on deposit in the Revenue Stabilization Fund will not be pledged to or otherwise secure the Bonds or any Parity Bonds. The City has the right at any time to withdraw any or all amounts on deposit in the Revenue Stabilization Fund and apply such amounts for any lawful purposes of the City.

For purposes of the calculations to be made regarding the rate covenants and the tests for issuing additional bonds under the Indenture, (i) to the extent that the City appropriates funds from Gross Revenues into the Stabilization Fund for the Water System, a deduction will be made from Gross Revenues of the Water System in the Fiscal Year during which the transfer occurred, and (ii) to the extent that the City appropriates funds from the Revenue Stabilization Fund into the Water Revenue Fund, the City may count the funds so transferred as Gross Revenues in the Fiscal Year in which the transfer occurs. See “–Covenants Regarding Wastewater System Rates and Charges” and “–Issuance of Additional Debt” below.

Covenants Regarding Water System Rates and Charges

Sum Sufficient. Under the Indenture, the City is required to fix, prescribe, revise and collect Charges for the Water 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:

- (1) all Operations and Maintenance Costs of the Water System estimated by the City to become due and payable in such Fiscal Year;
- (2) the Debt Service;
- (3) all other payments required for compliance with the Indenture and the instruments pursuant to which any Parity Bonds relating to the Water System are issued; and
- (4) all payments required to meet any other obligations of the City that are charges, liens, encumbrances upon or payable from the Gross Revenues of the Water System or the Net Revenues of the Water System.

Coverage Covenant. In addition, under the Indenture the City is required to fix, prescribe, revise and collect Charges for the Water System during each Fiscal Year that are

sufficient to yield Net Revenues of the Water System at least equal to 120% of Debt Service in such Fiscal Year for Bonds that have a lien on such Net Revenues.

Issuance of Additional Debt

Parity Bonds. In addition to the Bonds, the City may, by Parity Bonds Instrument, issue or incur other loans, advances or indebtedness payable from Net Revenues to provide financing for the Water System, in such principal amount as may be determined by the City. The City may issue or incur any such Parity Bonds subject to the following specific conditions:

(a) The City must be in compliance with all covenants set forth in the Indenture.

(b) The Net Revenues of the Water System, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year, or any more recent 12-month period selected by the City ending not more than 60 days before the adoption of the Parity Bonds Instrument under which such Parity Bonds are issued, as shown by the books of the City, plus, at the option of the City, the Additional Revenues, shall at least equal 120% of Maximum Annual Debt Service, with Maximum Annual Debt Service calculated on all Bonds to be Outstanding immediately subsequent to the issuance of such Parity Bonds which have a lien on Net Revenues.

(c) The Parity Bonds Instrument providing for the issuance of such Parity Bonds must provide that the proceeds of such Parity Bonds will be applied to the acquisition, construction, improvement, financing or refinancing of additional facilities, improvements or extensions of existing facilities within the Water System, or otherwise for facilities, improvements or property which the City determines are of benefit to the Water System, or for the purpose of refunding any obligations secured by the Net Revenues in whole or in part, including all costs (including costs of issuing such Parity Bonds and including capitalized interest on such Parity Bonds during any period which the City deems necessary or advisable) relating thereto.

For purposes the test for issuing Parity Bonds, "Additional Revenues" is defined in the Indenture as follows:

(i) an allowance for Net Revenues from any additions to or improvements or extensions of the Water System to be made with the proceeds of such Parity Bonds, 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 Consultant engaged by the City; and

(ii) an allowance for earnings arising from any increase in the Charges 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 Charges had been in effect during the whole of such Fiscal Year or such 12-month period.

Nothing contained in this Section will limit the ability of the City to issue refunding revenue bonds (“Refunding Bonds”) payable from the Net Revenues and secured by a lien and charge on the Net Revenues, if the effect of issuing such Refunding Bonds is the reduction of the amount of Debt Service payable on such Refunding Bonds in each year, when comparing Debt Service on such Refunding Bonds to the Debt Service payable on the obligations secured by Net Revenues which are being refunded with the proceeds of such Refunding Bonds.

State Loans. The City may borrow money from the State and incur State Loans to finance improvements to the Water System. A State Loan may be treated as a Parity Bond for purposes of the Indenture, so long as the City complies with the conditions for issuing Parity Bonds set forth in the Indenture before incurring the State Loan.

Subordinate Debt. Nothing in the Indenture prohibits or impairs the authority of the City to issue bonds or other obligations secured by a lien on Net Revenues that is subordinate to the lien established under the Indenture, upon such terms and in such principal amounts as the City may determine.

THE CITY UTILITY ENTERPRISES

The City's utility enterprises consist of the Water System, the Wastewater 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 Marvin A. Rose, Director of Public Works. Mr. Rose is a registered civil engineer with B.S. and M.S. degrees in civil and structural engineering. He has worked for 32 years in the public works field in all areas including: design and construction of public infrastructure facilities; private development review and inspection; facilities management; water, sewer and storm water operations; and capital project administration. For more than 20 years Mr. Rose has served as the Director of Public Works for the City. He also held the position of Community Development Director for eight months while the City recruited a new director. Previous experience includes nine years as the City Engineer for the City of Union City, three years with the City of Newark as a Development Services Engineer and the Chief Building Official, and one year with the City of San Mateo as a Design Engineer.

The Public Works Department is a full service department including administration, municipal engineering, traffic engineering, solid waste management, water system operations, sewer collection and treatment, storm water control, street maintenance, street tree maintenance, and concrete repair and replacement in the public right of way.

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 Operating Fund and
- (v) the SMaRT Station Equipment Replacement 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 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 Fund includes an equipment replacement reserve.

Contingency Reserve. The Fiscal Sub-Element of the General Plan 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 purchased 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 revenues of that Enterprise. The budgeted contingency reserve amount for Fiscal Year 2009-10 for the Water Fund is \$5,114,925.

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.

The currently planned rate stabilization reserve amounts for Fiscal Year 2009-10 are \$1,001,507 for the Water Fund, \$7,306,982 for the Wastewater Fund and \$296,260 for the Solid Waste Fund. Amounts in the rate stabilization reserve for each System are anticipated to fluctuate each year.

Capital and Infrastructure Reserve. The capital and infrastructure reserves in the Water Fund and Wastewater Fund 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 capital and infrastructure reserve amounts for Fiscal Year 2010-11 are \$295,800 for the Water Fund, \$340,813 for the Wastewater Fund.

Utility Rate Setting

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 with Bay Counties Waste Services, 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 utility rates by spreading the effects of anticipated operation and infrastructure costs over twenty years in accordance with each year's adopted Resource Allocation Plan. See "–Budgeting and Planning Process" and "THE WATER SYSTEM – Water 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 (PAMS). 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

The integrated framework of PAMS has enabled the City, over time, to accomplish the long-range strategic goals established by the Council in the General Plan Elements and Sub-Elements. PAMS 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. PAMS has also served as a valuable tool in producing and capturing remarkable gains in efficiency and productivity. It supports the City's mission of providing the highest possible quality services with 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 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 wild 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 PAMS 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 tremendous 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 WATER SYSTEM

History

The City has provided water service to its residents for over 89 years. During this time the City has developed the Water System to satisfy the City's growing water needs.

The City was incorporated in 1912, when its population was approximately 1,500 and the entire municipal water system relied exclusively on groundwater for its potable water supply source. At the close of World War II, the City began to grow very quickly. By the early 1950s, demand for water surpassed the supplies available from groundwater and led to the overdraft of the aquifers. By the year 1952, the population had grown to 10,000. The City entered into a contractual agreement with the San Francisco Water Department (which subsequently transferred its assets and operations to the San Francisco Public Utilities Commission (the "SFPUC")) for delivery of imported water from the Hetch-Hetchy reservoir. That same year, three connections were made to the Hetch-Hetchy supply to serve as a primary water source, supplemented today by eight City owned and operated wells.

By the year 1969, the City's population had grown to 96,000. The City realized the need for an additional supply source and contracted with the Santa Clara Valley Water District (the "SCVWD") for two connections to the SCVWD's West Pipeline. By 1970, the City had already developed its three current water supply sources (Hetch-Hetchy water from the SFPUC, water from the federal Central Valley Project and the State Water Project supplied by the SCVWD, and City-owned wells). To date, the City's Water System maintains six different Hetch Hetchy connections, two SCVWD connections and eight City-owned wells. The City also has interconnections with surrounding water utilities in the immediate area to insure a sustainable water supply during times of emergencies.

The Water System is currently staffed by 37 full-time equivalent City employees.

Management

Under the direction of the Director of Public Works, the Water System is administered and managed by James Craig, Field Services Superintendent. Mr. Craig is responsible for all public works field operations, including pavement maintenance, street lighting, signs and markings, water supply and distribution, sewer collection, street tree maintenance, curbs and sidewalks, and storm drainage work, and for the management and administration of all water purchases for the City.

Mr. Craig has worked in the municipal services field for over 35 years. He is licensed as a professional civil engineer in the states of California, Oregon, and Washington. Following twenty years in the consulting engineering field, primarily working for cities and special purpose utility districts in western Washington, Mr. Craig entered the public field by accepting the position of Public Works Director and City Engineer for the City of Lake Stevens, Washington. Mr. Craig moved to California and took a position with the City of Gilroy as Operations Services Manager in 2000, and after one year accepted the opportunity to bring his expertise to the City of Sunnyvale.

Service Area

The City is the primary provider of water service within the corporate limits of the City (in addition to California Water Service Co., which provides water to approximately 1,150

customers within the City). The City's service area encompasses approximately 25 square miles and currently has a population estimated at 140,450.

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

Water Storage and Distribution System

The City's water storage and distribution system, currently valued at \$300 million, is a closed network consisting of three different pressure zones to compensate for the difference in the City's elevation from sea level at the northern end of town to approximately 300 feet above sea level at the southwest corner of town. It includes approximately ten miles of 16-inch to 30-inch diameter transmission pipelines, ten storage tanks with a combined storage capacity of 27.5 million gallons, seven active and one backup well with a capacity of 12.1 million gallons per day. In addition, the City has connections with the water systems of the California Water Service Co., the City of Cupertino, the City of Mountain View, and the City of Santa Clara.

The water distribution system also includes over 280 miles of 6-inch to 14-inch diameter water main pipelines, approximately 28,630 water services, 3,380 fire hydrants, 250 City-owned backflow devices, and the automated supervisory control and data acquisition (SCADA) system that controls water pressure and the distribution of water throughout the City. Approximately 80% of the water main pipelines were constructed in the 1960's and the remainder in the 1980's. The 1960's vintage pipelines have reached their 50 year useful service life. The City currently intends to use approximately \$6 million of the proceeds of the Bonds for pipeline replacement and rehabilitation projects. See "– Capital Improvement Program" below.

The City performed a hydraulic analysis in 2007 to evaluate its ability to provide water under various emergency situations. The analysis concluded that, if either the SFPUC or SCVWD sources were interrupted, the City's storage tanks (with 27.5 million gallons of capacity) are sufficient to ensure service for 8 hours at the maximum daily demand to all the City's customers at adequate pressure, without using wells. The analysis confirmed that this storage capacity meets the minimum recommendations of the California Department of Public Health.

Recycled water is produced at the City's Water Pollution Control Plant on an intermittent basis, through process changes that further treat wastewater effluent to meet EPA standards for recycled water. The recycled water distribution system includes over eight miles of 12-inch through 36-inch transmission mains and over six miles of eight-inch distribution lines.

Sources of Water Supply

The City currently receives water from four sources: treated water from the SFPUC's Hetch Hetchy system; treated water from the SCVWD; groundwater pumped from the City's operating wells; and recycled water from the City's reclamation program.

The cost of purchased water represents approximately 73% of the direct operating costs of the Water System.

The sources of supply are further described below.

SFPUC's Hetch Hetchy System.

History and Background. In 1952 the City entered into a contract with what is now known as the San Francisco Public Utilities Commission (the “SFPUC”) for water from the Hetch Hetchy system. Water in the Hetch Hetchy system originates from reservoirs located in and around Yosemite National Park. This water flows by gravity from the Sierra across the Central Valley, where it is blended with water from local reservoirs, passes through the Irvington Tunnel, and then crosses the Hayward Fault. The resulting blend of water is approximately 85% from the Hetch Hetchy system and approximately 15% from local reservoirs in Alameda County. From the Irvington Tunnel, San Francisco Bay Division No. 1 and No. 2 pipelines cross the San Francisco Bay, while the No. 3 and No. 4 pipelines pass around the south end of San Francisco Bay. The City has six connections to the Bay Division No. 3 and No. 4 pipelines along Highway 101, and from which it acquires close to 11,000 acre-feet of water annually.

Contractual Arrangements. The City has entered into two contractual arrangements with the SFPUC, both of which expire on June 30, 2034: (i) a Master Water Sales Agreement which the City co-signed in 2009 with 26 other suburban water purchasers, and (ii) an individual Water Sales Contract, which went into effect concurrently with the Water Sales Agreement in 2009. The City currently anticipates that it will be able to renew its contracts with the SFPUC following the June 30, 2034, expiration date.

The Water Sales Agreement guarantees a maximum supply of 161.91 million gallons per day collectively to all of the suburban purchasers. Under the Individual Contract, the SFPUC is required to deliver, and the City is required to pay for, a minimum of 8.93 million gallons per day (or 10,003 acre-feet* per year). The City’s guaranteed water entitlement is 12.58 million gallons per day (or 14,090 acre-feet per year).

In Fiscal Year 2008-09, the SFPUC delivered an average of approximately 10.62 million gallons per day to the City, or approximately 11,895 acre-feet.

Cost of Water; Current and Future Capital Needs. The City’s cost of water purchased from the SFPUC has increased more quickly than inflation in recent years as a result of the SFPUC’s need for infrastructure improvements to improve the aging water delivery systems that transport SFPUC water. The Water Sales Agreement employs the cash method to pass through charges for capital costs incurred for the regional water system (both revenue-funded and bond-funded). It is anticipated that purchased water costs will continue to increase as more money is needed to fund planned improvements to the SFPUC Hetch Hetchy system.

The SFPUC is in the implementation phase of its Water System Improvement Program (“**WSIP**”). The WSIP includes \$4.3 billion in improvements to the SFPUC’s regional water system. As of calendar year 2009, the SFPUC has completed approximately 20% of the WSIP, with 46 projects currently underway accounting for \$3 billion of the \$4.3 billion. Individual project progress ranges from planning phase to construction phase. The completion of the entire WSIP is currently anticipated to occur by approximately the end of calendar year 2015.

Allocation of Water in the Event of Shortages. The Water Sales Agreement provides that the amount of water made available to the suburban purchasers is subject to reductions due to water shortage, drought, earthquakes, other acts of God, or rehabilitation or malfunctioning of the SFPUC’s water delivery system. In the event of shortages, water will be allocated among the suburban purchasers either (i) in accordance with a water conservation plan developed and approved by SFPUC and the suburban purchasers, or (ii) pro rata among

* An acre foot is an amount of water that would cover an acre to a depth of one foot, equal to 43,560 cubic feet or approximately 325,851 gallons.

the suburban purchasers based on the amount of water delivered to each suburban purchaser in the prior calendar year.

Other Suburban Wholesale Customers. SFPUC supplies water to 27 wholesale customers (also known as the suburban purchasers), which consist of municipal and private water agencies operating outside San Francisco. The suburban purchasers are responsible, through wholesale rates, for approximately two-thirds of the capital cost of the WSIP.

The 27 wholesale customers (including the City) are members of and represented by the Bay Area Water Supply and Conservation Agency (“**BAWSCA**”), which was formed by the California State legislature in 2003 under Assembly Bill 2058. BAWSCA has the authority to coordinate water conservation, supply and recycling activities for the suburban users; acquire water and make it available to other agencies on a wholesale basis; finance projects, including improvements to the regional water system; and build facilities jointly with other local public agencies or on its own to carry out the agency’s purposes.

The wholesale customers, together with the SFPUC, also formed a joint powers authority (the San Francisco Bay Area Regional Water System Financing Authority) to help fund capital improvements to the regional water system. This joint powers authority has the power to issue revenue bonds to fund projects to improve the reliability of the regional water system; however, this joint powers authority has not, to date, issued any revenue bonds, and the City is not currently aware of any plans by this joint powers authority to do so. Debt service on any bonds issued by this joint powers authority in the future would be secured by, and paid from, a surcharge imposed by the SFPUC upon the wholesale customers (including the City) and the SFPUC’s retail customers in an amount sufficient to pay bond debt service and the joint powers authority’s operating expenses.

SCVWD. The SCVWD supplies the City with imported water from the federal Central Valley Project (representing approximately 60% of its supply) and California’s State Water Project (representing approximately 40% of its supply), which transport water from the Sacramento-San Joaquin River Delta through canals to users in the Central Valley and other areas, including the City. Sacramento-San Joaquin River Delta water is blended with local reservoir water and delivered and treated at the Rinconada Treatment Plant located in San Jose.

Under its water supply contracts, the SCVWD is entitled to approximately 100,000 acre-feet of water per year from the State Water Project, and 152,500 acre-feet per year from the federal Central Valley Project.

During Fiscal Year 2008-09, the SCVWD delivered water to a total of eight contracting entities, for a total of approximately 119,000 acre-feet, or approximately 106 million gallons per day.

The City purchases water from the SCVWD through a water supply contract that expires in 2051 (or until the repayment of all loans and bonds used to construct water treatment and distribution facilities for the SCVWD system, if longer). Under the water supply contract, every three years the City submits a proposed three-year water delivery schedule to the SCVWD. The requested amount for each year of the proposed water delivery schedule may not be less than 95% of the maximum annual water deliveries under the prior water delivery schedule. The SCVWD will review and approve the proposed water delivery schedule or make any reductions that are consistent with the SCVWD’s ability to deliver water to the City and to other entities contracting for water deliveries with the SCVWD.

Under the current water delivery schedule, the City is entitled to 17.66 million gallons per day. In Fiscal Year 2008-09, the SCVWD delivered approximately 9,330 acre-feet to the City, or an average of approximately 8.33 million gallons per day.

Groundwater. The City currently has seven operating wells and one well in standby mode. These wells are located in the City and pump groundwater from the Santa Clara Combined Basin aquifer. Groundwater quality currently meets applicable standards and does not require treatment. In Fiscal Year 2008-09, groundwater supplied the City with approximately 937 acre-feet of water, approximately half of the City's normal groundwater production, due to two of the City's main wells being down for renovation through a large portion of the year. Those wells are operating again and their production has been enhanced through the installation of improved delivery facilities at each site.

Recycled Water. The City has developed a recycled water program that provides water for irrigation, industrial use and other non-potable uses. The recycled water system produced approximately 1,675 acre-feet during Fiscal Year 2008-09.

Environmental Issues Relating to the Water System

No current environmental issues which could affect the City's water supply are known. In order to ensure that tap water is safe to drink the United States Environmental Protection Agency (USEPA) and the California Department of Public Health (CDPH) prescribe regulations that limit the amount of certain contaminants in water provided by public water systems.

The City has identified potential environmental issues with regards to a portion of the water supply provided by the SCVWD. Approximately half of the SCVWD's supply comes through the Sacramento-San Joaquin River Delta, which faces several significant environmental challenges primarily related to the protection of endangered species. The State passed legislation in late 2009 providing a plan for the restoration of the Delta ecosystem, the addition of surface and groundwater supply, and improvement of local supplies. The State is planning to submit a bond issue to the voters on the November 2010 ballot to provide funding for this effort.

The City's public water system is in compliance with all current regulatory requirements. The City does not conduct separate testing of groundwater and purchased water, but rather periodically tests the water quality of the Water System as a whole. Water quality testing conducted in 2009 by the City met or exceeded water quality standards set by CDPH and USEPA.

Water Demand and Demand Management

On average, the City provides its customers with 19.08 million gallons of water per day. Demand is below aggregate entitlements, although it experiences seasonal fluctuation, with higher consumption in the summer months and lower consumption in the fall and winter months.

The City's water demand management practices were developed during the prolonged droughts that California experienced from 1976 to 1978 and from 1987 to 1992.

The City currently is being influenced by the statewide drought which is in its third year of below-average precipitation. Annual statewide precipitation totaled 76%, 72% and 63% of average for Water Years 2009, 2008, and 2007 respectively.

As a result, both of the City’s wholesale water providers have called for reductions in water use. The SFPUC, which receives water primarily from the Hetch Hetchy watershed, has requested that its customers voluntarily reduce water use by 10%. The SCVWD, which receives water primarily from both the state and federal water projects, has taken a stronger approach requiring a 15% reduction, although it has no authority to enforce such a reduction.

The City uses a mix of approaches to manage water, meet the reductions needed to insure continued reliable water supply, and to meet the demands of its customers both in the short and long term. The City uses best management practices including the prohibition of many non-essential water uses during regular periods, and stricter standards during drought. The City also was co-signatory with the Santa Clara Valley Water District on a water use plan known as “Best Management Practices for Water Conservation” and participated in the development of a long-term water conservation plan. However, the City’s two primary tools for managing demand are long-term forecasting and conservation-based pricing.

Long-Term Forecasting

As part of the development of the Twenty Year Resource Allocation Plan for the Water Utility, staff develops the Twenty Year Water Forecast. After obtaining projections in wholesale rates from the City’s suppliers, the next step in forecasting demand is to analyze the City’s overall water use, which has been trending downward due to changes in the plumbing code and calls for water use reductions as a result of the drought. The City is currently projecting the current use as the baseline with very moderate growth anticipated over the next twenty years.

After the overall demand is identified, the wholesale rate projections are incorporated along with consideration of purchase contract restrictions, operational restrictions, and other factors. This analysis results in the projected mix of water over the twenty year plan. Current City policy is to minimize water purchases from the SFPUC (the City’s most expensive source of water) and make up the difference with water purchased from SCVWD. A small incremental difference is made up by increased recycled water production.

The City has received the following wholesale rate projections from SFPUC and SCVWD for the next ten years, which are set forth in terms of price per acre-foot:

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>
SFPUC	\$828	\$910	\$1,180	\$1,241	\$1,398	\$1,686	\$1,642	\$1,647	\$1,655	\$1,634
% Incr	15.2%	10.2%	29.2%	5.3%	12.6%	20.4%	(2.5%)	0.1%	0.7%	(1.3%)
SCVWD	\$520	\$565	\$615	\$670	\$735	\$805	\$880	\$955	\$1,015	\$1,070
% Incr	0.0%	8.7%	8.8%	8.9%	9.7%	9.5%	9.3%	8.5%	6.3%	5.4%

The following table sets forth historical water purchases by source measured in acre feet, which also represents water deliveries in the Water System’s service area. It should be noted that recent purchases from the SCVWD have been down during the current Fiscal Year and prior two Fiscal Years due to prolonged delivery shut downs to allow the SCVWD to rehabilitate their aging delivery infrastructure; those projects have been completed and the City anticipates that purchases from SCVWD will increase during the current and future Fiscal Years. Those shortages were made up primarily by purchases from SFPUC.

Table 1
WATER SYSTEM
WATER SUPPLY BY SOURCE AND DELIVERIES
(in acre-feet)
Fiscal Years 2004-05 through 2008-09

<u>Source</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>% Share</u> <u>2008-09</u>
Santa Clara Valley Water District	11,283	10,299	10,679	9,684	9,330	39%
San Francisco Public Utilities Commission	9,781	10,941	10,342	11,644	11,894	50%
Ground Water Wells	1,558	1,268	1,893	1,942	937	4%
Recycled Water	<u>1,724</u>	<u>1,994</u>	<u>2,078</u>	<u>1,503</u>	<u>1,643</u>	<u>7%</u>
Total Production and Deliveries	24,346	24,502	24,992	24,773	23,804	100%

Source: City of Sunnyvale, Department of Public Works.

Demand Based Water Pricing

Since the early 1980s, the City's water rates have been designed to send pricing signals to customers to encourage prudent use water. This is done through an inclining block tier pricing structure (also sometimes called an inverted rate structure). Under this structure, the more water a customer uses, the more the customer pays per unit of usage. The cost of service basis for this type of structure is that larger water users require the utility to install larger systems, acquire more supply, and use more energy. Therefore, these costs are recovered from those users through higher unit costs at higher usage rates. The additional benefit is that if customers use water prudently, they pay less per unit of water. Coupled with conservation outreach, this is an effective tool for managing water demand. Water rates are described in more detail below.

The City's policy is to set rates based on actual cost of service. Revenues lost through conservation and costs associated with new education programs are accounted for yearly and projected out in the Twenty-Year Resource Allocation Plan. Water rates are adjusted accordingly each year to balance the Water Fund. The effects of conservation programs, like many other factors that affect the Water Enterprise Fund, are minimized through yearly rate adjustments. See "THE CITY UTILITY ENTERPRISES – Utility Rate Setting."

Capital Improvement Program

Over the past several years, due to the age of the Water System, the City has been working to identify and scope projects to improve the City's water supply and distribution system. The City's recommended Fiscal Year 2010-11 Twenty-Year Resource Allocation Plan projects capital and infrastructure improvements to the Water System for Fiscal Years 2010-11 through 2019-20 in the aggregate amount of approximately \$34.1 million and an additional \$17.7 million in improvements from Fiscal Years 2020-21 through 2029-30.

The City intends to finance approximately \$18 million in projects through Fiscal Year 2013-14 with the proceeds of the Bonds; these projects are anticipated to consist generally of water main and lateral improvements, water well improvements, water storage tank improvements, water valve and turnout upgrades, and other improvements to the Water System. See "FINANCING PLAN – The 2010 Water Project." The City intends to fund the remaining projects with available Water Fund revenues on a pay-as-you-go basis, rather than through the issuance of bonds or other debt instruments.

The table below summarizes the first five years of projects in the Twenty-Year Resource Allocation Plan. The City is focused primarily in two areas, mainline pipe replacement and water tank, well, and supply renovations and improvements. Specific examples include the interior coating of existing water tanks, the replacement of old water lines in the City's historic downtown, upgrading of the city's six connections with the SFPUC system, and the automation of meter reading.

**Table 2
WATER SYSTEM
Capital Improvement Program Summary**

Projects	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>Total</u>
<u>Projects Funded by Bond Proceeds</u>						
Water Pipe and Manhole replacement and rehabilitation	\$ 1,412,362	\$2,519,744	\$ 640,197	\$ 0	\$ 0	\$4,572,303
Water tank, well, and other supply infrastructure	<u>8,575,196</u>	<u>2,489,815</u>	<u>2,361,656</u>	<u>0</u>	<u>0</u>	<u>13,426,667</u>
<u>Sub-total</u>	9,987,558	5,009,559	3,001,853	0	0	17,998,970
<u>Projects to be Funded by Revenues</u>						
Water Pipe and Manhole replacement and rehabilitation	0	0	0	653,000	666,061	1,319,061
Water tank, well, and other supply infrastructure	0	0	0	1,286,506	256,537	1,543,043
Water Meters for New Developments	60,000	61,200	62,424	63,672	64,946	312,242
Detector Checks & Backflow Prevention Devices - New Developments	20,000	20,400	20,808	21,224	21,649	104,081
Leak Detection Program	30,000	30,600	0	0	0	60,600
Automation of Meter Reading	<u>180,000</u>	<u>183,600</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>363,600</u>
<u>Sub-total</u>	290,000	295,800	83,232	83,232	84,896	837,160
<u>Total</u>	<u>\$10,277,558</u>	<u>\$5,305,359</u>	<u>\$3,085,085</u>	<u>\$2,024,403</u>	<u>\$1,470,023</u>	<u>\$20,262,913</u>

Source: City of Sunnyvale, Department of Public Works.

Water Rates, Fees and Charges

Water Rate Setting. Each year, as part of the budget process, staff performs a detailed analysis the current condition of and long-term outlook for the Water Fund, reflected in the Twenty Year Resource Allocation Plan for the fund. See "THE CITY UTILITY ENTERPRISES – Utility Rate Setting" for a further discussion of rate-setting procedures common to all City Utility Enterprises.

Water Rate Structure. The monthly rates charged to Water System users are made up of two components: a fixed service charge, which is based on meter size, and a volume charge, which is based on water usage.

The current Fiscal Year's rate structure was approved on June 2, 2009. The rates shown in Table 3 below for fixed charges are by meter size, and the rates shown in Table 4 below for water usage charges are per hundred cubic feet of water usage.

Table 3
WATER SYSTEM
Fixed Service Charge Rate Structure
Fiscal Year 2009-10

<u>Customer Class</u>	<u>Range of Meter Sizes</u>	<u>Range of Service Charges</u>
Single Family Residential	5/8" to 2"	\$5.24 to 24.75
Multi Family Residential	5/8" to 12"	\$6.14 to \$830.49
Commercial	5/8" to 12"	\$6.14 to \$830.49
Landscape	5/8" to 8"	\$5.24 to \$225.29
Fire Line	N/A	\$5.77 to \$13.47

Source: City of Sunnyvale Fee Schedule.

Table 4
WATER SYSTEM
Water Usage Rate Structure
Fiscal Year 2009-10

<u>User type and Bi-Monthly Rate Block [1]</u>	<u>2009-10</u>
<u>Residential:</u>	
1-12	\$1.53
13-66	2.97
67-100	3.16
101 and over	3.26
<u>Apartments:</u>	
1-8	1.53
9-46	2.97
47-70	3.16
71 and over	3.26
<u>Industrial/Commercial:</u>	
1-12	1.53
13-40	2.97
41-100	3.16
101-1,000	3.26
1,001-2,500	3.35
2,501-5,000	3.43
5,001 and over	3.51

[1] Rates per hundred cubic feet.
Source: City of Sunnyvale Fee Schedule.

Historical Rate Increases. The City has historically increased water rates each year for each customer class. The most recent increase of 8% was adopted on June 2, 2009, for Fiscal Year 2009-10. The following table sets forth a five-year history of water rate increases.

Table 5
WATER SYSTEM
Historic Water Rate Increases for all Customer Classes

<u>Year</u>	<u>Increase</u>
2005-06	4.5%
2006-07	11.5%
2007-08	9.5%
2008-09	10.0%
2009-10	8.0%

Source: City of Sunnyvale Department of Finance.

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

The recommended Fiscal Year 2010-11 Resource Allocation Plan projects that rate increases will be 7.5% in Fiscal Year 2010-11, 9% in Fiscal Year 2011-12, 10% in Fiscal Year 2012-13, range from 7% to 5% per year from Fiscal Year 2013-14 through 2016-17, and range from 2.5% to 1% per year for the remaining thirteen years of the planning period. The Fiscal Year 2010-11 rate increase is scheduled to be considered by the City Council in mid-June 2010.

All of these projected rate increases are dependant 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. In addition, these projected rate increases could change in future Resource Allocation Plans, and will largely depend on the future costs of purchased water.

Comparative Monthly Water Bills. The table below shows comparative residential monthly water bills for neighboring Santa Clara County communities for Fiscal Year 2009-10.

Table 6
WATER SYSTEM
Comparative Average Monthly Residential Bills
Fiscal Year 2009-10

<u>Community</u>	<u>Average Monthly Bill [1]</u>
Sunnyvale [2]	34.31
City of San Jose	32.43
Milpitas	36.35
Santa Clara	30.15
Fremont	38.86
Mountain View	38.98
Cupertino (San Jose Water Co.)	45.68
Palo Alto	60.76

- [1] Represents rate for typical residential users based on consumption of 12 hundred cubic feet plus a service charge for a 5/8" meter.
 - [2] Represents proposed 2010-11 rates to be considered by the City Council in mid-June 2010.
- Source: City of Sunnyvale Department of Finance.

Customer Base

In Fiscal Year 2008-09, the Water System supplied approximately 28,300 users with 9,403,730 hundred cubic feet of water.

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

Table 7
WATER SYSTEM
Number of Accounts
Fiscal Years 2004-05 through 2008-09

<u>Fiscal Year</u>	<u>Number of Accounts</u> [1]
2004-05	27,872
2005-06	28,118
2006-07	28,217
2007-08	28,360
2008-09	28,336

[1] Includes all "active" connections that billed during respective year.
Source: City of Sunnyvale, Department of Finance.

The following table shows billing amounts, water consumption in acre-feet, and water consumption as a percentage of total consumption in the City by type of customer for active water accounts during Fiscal Year 2008-09.

Table 8
WATER SYSTEM
Summary of Water Accounts and Usage by User Type
Fiscal Year 2008-09

<u>User Type</u>	<u>Number of Accounts</u>	<u>Revenues</u>	<u>Consumption (in acre-feet) [1]</u>	<u>Consumption as Percent of Total</u>
Single Family Residences	23,642	\$8,856,877	7,916	36%
Apartments/Mobile Homes	1,607	5,613,501	5,788	27
Commercial/Industrial	2,223	5,835,055	4,473	21
Landscaping	759	3,646,375	2,563	12
Other	105	236,927	848	4
Total	28,336	\$24,188,735	21,588	100%

[1] Total consumption shown in this table is less than the total water deliveries shown in Table 1 above because of in-system water losses due to factors such as maintenance activities and flushing, water main breaks, and customer leaks.

Source: City of Sunnyvale, Department of Finance.

Largest Water Customers. The following are the ten largest customers for the Water System for Fiscal Year 2008-09. In the aggregate, the ten largest customers represent approximately 13% of the annual Water System service charges received by the City.

Table 9
WATER SYSTEM
Ten Largest Customers
Fiscal Year 2008-09

<u>Customers</u>	<u>Land Use</u>	<u>Primary Business Activity</u>	<u>Percent of Total Sales</u>
Applied Materials	Commercial	Semiconductor and Related	3.21%
Lockheed Martin	Commercial	Aircraft/Defense Manufacturing	2.77
Spancion LLC	Commercial	Semiconductor and Related	1.88
Northrop Grumman	Commercial	Transportation Equipment Manufacturing	0.93
H & R Christenson	Multi-unit Dwelling	Apartment	0.92
Casa De Amigos	Multi-unit Dwelling	Mobile Home Park	0.82
Fair Oaks West	Multi-unit Dwelling	Apartment	0.69
Adobe Wells	Multi-unit Dwelling	Mobile Home Park	0.60
Plaza Del Rey	Multi-unit Dwelling	Mobile Home Park	0.57
Avalon Bay Communities	Multi-unit Dwelling	Homeowners Association	0.53
Total Top Ten:			12.92%

Source: City of Sunnyvale, Department of Finance.

Outstanding Water System Obligations

General Fund Loan. During the fiscal year ended June 30, 2003, the City purchased property to provide additional space for the Public Works Corporation Yard. The total purchase price of \$2,550,000 was funded by the City's Water Supply and Distribution and Wastewater Management Enterprise Funds based on the number of staff located at the corporation yard. Using this methodology, the Water Supply and Distribution Fund's share of the costs amounted to 64% or \$1,632,000, and the Wastewater Management Fund's share amounted to 36% or \$918,000. The General Fund agreed to loan the Water Supply and Distribution Fund the amount of \$1,632,000. The loan accrues interest of 6% starting in fiscal year 2003. Repayment in the amount of \$351,700 is budgeted to be repaid annually from fiscal year 2010 through fiscal year 2015. At June 30, 2009, the total loan balance was \$1,729,422. Repayment will be made on a subordinate basis to the payment of debt service on the Bonds.

2001 Bonds. The 2001 Bonds were issued on December 19, 2001, in the total original principal amount of \$32,115,000, and are currently outstanding in the principal amount of \$21,655,000. The City will apply a portion of the proceeds from the sale of the Bonds, together with the proceeds of the 2010 Wastewater Bonds, to prepay its installment payments under the 2001 Installment Sale Agreement, which the Authority will use to refund and legally defease the 2001 Bonds. See "FINANCING PLAN – Refunding Plan."

Water System Historical Fund Balances

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

Table 10
WATER SYSTEM
Historical Balance Sheets
As of June 30 each Fiscal Year

	Audited 2004-05	Audited 2005-06	Audited 2006-07	Audited 2007-08	Audited 2008-09
Assets:					
Current Assets					
Cash and Investments Held by City	\$7,244,285	\$6,562,815	\$6,769,953	\$7,575,189	\$8,100,066
Cash and Investments Held by Fiscal Agent	1,011,017	995,925	978,939	959,652	888,076
Receivables, Net	3,459,401	3,440,049	4,154,395	3,839,685	3,767,513
Intergovernmental Receivables	199,496	-	-	-	-
Inventories and Prepayments	-	-	-	-	113
Total Current Assets	<u>11,914,199</u>	<u>10,998,789</u>	<u>11,903,287</u>	<u>12,374,526</u>	<u>12,755,768</u>
Noncurrent Assets					
Capital Assets:					
Land & Nondepreciable Assets	2,389,263	2,297,680	2,219,948	2,493,360	2,737,036
Depreciable Assets, Net	33,683,426	34,374,153	34,877,244	34,818,954	34,062,209
Total Noncurrent Assets	<u>36,072,689</u>	<u>36,671,833</u>	<u>37,097,192</u>	<u>37,312,314</u>	<u>36,799,245</u>
Total Assets	<u>47,986,888</u>	<u>47,670,622</u>	<u>49,000,479</u>	<u>49,686,840</u>	<u>49,555,013</u>
Liabilities:					
Current Liabilities					
Accounts Payable and Accrued Liabilities	1,533,150	1,668,407	1,700,363	1,808,927	1,596,364
Advances from Other Funds	-	-	351,700	351,700	351,700
Refundable Deposits	39,410	97,574	142,213	148,430	119,504
Interest Payable	144,110	138,749	134,396	127,891	121,076
Long-term Debt - Due Within One Year	536,089	557,195	578,301	605,738	631,065
Total Current Liabilities	<u>2,252,759</u>	<u>2,461,925</u>	<u>2,906,973</u>	<u>3,042,686</u>	<u>2,819,709</u>
Noncurrent Liabilities					
Advances from Other Funds	1,943,738	2,060,362	1,832,284	1,611,623	1,377,722
Long-term Debt - Due in More than One Year	8,523,910	7,976,568	7,408,120	6,812,235	6,191,023
Total Noncurrent Liabilities	<u>10,467,648</u>	<u>10,036,930</u>	<u>9,240,404</u>	<u>8,423,858</u>	<u>7,568,745</u>
Total Liabilities	<u>12,720,407</u>	<u>12,498,855</u>	<u>12,147,377</u>	<u>11,466,544</u>	<u>10,388,454</u>
Net Assets:					
Invested in Capital Assets, Net of Related Debt Restricted for Debt Service	27,012,690	28,138,070	29,110,771	29,894,341	30,865,233
Restricted for Debt Service	1,010,775	1,103,486	1,102,874	1,103,671	-
Restricted for Capital Projects	-	-	-	-	-
Unrestricted	7,243,016	5,930,211	6,639,457	7,222,284	8,301,326
Total Net Assets	<u>\$35,266,481</u>	<u>\$35,171,767</u>	<u>\$36,853,102</u>	<u>\$38,220,296</u>	<u>\$39,166,559</u>

Source: City of Sunnyvale Department of Finance.

Water System Historical Revenues, Expenses and Debt Service Coverage

Historical Revenues and Expenses. Approximately 98% of the Water System's revenues comes from ongoing usage fees.

The following table presents historical revenues, expenditures and changes in retained earnings of the Water System for the last 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 11
WATER SYSTEM
Historical Revenues, Expenses and Changes in Retained Earnings
As of June 30

	Audited 2004-05	Audited 2005-06	Audited 2006-07	Audited 2007-08	Audited 2008-09
Operating Revenues:					
Charges for Services	\$19,174,933	\$19,831,564	\$22,882,827	\$23,577,650	\$24,948,104
Operating Expenses:					
Personnel Services	2,838,378	3,101,985	2,985,729	2,879,822	3,283,670
Contractual Services	305,744	351,131	414,421	521,070	609,472
Supplies and Materials	773,002	873,908	988,543	989,999	1,185,580
Utilities (Gas, Electricity, Water, Telephone)	327,735	298,784	236,457	384,977	235,015
Equipment and Building Rental	389,296	386,097	433,699	394,141	401,220
Taxes and Licenses	700,035	587,873	831,540	922,678	479,660
Water Purchased for Resale [1]	10,469,969	10,495,579	11,495,212	12,546,097	13,417,486
Depreciation	1,179,368	1,225,007	1,297,634	1,333,687	1,360,692
Other Operating Expenses	<u>67,495</u>	<u>2,744</u>	<u>51,719</u>	<u>53,410</u>	<u>54,088</u>
Total Operating Expenses	17,051,022	17,323,108	18,734,954	20,025,881	21,026,883
Income from Operations	2,123,911	2,508,456	4,147,873	3,551,769	3,921,221
Non-Operating Revenues (Expenses):					
Investment Income [2]	279,978	323,558	460,477	408,404	267,559
Capital Grants and Contributions	1,711,806	586,500	301,500	386,400	136,600
Connection Fees	87,763	121,204	361,434	429,386	73,439
Interest Expense	<u>(699,822)</u>	<u>(686,835)</u>	<u>(675,413)</u>	<u>(658,960)</u>	<u>(618,770)</u>
Total Non-Operating Revenue (Expenses)	1,379,725	344,427	447,998	565,230	(141,172)
Income Before Operating Transfers	3,503,636	2,852,883	4,595,871	4,116,999	3,780,049
Operating Transfers In	2,868,617	-0-	-0-	-0-	0
Operating Transfers Out	<u>(2,283,040)</u>	<u>(2,947,597)</u>	<u>(2,914,536)</u>	<u>(2,749,805)</u>	<u>(2,833,786)</u>
Net income (Loss)	4,089,213	(94,714)	1,681,335	1,367,194	946,263
Retained Earnings at Beginning of Year	31,177,268	35,266,481	35,171,767	36,853,102	38,220,296
Retained Earnings at End of Year	<u>\$35,266,481</u>	<u>\$35,171,767</u>	<u>\$36,853,102</u>	<u>\$38,220,296</u>	<u>\$38,220,296</u>

[1] See "THE WATER SYSTEM – Sources of Water Supply." Increase in water costs are due in part to increased cost of water from SFPUC's Hetch Hetchy system, which are anticipated to continue to increase in the future due to planned capital improvements to the SFPUC water delivery system.

[2] This amount includes the change in fair value of investments each year.

Source: City of Sunnyvale Comprehensive Annual Financial Reports.

Historical Debt Service Coverage. The following table sets forth the historical debt service coverage of the Water System for the past five years based on the “Net Revenues” available under the 2001 Installment Purchase Agreement and the Water System’s allocable share of debt service on the 2001 Bonds.

Table 12
WATER SYSTEM
Historical Revenues, Expenses and Debt Service Coverage,
and Reserve Balances
As of June 30

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Gross Revenues					
Charges for Services:	\$ 19,174,930	\$ 19,831,565	\$ 22,882,828	\$ 23,577,650	\$ 24,948,104
Investment Income/Interest	362,621	360,120	418,182	394,017	240,199
Connection Fees	<u>87,763</u>	<u>121,204</u>	<u>361,434</u>	<u>429,386</u>	<u>73,439</u>
Total Gross Revenues:	19,625,314	20,312,889	23,662,444	24,401,053	25,261,742
Operation and Maintenance Costs [1]	17,621,730	18,273,888	19,495,480	20,577,466	21,770,468
Net Revenues [2]	2,003,584	2,039,001	4,166,964	3,823,587	3,491,274
Allocable Share of Debt Service on 2001 Bonds [3]	1,102,654	1,101,808	1,103,487	1,102,874	1,105,596
Debt Service Coverage Ratio:	1.82x	1.85x	3.78x	3.47x	3.16x
Rate Stabilization Reserve [4]	5,394,349	4,453,718	4,765,851	4,790,109	5,175,688
Contingency Reserve [4]	\$3,902,029	\$3,979,271	\$4,243,859	\$4,561,669	\$ 4,751,848

[1] Represents Operation and Maintenance Costs calculated in accordance with the 2001 Installment Purchase Agreement.

[2] Represents Net Revenues available to pay debt service on the 2001 Series A Bonds under the 2001 Installment Purchase Agreement.

[3] Represents the portion of debt service attributable to Water System.

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

Source: City of Sunnyvale Department of Finance.

Projected Revenues, Expenses and Debt Service Coverage

Projections. The following table sets forth the projected revenues, expenses and debt service coverage of the Water 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 Bonds.

Table 13
WATER SYSTEM
Projected Revenues, Expenses and Debt Service Coverage,
and Reserve Balances

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Gross Revenues:					
Charges for Services	\$25,061,243	\$ 26,626,134	\$29,203,338	\$32,269,382	\$34,500,100
Investment Income/Interest	<u>269,997</u>	<u>617,988</u>	<u>1,045,283</u>	<u>1,562,488</u>	<u>1,720,631</u>
Total Gross Revenues:	25,331,240	27,244,122	30,248,621	33,831,870	36,220,731
Operation and Maintenance Costs [1]	<u>22,014,868</u>	<u>24,065,342</u>	<u>25,850,854</u>	<u>29,297,680</u>	<u>30,852,223</u>
Net Revenues [2]	3,316,372	3,178,780	4,397,767	4,534,190	5,368,508
Debt Service*	1,101,596	1,101,789	2,138,375	2,139,500	2,138,375
Debt Service Coverage Ratio:*	3.01 x	2.89 x	2.06 x	2.12 x	2.51 x
Rate Stabilization Reserve [3]	1,001,507	499,099	1,677,591	353,222	1,155,799
Capital and Infrastructure Reserve [3]	290,000	295,800	83,232	2,024,403	1,470,023
Contingency Reserve [3]	\$4,826,028	\$5,237,520	\$5,650,547	\$6,535,760	\$6,902,892

* 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 Bonds under the Indenture.

[3] 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 and Operation and Maintenance Costs. Charges for services are projected to increase at a rate of 7% to 10% per year, and operating expenses are projected to increase at a rate of 5% to 13% per year. Both increases are based primarily on projected increases in the cost of purchased water from the City's wholesale suppliers. See "THE WATER SYSTEM – Long-Term Forecasting" and "THE WATER SYSTEM – Water Rates, Fees and Charges." Additionally increases in revenues include planned funding of capital and infrastructure projects.

Rate Stabilization Reserve. The Rate Stabilization Reserve fund is projected to fluctuate throughout the first ten years of the City's Twenty-Year Resource Allocation Plan, normalizing in the second ten years. This is primarily due to steep projected increases in wholesale water costs and the use of the Rate Stabilization Reserve fund to smooth water utility rate increases over time. Upon stabilization of wholesale water costs, the Twenty-Year Resource Allocation Plan projects a stable expense base, and therefore variations in the fund balance of the Rate Stabilization Reserve are projected to lessen.

Debt Service. Debt service for Fiscal Year 2009-10 represents the Water System's share of debt service on the 2001 Bonds only. Debt Service for Fiscal Years 2010-11 through 2013-14 assumes an interest rate on the Bonds equal to 5%, and a principal amount of the Bonds equal to \$_____, and interest only (no principal payment due) in Fiscal Year 2010-11.

CITY FINANCES

The information in this Section is included solely as background regarding the City's finances and the Water System, which is a utility enterprise of the City. The Bonds are payable from a pledge of Net Revenues of the Water 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 for Fiscal Year 2008-09 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 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 (PAMS), 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 2008-09, which include financial statements for the Water Fund and the other Enterprise Funds, prepared by the City Department of Finance and audited by Maze & Associates, Pleasant Hill, California (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, 2009, 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 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 August 11, 2009. 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 Finance Manager (Treasury) and Director of Finance (or his/her designee) are authorized to manage the investment portfolio.

At March 6, 2010, the City’s investment portfolio consisted of the following:

U.S. Government Treasury and Agency securities	73.16%
Managed pool accounts	21.55%
Passbook/checking accounts	5.30%

No funds were invested in commercial paper. The City’s Finance Manager (Treasury) 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 890 full-time and regular part-time employees, and approximately 546 casual 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 below.

<u>Labor Organization</u>	<u>Number of Employees</u>	<u>Contract Expiration Date</u>
Sunnyvale Employees' Association	487	June 30, 2012
Public Safety Officers' Association	200	June 30, 2012
Communication Officers' Association	20	December 31, 2012
Service Employees' International Union - Local #715	45	June 30, 2012
Sunnyvale Managers Association	70	June 30, 2012
Public Safety Managers Association	10	Under negotiation

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; the coverage provides \$300,000,000 in excess workers' compensation, subject to \$500,000 self-insured retention for each occurrence.

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.

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 7% of annual salary for miscellaneous participants and the full contribution for safety participants. The total contribution on behalf of employees amounted to \$7,385,731 for Fiscal Year 2008-09.

The City is required to make actuarially determined employer contributions necessary to fund the benefits for its members. For Fiscal Year 2008-09, the City contribution was 16.019% for miscellaneous employees and 27.037% for safety employees. In FY 2008-09 the City elected to make an annual lump sum prepayment to PERS; the contribution was \$9,339,925 for miscellaneous employees and \$8,372,838 for safety employees. The contribution requirements of the plan members are established by State statute.

Annual Pension Cost. For Fiscal Year 2008-09, the City's annual pension cost of \$17,712,763 was equal to the City's required and actual contributions. Originally the required employer contribution was determined as part of the June 30, 2006, 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. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.25% to 14.45% for miscellaneous employees and from 3.25% to 13.15% for safety employees depending on age, service, and type of employment, and (c) 2% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period.

The PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2006, was 22 years for miscellaneous and 32 years for safety employees.

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

Fiscal Year	Annual Pension Cost: Miscellaneous Plan	Annual Pension Cost: Safety Plan	Total Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
Ending 6/30/07	\$6,436,205	\$8,193,013	\$14,629,218	100%	\$-0-
6/30/08	8,827,288	8,447,097	17,274,385	100%	-0-
6/30/09	9,339,925	8,372,838	17,712,763	100%	-0-

Projected Future Increases in Pension Costs. The City has projected and is planning for a substantial increase in retirement costs beginning in Fiscal Year 2011-12, when the impact of PERS current negative returns will begin to be realized.

Other Post-Employment Benefits

General. During fiscal year 2008, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). The provisions of this statement are applied prospectively and do not affect prior years' financial statements. Required disclosures are presented in the audited financial statements of the City and summarized below.

Plan Description. The City's retired employees' postemployment healthcare plan is a single-employer defined benefit plan administered by the City. The plan provides healthcare benefits to eligible retirees and their dependents through the California Public Employees' Retirement System (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.

Employees who are vested in PERS and who retire from the City are eligible to receive postemployment health benefits. The City remits to PERS the employer's share of the insurance premium on a monthly, pay-as-you-go basis. The City's Employee Benefits Internal Service Funds hold assets set aside for the payment of City's OPEB obligations

The City has not yet participated in the California Employers' Retiree Benefit Trust (CERBT) Fund – an irrevocable trust established by PERS to pre-fund OPEB. The City Council has approved a resolution for the City to enter the CERBT. The specific timing of the entry into the trust depends on current market environment.

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

Funding Policy. The contribution requirements of plan members and the City are established and may be amended by the City Council. Under the PEMHCA, public agencies contracting with PERS for medical coverage are required to make equal contribution towards the cost of medical coverage for retirees and active employees. The City contributes the lower of the insurance premium or a dollar amount as agreed with the respective bargaining units. The limits range from \$311 to \$565 monthly for Fiscal Year 2009-10.

For management employees, the City also maintains a retiree health reimbursement program, providing the retiree a monthly reimbursement amount equal to the difference between the City contribution and the retiree's medical premium for their selected plan. Management employees appointed on or after July 1, 2007, are subject to a vesting schedule with City reimbursement ranging from 50% to 100% after at least five years of management service.

Annual OPEB Cost and Net OPEB Obligation. The annual required contribution (ARC) is an amount actuarially determined in accordance with the guidelines in 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 excess over a period not to exceed 30 years. For FY 2008-09 the City's ARC was \$10,507,000.

In the June 30, 2008, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.75% investment rate of return and a 3.0% general inflation assumption. Premiums were assumed to increase with a pre-Medicare medical cost

increase rate of 9.1% for HMOs and 9.8% for PPOs for 2011, both grading down to 4.5% for 2018 and thereafter. The post-Medicare cost increases were 9.4% for HMOs and 9.8% for PPOs for 2011, both grading down to 4.5% for 2018 and thereafter. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll over 30 years. 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 FY 2008-09, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

	<u>June 30, 2009</u>
Annual required contribution (ARC)	\$10,507,000
Interest on net OPEB obligation	187,000
Adjustment to annual required contribution	<u>(304,000)</u>
Annual OPEB cost (expense)	10,390,000
Contributions made	<u>(3,995,000)</u>
Increase in net OPEB obligation	6,395,000
Net OPEB obligation - beginning of year	3,938,500
Net OPEB obligation - end of year	\$10,333,500

The City contributed \$3,995,000 on a pay-as-you-go basis for current benefit payments. During FY 2008-09 the General Fund also made a transfer of \$10 million to the Employee Benefits Internal Service Fund, adding to existing resources earmarked for future deposit into the OPEB trust. Since 2007, the City has set aside funds in the Employee Benefits Internal Service Fund for future OPEB obligations, and the total available is now approximately \$30 million. Staff is authorized to transfer the available balance to an OPEB trust when appropriate.

Water System's Estimated Share of Retirement Obligations. The City estimates that the Water System is responsible for approximately 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 Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors in the Bonds are advised to consider the following special factors along with all other information in this Official Statement in evaluating the Bonds. There can be no assurance that other considerations will not materialize in the future.

Net Revenues; Rate Covenant

Net Revenues are dependent upon the demand for water services, which can be affected by population factors, more stringent water quality regulations, and other factors.

There can be no assurance that water service demand will be consistent with the levels contemplated in this Official Statement. A decrease in demand 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 Bonds and existing or future Parity Obligations.

Operation and Maintenance Expenses

There can be no assurance that operation and maintenance expenses of the City related to the Water System will be consistent with the levels contemplated in this Official Statement. Increases in the cost of purchased water, changes in technology, changes in water quality standards, Water System operation or other expenses could require substantial increases in rates or charges in order to comply with the rate covenants in the Indenture. The cost of purchased water, in particular, is projected to increase in the foreseeable future. See "THE WATER SYSTEM – Sources of Water Supply" and "THE WATER SYSTEM – Long-Term Forecasting."

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 debt service on the 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. See "– Proposition 218" below. Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on Bondholder remedies contained in the Indenture, the rights and obligations under the 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 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 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 Water System, resulting in a temporary reduction in the amount of Net Revenues available to pay debt service on the Bonds when due.

Loss of Tax-Exemption

As discussed under the caption "TAX MATTERS," interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the City in violation of their respective covenants in the Indenture. Should such an event of taxability occur, the 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 XIIC and XIID to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related "fee" or "charge," which is defined as "any levy other than an ad valorem tax, a special tax or an assessment, imposed by a [local government] upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service" (and referred to in this section as a "property-related fee or charge").

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 levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIID regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three recent cases have held that certain types of water and wastewater charges could be subject to the requirements of Proposition 218 under certain circumstances.

In *Richmond v. Shasta Community Services District* (9 Cal. Rptr. 3rd 121), the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIID to certain charges related to water service. In *Richmond*, the Court held that connection charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (March 23, 2005), the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and a municipality must comply with Article XIID before imposing or increasing such fees. The California Supreme Court denied the City of Fresno’s petition for review of the Court of Appeal’s decision on June 15, 2005.

In July 2006 the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (S127535, July 24, 2006), addressed the validity of a local voter initiative measure that would have (a) reduced a water agency’s rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency’s charges for ongoing water delivery are “fees and charges” within the meaning of Article XIID, and went on to hold that charges for ongoing water delivery are also “fees” within the meaning of Article XIIC’s mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency’s water rates and other water delivery charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIIC and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was *not* determining whether the electorate’s initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest

on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

Current Practice Regarding Rates and Charges. The City's practice in implementing increases in water rates and charges has been to provide property owners with a 45-day mailed notice and public hearing, and opportunity to protest, before the City Council approves rate increases. The City's current practices comply with the current judicial interpretation of Proposition 218.

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.

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 Bonds.

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 water, or to call into question previously adopted water rate increases.

Environmental Regulation

The kind and degree of water 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 Water System, and mandate their 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 or regulations, should impose water quality standards upon the Water System, the City's expenses to operate the Water System 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 water quality standards, although it is likely that both will impose more stringent standards in the future, which could result in higher Operations and Maintenance Costs with respect to the Water system.

See "THE WATER SYSTEM – Environmental Issues Related to the Water System."

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Prices of bond issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

No assurance can be given that the market price for the Bonds will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Internal Revenue Code), or changes in interpretation of the Internal Revenue Code, or

any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the Bonds for audit examination, or the course or result of any Internal Revenue Service audit or examination of the Bonds or obligations that present similar tax issues as the Bonds.

Future Parity Obligations

As described in "SECURITY FOR THE BONDS – Parity Obligations" above, the Indenture permits the City to issue Parity Obligations, its obligations under which would be payable on a parity with the Bonds.

In the event of a decline in Net Revenues, the existence of Parity Obligations could adversely affect the City's ability to pay debt service on the Bonds.

TAX MATTERS

General. 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 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 (the "**Code**") that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. 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 Bonds.

Original Issue Discount/Original Issue Premium. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each 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 is disregarded.

Under the Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Code contains certain provisions relating to the accrual of original issue discount in the case of

purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 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 Bonds under federal individual and corporate alternative minimum taxes.

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

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

Limited Opinion. Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the 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 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. Certain legal matters will be passed upon for the City by the City Attorney, and for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation.

LITIGATION

To the best knowledge of the City, there is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the City after reasonable investigation, threatened against or affecting the City or the assets, properties or operations of the City which, if determined adversely to the City or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of the Indenture, or upon the financial condition, assets, properties or operations of the City, and the City is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially adversely affect the consummation of the transactions contemplated by the Indenture, or the financial conditions, assets, properties or operations of the City, including but not limited to the payment and performance of the City's obligations under the Indenture.

RATINGS

It is anticipated that, on the Closing Date, Moody's Investors Service ("Moody's") will assign its rating of "____" to the Bonds, and Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. ("S&P"), will assign its rating of "____" to the Bonds.

These ratings reflect only the views of the respective rating agency, and an explanation of the significance of these ratings, and any outlook assigned to or associated with these ratings, should be obtained from the respective rating agency.

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 the rating agencies (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 the respective rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the Bonds may have an adverse effect on the market price or marketability of the Bonds.

CONTINUING DISCLOSURE

The City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City and the Water System (the "Annual Report") and to provide notices of the occurrence of certain enumerated events, if material.

These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5), as amended (the "Rule"). The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in "APPENDIX C — FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The City has never failed to comply, in all material respects, with its previous continuing disclosure undertakings under the Rule to provide annual continuing disclosure reports or notices of material events in the past five years.

UNDERWRITING

E. J. De La Rosa & Co., Inc., (the "Underwriter"), has entered into a Bond Purchase Agreement with the City under which it will purchase the Bonds at a price of \$_____ (equal to the par amount of the Bonds, less an Underwriter's discount of \$_____, and less a net original issue discount of \$_____).

The Underwriter will be obligated to take and pay for all of the Bonds if any are taken. The Underwriter intends to offer the Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. After the initial public offering, the public offering price may be varied from time to time by the Underwriter.

PROFESSIONAL SERVICES

In connection with the issuance of the Bonds, fees payable to the following professionals involved in the offering are contingent upon the issuance and delivery of the Bonds: Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel; Ross Financial, San Francisco, California, as financial advisor to the City; Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California, as Underwriter's counsel; and U.S. Bank National Association, as Trustee.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

_____, Certified Public Accountants, _____, _____ (the "**Verification Agent**") upon delivery of the Bonds, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to them which were prepared by the City, relating to (1) the sufficiency of the anticipated receipts from the Federal Securities and uninvested moneys deposited with the Escrow Bank to pay, when due, the principal, interest and prepayment premium requirements of the 2001 Bonds, and (2) the yield on the Bonds and on the Federal Securities to be deposited with the Escrow Agent.

The report of the Verification Agent will include the statement that the scope of their engagement is limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them, and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

EXECUTION

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

CITY OF SUNNYVALE

By : _____
Mary J. Bradley,
Director of Finance

APPENDIX A
SUMMARY OF INDENTURE

APPENDIX B

**AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDING JUNE 30, 2009**

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

\$ _____
CITY OF SUNNYVALE
Water Revenue Bonds,
Series 2010

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the City of Sunnyvale (the "City") in connection with the issuance by the City of the bonds captioned above (collectively, the "Bonds"). The Bonds are being issued under an Indenture of Trust dated as of June 1, 2010 (the "Indenture"), between the City and U.S. Bank National Association, as trustee (the "Trustee"). The City hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the 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 of this Disclosure Certificate.

"*Annual Report Date*" means nine months after the end of the City's fiscal year, (currently March 31 of each year based on the City's June 30 fiscal year end).

"*Dissemination Agent*" means U.S. Bank National Association, 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) of this Disclosure Certificate.

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

"*Official Statement*" means the final official statement executed by the City in connection with the issuance of the Bonds.

"*Participating Underwriter*" means E. J. De La Rosa & Co., Inc., the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” means Rule 15c-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

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, 2011 with the report for the 2009-10 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City will 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 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date if not available by that date. If the City’s fiscal year changes, it will give notice of such change in the same manner as for a Listed Event under Section 5(c).

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

(c) The Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a report with the City 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, which shall include financial statements of the City’s municipal water system (the “Water System”) 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 Annual Report Date, 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) Unless otherwise provided in the audited financial statements filed on or prior to the Annual Report Date, financial information and operating data with respect to the City and the Water System for the preceding fiscal year, in the form of updates to the tables and descriptions contained under the following headings in the Official Statement:

(i) Table 8, WATER SYSTEM, Summary of Water Accounts and Usage by User Type,

(ii) Table 11, WATER SYSTEM, Historical Revenues, Expenses and Changes in Retained Earnings, and

(iii) Table 12, WATER SYSTEM, Historical Debt Service Coverage.

(c) Any or all of the items listed in subsections (a) and (b) 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 will clearly identify each such other document so included by reference.

(d) 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.

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 events with respect to the Bonds, if material:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults.
- (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 or events affecting the tax-exempt status of the security.
- (7) Modifications to rights of security holders.
- (8) Contingent or unscheduled bond calls.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities.
- (11) Rating changes.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the City will, or will cause the Dissemination

Agent to, promptly file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Certificates pursuant to 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 Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent will be U.S. Bank National Association.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting

principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

(d) The Dissemination Agent shall not be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the 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. Duties, Immunities and Liabilities of Dissemination Agent.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Trustee, the Bond owners or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent may conclusively rely upon the Annual Report provided to it by the City as constituting the Annual Report required of the City in accordance with this Disclosure Certificate and shall have no duty or obligation to review such Annual Report. The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the City in a timely manner in a form suitable for filing with the Repositories. In accepting the appointment under this Disclosure Certificate, the Dissemination Agent is not acting in a fiduciary capacity to the Holders or Beneficial Owners of the Bonds, the City, the Participating Underwriter or any other party or person. No provision of this Disclosure Certificate shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability. The

Dissemination Agent shall be entitled to compensation for its services as Dissemination Agent and reimbursement for its out-of-pocket expenses, attorney's fees, costs and advances made or incurred in the performance of its duties under the Bonds and this Agreement in accordance with its written fee schedule provided to the City, as such fee schedule may be amended from time to time in writing. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act.

Section 13. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

To the Issuer:	City of Sunnyvale 650 West Olive Avenue Sunnyvale, CA 94088 Attention: Treasurer Fax: 408-737-4950
To the Dissemination Agent and Trustee	U.S. Bank National Association Mail Station: SF-CA-SFCT 1 California Street, Suite 1000 San Francisco, CA 94111 Attention: Corporate Trust Department Fax: 415-273-4591

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Trustee, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: _____, 2010

CITY OF SUNNYVALE

By: _____
Mary Bradley,
Director of Finance

AGREED AND ACCEPTED:
U.S. Bank National Association
as Dissemination Agent

By: _____
Title: _____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Sunnyvale

Name of Bond Issues: City of Sunnyvale
Water Revenue Bonds, Series 2010

Date of Issuance: _____, 2010

NOTICE IS HEREBY GIVEN that the City of Sunnyvale (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated as of _____, 2010 between the City and U.S. Bank National Association. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

U.S. Bank National Association
as Dissemination Agent

By: _____
Its: _____

cc: City of Sunnyvale

APPENDIX D

GENERAL INFORMATION ABOUT THE CITY OF SUNNYVALE AND SANTA CLARA COUNTY

The following information concerning the City and the County of Santa Clara is included only for the purpose of supplying general information regarding the area of the City. The information provided is the most recently available, but in some cases does not show current economic or demographic information, which may be materially different from the data presented. The Bonds are not a debt of the City, the County, 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.

General

The City is located 44 miles south of San Francisco on the San Francisco Bay peninsula, 10 miles northwest of San Jose. The City is home to Silicon Valley high-tech industry leaders in fields ranging from advanced satellite construction to pioneering biotechnology; from semiconductor research, design and manufacturing to leading edge telecommunications systems.

Population

The following chart indicates the change in population for the City, Santa Clara County and the State of California for the last five years.

CITY OF SUNNYVALE Population Estimates Calendar Years 2006 through 2010

Calendar Year	City of <u>Sunnyvale</u>	County of <u>Santa Clara</u>	State of <u>California</u>
2006	133,848	1,776,586	37,114,598
2007	135,514	1,805,314	37,559,440
2008	136,952	1,829,480	37,883,992
2009	138,819	1,857,516	38,255,508
2010	140,450	1,880,876	38,648,090

Source: State Department of Finance estimates (as of January 1)

Employment and Industry

The City is included in the San Jose Sunnyvale Santa Clara Metropolitan Statistical Area (MSA), which includes Santa Clara County. The County civilian labor force figures are shown in the following table. These figures are County-wide and may not necessarily accurately reflect employment trends in the City.

SAN JOSE SUNNYVALE SANTA CLARA METROPOLITAN STATISTICAL AREA Annual Average Labor Force and Industry Employment

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Civilian Labor Force [1]	844,500	854,300	876,500	899,100	902,800
Employment	798,600	815,300	834,800	844,600	802,900
Unemployment	45,900	38,900	41,700	54,500	100,000
Civilian Unemployment Rate	5.4%	4.6%	4.8%	6.1%	11.1%
<u>Wage and Salary Employment: [2]</u>					
Agriculture	6,300	6,200	6,700	6,100	5,700
Natural Resources and Mining	200	300	300	300	200
Construction	44,500	46,800	47,200	44,200	33,900
Manufacturing	164,900	163,700	166,700	168,000	155,700
Wholesale Trade	35,800	38,300	39,800	39,800	35,600
Retail Trade	83,900	85,800	86,400	84,400	78,900
Transportation, Warehousing and Utilities	13,100	13,000	13,500	13,500	12,000
Information	35,300	37,500	39,600	42,300	41,100
Finance and Insurance	21,300	22,100	21,800	20,200	18,700
Real Estate, Rental and Leasing	15,000	15,000	15,300	14,400	13,000
Professional and Business Services	165,800	172,000	178,300	178,900	161,900
Educational and Health Services	96,800	100,400	103,200	107,900	108,100
Leisure and Hospitality	72,800	75,200	76,800	78,100	74,300
Other Services	24,600	24,800	25,100	25,400	24,300
Federal Government	11,300	11,100	11,000	11,000	10,800
State Government	7,400	7,500	7,600	7,500	6,900
Local Government	77,200	77,900	78,500	79,400	80,400
Total All Industries [3]	876,300	897,400	917,900	921,000	861,300

[1] Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

[2] Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

[3] Totals may not add due to rounding.

Source: State of California Employment Development Department.

Largest Employers

The following tables list the largest private employers within the City and their estimated number of employees.

CITY OF SUNNYVALE Largest Private Employers June 30, 2008

<u>Employer</u>	<u>Employment</u>	<u>Type of Business</u>
Lockheed Martin Corporation	7,296	Space systems
Yahoo! Inc.	4,906	Online network of integrated services
Network Appliance Inc.	2,620	Storage and data management
Juniper Networks Inc.	2,187	Network Infrastructure
Spansion LLC	1,256	Flash memory
Northrop Grumman Marine Systems	1,200	Global defense system
Applied Materials Inc.	1,140	Semiconductor equipment manufacturer
West Valley Eng. Inc.	1,088	Engineering staffing service
Maxim Integrated Products	946	Analog and mixed-signal engineering
Palm Inc.	849	Mobile products

Source: City of Sunnyvale, 2009 Comprehensive Annual Financial Report (CAFR).

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for the City, the County of Santa Clara, the State and the United States for the period 2004 through 2008.

**CITY OF SUNNYVALE
EFFECTIVE BUYING INCOME
2004 through 2008**

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
2004	City of Sunnyvale	n/a	n/a
	Santa Clara County	\$ 47,476,338	\$62,614
	California	705,108,410	43,915
	United States	5,692,909,567	39,324
2005	City of Sunnyvale	\$ 3,949,363	\$63,817
	Santa Clara County	46,910,278	63,293
	California	720,798,106	44,681
	United States	5,894,663,364	40,529
2006	City of Sunnyvale	\$ 4,155,455	\$66,038
	Santa Clara County	49,261,000	65,458
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	City of Sunnyvale	\$ 4,420,005	\$68,530
	Santa Clara County	52,377,985	67,498
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	City of Sunnyvale	\$ 4,524,300	\$69,676
	Santa Clara County	53,987,635	68,929
	California	832,531,445	48,952
	United States	6,443,994,426	42,303

Source: Sales & Marketing Management Survey of Buying Power for years 2004; Claritas Demographics for 2005 through 2008.

Commercial Activity

During the first quarter of calendar year 2009, total taxable transactions in the City were reported to be \$466,653,000, or 21.56% lesser than total taxable transactions of \$594,929,000 that were reported in the City during the first quarter of calendar year 2008. A summary of historic taxable sales within the City during the past five years is shown in the following table. Annual figures are not yet available for 2009.

CITY OF SUNNYVALE Taxable Transactions (Dollars in thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2004	1,405	1,240,440	3,530	2,075,725
2005	1,320	1,294,868	3,401	2,195,178
2006	1,347	1,459,590	3,369	2,577,368
2007	1,320	1,573,007	3,320	2,691,023
2008	1,308	1,468,250	3,246	2,482,303

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

Building Permit Activity

The following table shows the number and value of building permits issued in the City during calendar years 2004 through 2008.

CITY OF SUNNYVALE Building Permit Valuation For Calendar Years 2004 through 2008 (Dollars in Thousands)

	2004	2005	2006	2007	2008
<u>Permit Valuation</u>					
New Single-family	\$58,874.2	\$34,272.7	\$54,557.5	\$56,154.3	\$57,517.1
New Multi-family	12,223.9	0.0	0.0	0.0	0.0
Res. Alterations/Additions	<u>30,673.8</u>	<u>44,207.2</u>	<u>44,983.1</u>	<u>38,459.4</u>	<u>45,020.7</u>
Total Residential	101,771.9	78,480.0	99,540.6	94,613.7	102,537.8
New Commercial	6,370.6	23,195.7	30,566.8	248,328.8	222,094.7
New Industrial	16,000.0	0.0	56,873.3	47,958.5	1,095.0
New Other	1,908.7	1,675.4	2,003.3	3,033.5	19,488.7
Com Alterations/Additions	<u>51,696.6</u>	<u>113,736.9</u>	<u>108,046.9</u>	<u>158,298.9</u>	<u>170,190.9</u>
Total Nonresidential	75,976.1	138,608.0	197,490.2	457,619.8	412,869.3
<u>New Dwelling Units</u>					
Single Family	323	170	264	317	355
Multiple Family	<u>89</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	412	170	264	317	355

Source: Construction Industry Research Board, Building Permit Summary.

APPENDIX E
FORM OF BOND COUNSEL OPINION

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 Standard & Poor's highest rating: AAA. 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 and www.dtc.org. *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.



650 California Street
18th Floor
San Francisco, CA 94108
t. 415.391.5780
f. 415.391.5784

May 3, 2010

Members of the City Council
City of Sunnyvale

Re: CITY OF SUNNYVALE
Wastewater Revenue Bonds, Series 2010

Ladies and Gentlemen:

In connection with proposed issuance of the bonds captioned above by the City of Sunnyvale, a Preliminary Official Statement and other documents will be presented to your Council for your consideration and approval.

The Preliminary Official Statement for the Bonds is the most important document for the members of the Council to review. The Preliminary Official Statement discloses information with respect to, among other things,

- (i) the estimated sources and uses of funds relating to the Bonds,
- (ii) the purposes for which the proceeds of the Bonds will be used (contributing toward the refinancing of the outstanding 2001 water and wastewater bonds, and financing new improvements to the wastewater system, including improvements to the Water Pollution Control Plant),
- (iii) the terms relating to the Bonds (interest rates, redemption terms, etc.),
- (iv) the security for repayment of the Bonds (here, debt service on the Bonds is payable solely from wastewater system revenues), and
- (v) information regarding the wastewater system, the wastewater system's financial condition, and the City's finances.

The members of the City's financing team have participated in the preparation and review of the Preliminary Official Statement and the other documents and provided their input and comments, where applicable, in order that the documents comply with applicable securities laws requirements. The securities laws require that a Preliminary Official Statement (i) not contain any misleading information and (ii) not omit any material information. While it is important that the City's staff members and the financing team have assisted in the preparation and review of the Preliminary Official Statement, the Preliminary Official Statement is the City's document, and ultimate responsibility for the Preliminary Official Statements rests with the City Council.



The Securities and Exchange Commission has emphasized the obligations of public officials to review the Preliminary Official Statements prepared for their bond issues. In a written report following the Orange County bankruptcy, the SEC stated in a report that “public officials of the issuer who have ultimate authority to approve the issuance of securities and related disclosure documents have responsibilities under the federal securities laws as well. In authorizing the issuance of securities and related disclosure documents, a public official may not authorize disclosure that the official knows to be false; nor may a public official authorize disclosure while recklessly disregarding facts that indicate that there is a risk that the disclosure may be misleading.” While the members of the financing team have discussed a range of topics relating to this bond financing, there is the possibility that, as elected officials, you might be aware of something, or have a different perspective on something, that should be considered and disclosed in the Preliminary Official Statement.

Some of the questions members of the City Council should ask themselves in reviewing the Preliminary Official Statement include:

1. Is there information about the wastewater system and its financial condition, or the City and its financial condition, that is not disclosed in the Preliminary Official Statement but would be important for an investor to know before purchasing the Bonds?
2. Is there any pending or threatened litigation against the City that could have a negative impact on the wastewater system or its financial condition?

Since you have a different perspective and knowledge base than members of the financing team, it is important that you review the Preliminary Official Statement and that your input and questions be considered in finalizing the documents. The City’s staff and the financing team are available to review and respond to questions and comments you may have with respect to information included in the Preliminary Official Statement. Please note that the proposed resolutions approving the Preliminary Official Statement delegate authority to the City staff to make changes to the Preliminary Official Statement following approval by your Council but before the Preliminary Official Statement is printed and distributed to investors.

If you have any questions or suggestions, please do not hesitate to contact me at 415-391-5780.

Respectfully submitted,

/s/ Scott R. Ferguson
JONES HALL,
A Professional Law Corporation

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2010**NEW ISSUE - FULL BOOK-ENTRY****RATINGS: Standard & Poor's: "____"**
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 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, and such interest is exempt from California personal income taxes; 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. See "TAX MATTERS."

\$ _____*
CITY OF SUNNYVALE
Wastewater Revenue Bonds,
Series 2010

[CITY LOGO]

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

Authority for Issuance. The bonds captioned above (the "Bonds") are being issued by the City of Sunnyvale (the "City") under a resolution adopted by the City Council on _____, 2010, and an Indenture of Trust dated as of June 1, 2010 (the "Indenture"), between the City and U.S. Bank National Association, as trustee for the Bonds (the "Trustee"). Under this authority, the Bonds may be issued in a principal amount not to exceed \$40,000,000. See "THE BONDS – Authority for Issuance."

Use of Proceeds. The Bonds are being issued to provide funds to (i) construct and acquire certain improvements to the City's system for the collection, treatment, disposal or reuse of wastewater (the "Wastewater System"), (ii) prepay a portion of the City's obligation to make installment payments under an Installment Sale Agreement dated as of December 1, 2001, by and between the Sunnyvale Financing Authority (the "Authority") and the City, relating to the Wastewater System; the Authority will use these amounts to refund and defease on an advance basis the portion of the outstanding Authority bonds captioned "Sunnyvale Financing Authority Water and Wastewater Revenue Bonds, Series 2001" relating to the Wastewater System (iii) provide a debt service reserve account for the Bonds, and (iv) pay the costs of issuing the Bonds. See "FINANCING PLAN."

Security for the Bonds. Under the Indenture, the Bonds are payable from and secured by a first pledge of and lien on "Net Revenues" of the Wastewater System, which are generally defined as "Gross Revenues" received from the Wastewater System minus the amount required to pay all "Operation and Maintenance Costs" of the Wastewater System. The Bonds are also secured by certain funds on deposit under the Indenture. See "SECURITY FOR THE BONDS."

Bond Terms; Book-Entry Only. The Bonds will bear interest at the rates shown on the inside cover page, payable semiannually on April 1 and October 1 of each year, commencing on October 1, 2010, and will be issued in fully registered form without coupons in the denomination of \$5,000 or any integral multiple of \$5,000. The Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the Bonds will not receive certificates representing their interests in the Bonds. Payments of the principal of, premium, if any, and interest on the 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 Bonds. See "THE BONDS – General Provisions."

Redemption. The Bonds are subject to optional redemption, mandatory redemption from insurance, sale or condemnation proceeds, and mandatory sinking fund redemption prior to maturity. See "THE BONDS – Redemption."

NEITHER THE BONDS, NOR THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF OR INTEREST THEREON, CONSTITUTE A DEBT OR A LIABILITY OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE BONDS ARE SECURED SOLELY BY THE PLEDGE OF REVENUES AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE CITY.

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 BONDS.

The Bonds are offered when, as and if issued and received by the Underwriter and subject to the 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. Certain legal matters will be passed upon for the City by the City Attorney and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California. It is anticipated that the Bonds will be delivered in book-entry form through the facilities of DTC on or about June __, 2010.

De La Rosa

The date of this Official Statement is: May ____, 2010.

* Preliminary; subject to change.

MATURITY SCHEDULE*

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

<u>Maturity</u> (October 1)	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP†</u>
--------------------------------	-----------------------------------	--------------------------------	--------------	--------------	---------------

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

† Copyright 2010, American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. Neither the City nor the Underwriter assume any responsibility for the accuracy of these CUSIP data.

* Preliminary; subject to change

CITY OF SUNNYVALE

CITY COUNCIL

Melinda Hamilton, *Mayor*
Christopher R. Moylan, *Vice Mayor*
Otto Lee, *Councilmember*
Ron Swegles, *Councilmember*
Anthony Spitaleri, *Councilmember*
David Whittum, *Councilmember*
Jim Griffith, *Councilmember*

CITY OFFICIALS

Gary Luebbers, City Manager
Mary J. Bradley, Director of Finance
Marvin A. Rose, Director of Public Works
David E. Kahn, City Attorney

BOND COUNSEL AND DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

FINANCIAL ADVISOR

Ross Financial
San Francisco, California

UNDERWRITER'S COUNSEL

Stradling Yocca Carlson & Rauth, a Professional Corporation
Sacramento, California

TRUSTEE

U.S. Bank National Association
San Francisco, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the 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 to be construed as a contract with the purchasers of the Bonds.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the City, in any press release and in any oral statement made with the approval of an authorized officer of the City, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the City since the date hereof.

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Limited Scope of Information. The City has obtained certain information set forth herein from sources which are believed to be reliable. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. All summaries of or references to the documents referred to in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All capitalized terms used herein, unless noted otherwise, have the meanings given in the Indenture.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Stabilization of Prices. In connection with this offering, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

TABLE OF CONTENTS

INTRODUCTION	1	Wastewater System Historical Revenues, Expenses and Debt Service Coverage	32
FINANCING PLAN	3	Projected Wastewater System Revenues, Expenses and Debt Service Coverage	34
The 2010 Wastewater Project	3		
Refunding Plan	3		
Estimated Sources and Uses of Funds	5		
DEBT SERVICE SCHEDULE	6	ENVIRONMENTAL ISSUES AND REGULATORY MATTERS	36
THE BONDS	7	Background	36
Authority for Issuance	7	Regulatory Trends	36
General Provisions	7	Other Regulatory Agencies and Laws Affecting the Wastewater System	37
Transfer, Registration and Exchange	8		
Redemption	8	CITY FINANCES	38
Book-Entry Only System	9	The City	38
SECURITY FOR THE BONDS	10	Budgeting and Planning Process	38
Revenues; Pledge of Net Revenues	10	Accounting Policies	38
Limited Obligation	11	Financial Statements	39
Receipt and Allocation of Gross Revenues	11	Investment Policy and Investment Portfolio	39
Reserve Account	13	Employee Relations	40
Revenue Stabilization Fund	13	Insurance	40
Covenants Regarding Wastewater System		Employee Retirement System	40
Rates and Charges	14	Other Post-Employment Benefits	41
Issuance of Additional Debt	15	BOND OWNERS' RISKS	44
THE CITY UTILITY ENTERPRISES	17	Net Revenues; Rate Covenant	44
Enterprise Management	17	Operation and Maintenance Expenses	44
Enterprise Funds	17	Limitations on Remedies Available to Bond Owners	44
Contingency Reserve and Rate Stabilization Reserve	17	Seismic Considerations	45
Utility Rate Setting	18	Loss of Tax-Exemption	45
Utility Billing and Collection Procedures	19	Proposition 218	45
Budgeting and Planning Process	19	Environmental Regulation	47
THE WASTEWATER SYSTEM	21	Secondary Market for Bonds	47
History	21	Future Parity Obligations	48
Service Area	22	TAX MATTERS	48
Management	22	CERTAIN LEGAL MATTERS	49
Wastewater Collection and Treatment System	22	LITIGATION	50
Capital Improvement Program	24	RATINGS	50
Wastewater Rates, Fees and Charges	25	CONTINUING DISCLOSURE	50
Customer Base	27	UNDERWRITING	51
Outstanding and Anticipated Wastewater System Obligations	29	PROFESSIONAL SERVICES	51
Wastewater System Historical Fund Balances	31	VERIFICATION OF MATHEMATICAL COMPUTATIONS	51
APPENDIX A: SUMMARY OF INDENTURE			
APPENDIX B: AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2009			
APPENDIX C: FORM OF CONTINUING DISCLOSURE CERTIFICATE			
APPENDIX D: GENERAL INFORMATION REGARDING THE CITY OF SUNNYVALE AND SANTA CLARA COUNTY			
APPENDIX E: FORM OF OPINION OF BOND COUNSEL			
APPENDIX F: DTC AND THE BOOK-ENTRY ONLY SYSTEM			

OFFICIAL STATEMENT

\$ _____ *

CITY OF SUNNYVALE
Wastewater Revenue Bonds,
Series 2010

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. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

Capitalized terms used but not defined in this Official Statement have the meanings set forth in the Indenture (as defined below). See "APPENDIX A."

Authority for Issuance. The City of Sunnyvale (the "**City**") is issuing the bonds captioned above (the "**Bonds**") under the following:

- (a) the City of Sunnyvale Municipal Utilities Revenue Bond Law (the "**Bond Law**"), which was enacted by the City Council (the "**City Council**") on April 6, 2010,
- (b) a resolution adopted by the City Council on _____, 2010 (the "**City Resolution**"), and
- (c) an Indenture of Trust dated as of June 1, 2010 (the "**Indenture**"), between the City and U.S. Bank National Association, as trustee (the "**Trustee**").

Form of Bonds; Book-Entry Only. The Bonds will be issued in fully registered form, registered in the name of The Depository Trust Company, New York, New York ("DTC"), or its nominee, which will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing the Bonds that are purchased. See "THE BONDS - Book-Entry Only System" and "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Purpose of the Bonds. The Bonds are being issued to provide funds to:

- (i) construct and acquire certain improvements to the City's system for the collection, treatment, disposal or reuse of wastewater (the "**Wastewater System**"),

* Preliminary; subject to change.

(ii) make a deposit in escrow to prepay a portion of the City's obligation to make installment payments under an Installment Sale Agreement dated as of December 1, 2001, by and between the Sunnyvale Financing Authority (the "**Authority**") and the City (the "**2001 Installment Sale Agreement**"), relating to the Wastewater System; the Authority will use these amounts to refund and defease on an advance basis the portion of the outstanding Authority bonds captioned "Sunnyvale Financing Authority Water and Wastewater Revenue Bonds, Series 2001" (the " **2001 Bonds**") relating to the Wastewater System (the " **2001 Wastewater Bonds**"),

(iii) provide a debt service reserve account for the Bonds, and

(iv) pay the costs of issuing the Bonds.

See "FINANCING PLAN."

Security for the Bonds and Pledge of Net Revenues. Under the Indenture, the Bonds are payable from and secured by a first pledge of and lien on "Net Revenues" of the Wastewater System, which are generally defined as "Gross Revenues" received from the Wastewater System minus the amount required to pay all "Operation and Maintenance Costs" of the Wastewater System. The Bonds are also secured by certain funds on deposit under the Indenture. See "SECURITY FOR THE BONDS."

Rate Covenants. The City will make the certain covenants in the Indenture with respect to rates and charges for the Wastewater System, all as further described under "SECURITY FOR THE BONDS – Rate Covenants."

Future Parity Obligations. The City may issue or incur additional obligations and bonds on a parity with or subordinate to the Bonds, provided that the conditions set forth in the Indenture are met. See "SECURITY FOR THE BONDS – Issuance of Additional Debt" and "WASTEWATER SYSTEM – Outstanding and Anticipated Wastewater System Obligations."

Reserve Account. A Reserve Account will be established and available if there are insufficient amounts in the Bond Fund to make payment on the Bonds. Upon delivery of the Bonds, the City will meet the "**Reserve Requirement**" (described herein) by depositing a portion of the proceeds of the Bonds with the Trustee at closing. See "SECURITY FOR THE BONDS – Reserve Account."

Risks of Investment. The Bonds are repayable only from certain money available to the City from the Wastewater System. For a discussion of some of the risks associated with the purchase of the Bonds, see "BOND OWNERS' RISKS."

NEITHER THE BONDS, NOR THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF OR INTEREST THEREON, CONSTITUTE A DEBT OR A LIABILITY OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE BONDS ARE SECURED SOLELY BY THE PLEDGE OF REVENUES AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE CITY.

FINANCING PLAN

The 2010 Wastewater Project

The City intends to use a portion of the proceeds of the Bonds to finance the cost of the “**2010 Wastewater Project**,” which is defined in the Indenture as (i) the improvements to be financed with the proceeds of the Bonds deposited in the Project Fund, and (ii) any other capital project of direct benefit to the Wastewater System designated by the City.

The City currently anticipates that the 2010 Wastewater Project will consist generally of storm drain improvements, improvements to sewer system mains and trunk lines, and improvements to the City’s Water Pollution Control Plant, mainly in infrastructure related to primary and secondary wastewater treatment.

The City currently anticipates that the 2010 Wastewater Project will focus on three distinct areas of the Wastewater System. The City has undertaken a significant effort to replace aging sewer and storm water collection infrastructure throughout the City, focusing on main and trunk sewer and stormwater pipelines. Additionally, work is underway to renovate the City’s aging Water Pollution Control Plant’s primary and secondary treatment systems, with the majority of the effort focusing on the digestion and oxidation pond secondary treatment infrastructure.

The 2010 Wastewater Project is being carried out as part of the City’s capital improvement program. See “THE WASTEWATER SYSTEM – Capital Improvement Program” for further information on the planned improvements to the Wastewater System.

Refunding Plan

The 2001 Bonds were issued on December 19, 2001, in the total original principal amount of \$32,115,000, and are currently outstanding in the principal amount of \$21,655,000, of which \$14,459,967 is currently allocated to the Wastewater System and \$7,195,033 is currently allocated to the City’s municipal water system (the “**Water System**”). The 2001 Bonds were secured by and payable from installment payments made by the City under the 2001 Installment Sale Agreement.

The City will apply a portion of the proceeds from the sale of the Bonds to establish an irrevocable escrow to prepay the City’s obligation to make the installment payments under the 2001 Installment Sale Agreement allocated to the Wastewater System. These amounts will be used by the Authority to refund and legally defease, on an advance basis, the 2001 Wastewater Bonds, which consist of that portion of the 2001 Bonds relating to the Wastewater System.

Concurrently with the issuance of the Bonds, the City is planning to issue its bonds captioned “City of Sunnyvale Water Revenue Bonds, Series 2010” (the “**2010 Water Bonds**”), a portion of the proceeds of which will be used to refund and defease the 2001 Bonds relating to the Water System. Upon the issuance of the Bonds and the 2010 Water Bonds, all of the City’s installment payments under the 2001 Installment Sale Agreement will be prepaid, and all of the 2001 Bonds will be defeased.

A portion of the proceeds of the Bonds will be transferred to U.S. Bank National Association, acting as escrow agent (the “**Escrow Bank**”) for the 2001 Bonds under an Escrow Deposit and Trust Agreement dated as of June 1, 2010 (the “**Escrow Agreement**”) by and among the City, the Authority and the Escrow Bank.

The amounts deposited from the proceeds of the Bonds, together with a portion of the proceeds of the 2010 Water Bonds and certain other available moneys, will be held by the Escrow Bank under the Escrow Agreement and invested in noncallable Federal Securities (as described in the Escrow Agreement) consisting of United States Treasury Securities—State and Local Government Series (SLGS).

The principal of and interest on these deposits, when received, will be sufficient to (a) pay regularly scheduled debt service on the 2001 Bonds on October 1, 2010, and April 1, 2011, and (b) redeem the 2001 Bonds maturing on and after October 1, 2011, on October 1, 2011, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest thereon, without premium.

The mathematical accuracy of these deposits, and of the sufficiency thereof, will be verified by an independent certified public accountancy firm. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

Estimated Sources and Uses of Funds

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

Sources:

Principal Amount of Bonds	\$
<i>Plus</i> Original Issue Premium/ <i>Less</i> Original Issue Discount	
<i>Plus</i> Funds Related to 2001 Bonds	
<i>Less</i> Underwriter's Discount	
<i>TOTAL SOURCES</i>	\$

Uses:

Deposit to Reserve Account of the Bond Fund [1]	\$
Deposit to Project Fund [2]	
Deposit to Costs of Issuance Fund [3]	
Deposit to Escrow Fund [4]	
<i>TOTAL USES</i>	\$

[1] Equal to the Reserve Requirement with respect to the Bonds at Closing. See "SECURITY FOR THE BONDS – Reserve Account."

[2] Represents funds to be used to finance the costs of the 2010 Wastewater Project. See "– The 2010 Wastewater Project" above.

[3] Represents funds to be used to pay Costs of Issuance, which include legal fees, financial advisor's fee, printing costs, rating agency fees and other miscellaneous expenses.

[4] Represents funds to be transferred to the Escrow Bank and deposited under the Escrow Agreement, which will be used to refund and defease the 2001 Wastewater Bonds. See "– Refunding Plan" above.

DEBT SERVICE SCHEDULE

The table below shows annual debt service payments on the Bonds

<u>Year Ending</u> <u>October 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Debt Service</u>
--	------------------	-----------------	-------------------------------------

Total:

THE BONDS

This section provides summaries of the terms of the Bonds and certain provisions of the Indenture. See "APPENDIX A – Summary of Indenture" 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 Bonds are being issued under the Bond Law, the City Resolution (which was adopted by the City Council on _____, 2010), and the Indenture. Under the City Resolution, the Bonds may be issued in a principal amount not to exceed \$40,000,000.

General Provisions

Bond Terms. The 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 Bonds will mature in the amounts and on the dates, and bear interest at the annual rates, set forth on the inside cover page of this Official Statement.

Payments of Principal and Interest. Interest on the Bonds will be payable on April 1 and October 1 in each year, beginning October 1, 2010 (each an "Interest Payment Date").

While the Bonds are subject to the book-entry system, the principal, interest and any prepayment premium with respect to the Bonds will be paid by the Trustee to DTC for subsequent disbursement to beneficial owners of the Bonds. See "– Book-Entry Only System" below.

Interest on the 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 Bonds with respect to which written instructions have been filed with the Trustee prior to the Record Date, by wire transfer, at the address of such Owner as it appears on the Bond Registration Books.

Principal of and premium (if any) on any Bond will be paid upon presentation and surrender thereof at the Trust Office of the Trustee in St. Paul, Minnesota.

Both the principal of and interest and premium (if any) on the Bonds will be payable in lawful money of the United States of America.

Calculation of Interest. Each Bond will bear interest based on a 360-day year comprised of twelve 30-day months from the Interest Payment Date next preceding the date of authentication thereof, unless the date of authentication is an Interest Payment Date, in which event such interest is payable from such date of authentication, and unless the date of authentication is on or before September 15, 2010, in which event such interest is payable from the Closing Date; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond will bear interest from the date to which interest has previously been paid or made available for payment thereon in full.

Transfer, Registration and Exchange

See “APPENDIX A – Summary of Indenture” for a description of the provisions of the Indenture relating to the transfer, registration and exchange of the Bonds.

Redemption*

Optional Redemption. The Bonds maturing on or before October 1, 20__ are not subject to optional redemption prior to maturity. The Bonds maturing on or after October 1, 20__ are subject to redemption prior to their respective maturity dates, at the option of the City, as a whole or in part, on any date on or after October 1, 20__, from any source of available funds, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium. If less than all of the Bonds are redeemed, the maturities of those Bonds to be redeemed will be selected by the City, and within each maturity, the Bonds to be redeemed shall be selected by lot.

Mandatory Sinking Fund Redemption. The Bonds maturing on October 1, 20__ are subject to mandatory redemption in part from Sinking Fund Installments to be made by the City on October 1, 20__ and on each October 1 thereafter up to and including October 1, 20__, at a redemption price equal to 100% of the principal amount thereof plus accrued interest, if any, to the redemption date, without premium, as follows:

Redemption Date <u>(October 1)</u>	<u>Principal Amount</u>
---------------------------------------	-------------------------

Notice of Redemption. Unless waived by any Owner of Bonds to be redeemed, notice of any redemption of the 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 Bond or 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 Bonds.

Rescission of Notice of Redemption. The City has the right to rescind any notice of the optional redemption of Bonds given under the Indenture by written notice to the Trustee on or prior to the dated fixed for redemption.

Any notice of optional redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default.

The City and the Trustee have no liability to the Bond Owners or any other party related to or arising from such rescission of notice of redemption. The Trustee will mail notice of such rescission of notice of redemption in the same manner as the original notice of redemption was sent under the Indenture.

* Preliminary; subject to change.

Consequences of Redemption Notice. If notice of redemption has been given as required by the Indenture, the Bonds or portions of Bonds so to be redeemed will, on the redemption date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the City defaults in the payment of the Redemption Price) such Bonds or portions of Bonds will cease to have interest accrue thereon.

Upon surrender of such Bonds for redemption in accordance with the redemption notice, such Bonds will be paid by the Trustee at the Redemption Price. Installments of interest due on or prior to the redemption date will be payable as provided in the Indenture for payment of interest.

Upon surrender for any partial redemption of any Bond, there will be prepared for the Owner a new Bond or Bonds of the same maturity in the amount of the unredeemed principal. All Bonds that have been redeemed will be cancelled and destroyed by the Trustee and will not be redelivered.

Neither the failure of any Bond Owner to receive any notice so mailed nor any defect therein will affect the sufficiency of the proceedings for redemption of any Bonds nor the cessation of accrual of interest thereon.

Purchase of Bonds in lieu of Redemption. In lieu of mandatory sinking fund redemption of any Bonds, amounts on deposit in the Redemption Account may also be used and withdrawn by the City at any time for the purchase of such Bonds at public or private sale as and when and at such prices (including brokerage and other charges and including accrued interest) as the City may in its discretion determine. The par amount of any of such Bonds so purchased by the City in any twelve-month period ending on August 1 in any year will be credited towards and will reduce the par amount of such Bonds required to be redeemed through mandatory sinking fund redemption on the next succeeding October 1.

Book-Entry Only System

The Bonds will be issued as fully registered bonds in book-entry only form, registered in the name of Cede & Co. as nominee of DTC, and will be available to ultimate purchasers under the book-entry system maintained by DTC. While the Bonds are subject to the book-entry system, the principal, interest and any prepayment premium with respect to a Bond will be paid by the Trustee to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the Bonds.

Purchasers of the Bonds will not receive certificates representing their interests therein, which will be held at DTC.

See “APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM” for further information regarding DTC and the book-entry system.

SECURITY FOR THE BONDS

The general fund of the City is not liable and neither the credit nor the taxing power of the City is pledged for the payment of the principal of and interest on the Bonds. The Owners of the Bonds may not compel the exercise of the taxing power by the City or the forfeiture of its property. The principal of and interest on the Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of their income, receipts, or revenues except the Net Revenues and other amounts pledged under the Indenture.

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

Revenues; Pledge of Net Revenues

Pledge of Net Revenues. Under the Indenture, the City pledges to the Trustee, for the benefit of the Owners, the Net Revenues of the Wastewater System. The Net Revenues of the Wastewater System may not be used for any other purpose while any of the Bonds remain Outstanding, except that out of Net Revenues of the Wastewater System there may be apportioned and paid such sums for such purposes, as are expressly permitted by the Indenture.

This pledge will constitute a first, direct and exclusive charge and lien on the Net Revenues of the Wastewater System for the payment of the principal or Redemption Price of and interest on the Bonds.

Definition of Net Revenues. "Net Revenues" are defined in the Indenture, for any period, as all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period.

"Gross Revenues" are defined in the Indenture, for any period of computation, as all Charges received for, and all other 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, including but not limited to

- (a) all Charges received by the City for use of the Wastewater System,
- (b) all receipts derived from the investment of funds held by the City or the Trustee under the Indenture,
- (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 by the Wastewater System pursuant to contracts with the City.

"Charges" are defined in the Indenture as fees (including connection fees), tolls, assessments, rates and rentals prescribed under the law of the State by the City Council for the services and facilities of the Wastewater System furnished by the City.

The term “Gross Revenues” does *not* include (i) customers’ deposits or any other deposits subject to refund until such deposits have become the property of the City, (ii) the proceeds of any ad valorem property taxes levied to pay general obligation bond indebtedness of the City with respect to the Wastewater System, and (iii) special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Wastewater System.

“Operation and Maintenance Costs” is defined in the Indenture as the reasonable and necessary costs paid 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.

The term “Operation and Maintenance Costs” does *not* include (i) administrative costs which the City is required to pay under the Indenture, (ii) payments of debt service on bonds, notes or other obligations issued by the City with respect to the Wastewater System, (iii) depreciation, replacement and obsolescence charges or reserves therefor, and (iv) amortization of intangibles or other bookkeeping entries of a similar nature.

Limited Obligation

The Net Revenues of the Wastewater System constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the Bonds. The general fund of the City is not liable and the credit or taxing power of the City is not pledged for the payment of the principal or Redemption Price of and interest on the Bonds.

The Owner of the Bonds may not compel the exercise of the taxing power by the City or the forfeiture of its property. The principal or Redemption Price of and interest on the Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Net Revenues of the Wastewater System.

Receipt and Allocation of Gross Revenues

Wastewater Revenue Fund. Under the Indenture, the City covenants and agrees that all Gross Revenues, when and as received, will be held by the City in trust thereunder and will be deposited by the City in the Wastewater Revenue Fund (which has heretofore been created and now exists in the City Treasury) and will be accounted for through and held in trust in the Wastewater Revenue Fund, and the City will only have such beneficial right or interest in any of such money as is provided in the Indenture. All such Gross Revenues will be transferred, disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and will be accounted for separately and apart from all other money, funds, accounts or other resources of the City.

Allocation of Gross Revenues. All Gross Revenues shall be held in trust by the City in the Wastewater Revenue Fund and shall be applied, transferred, used and withdrawn only for the following purposes:

Operating Costs. The City will first pay from the moneys in the Wastewater Revenue Fund the budgeted Operations and Maintenance Costs as such Costs become due and payable.

Debt Service Fund. On or before the first Business Day prior to each Interest Payment Date, the City will transfer from the Wastewater Revenue Fund to the Trustee for deposit in the Debt Service Fund an amount equal to the aggregate amount of interest to become due and payable on all Outstanding Bonds on the next succeeding Interest Payment Date, pro rata with any deposits required to be made with respect to interest on any other Parity Bonds in accordance with the terms of the Parity Bonds Instrument under which such Parity Bonds are issued.

On or before the first Business Day prior to each Principal Installment Date, the City will transfer from the Wastewater Revenue Fund to the Trustee for deposit in the Debt Service Fund an amount equal to the aggregate amount of Principal Installments (including any Sinking Fund Installments) becoming due and payable on all Outstanding Bonds on the next succeeding Principal Installment Date, pro rata with any deposits required to be made with respect to principal on any other Parity Bonds in accordance with the terms of the Parity Bonds Instrument under which such Parity Bonds are issued.

All interest earnings and profits or losses on the investment of amounts in the Debt Service Fund will be deposited in or charged to the Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Installment Date upon all Outstanding Bonds.

Reserve Account. After making the payments, allocations and transfers described above, if the balance in the Reserve Account is less than the Reserve Requirement, the deficiency will be restored by transfers from the first moneys that become available in the Wastewater Revenue Fund to the Trustee for deposit in the Reserve Account, such transfers to be made from the sources and during the time period specified in the Indenture.

Surplus. As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner described above, any moneys remaining in the Wastewater Revenue Fund may at any time be treated as surplus and applied as provided in the Indenture.

Application of Debt Service Fund. (a) The Trustee will withdraw from the Debt Service Fund, prior to each Interest Payment Date, an amount equal to the Interest Requirement payable on such Interest Payment Date, and will cause the same to be applied to the payment of interest when due.

(b) The Trustee will withdraw from the Debt Service Fund, prior to each Principal Installment Date, an amount equal to the sum of: (i) the principal amount of the Outstanding Serial Bonds, if any, maturing on said Principal Installment Date; and (ii) the Sinking Fund

Installments on the Outstanding Term Bonds, if any, scheduled to be paid on Term Bonds on said Principal Installment Date, and will cause the same to be applied to the payment of the principal of and Sinking Fund Installment Payments on the Bonds when due.

(c) All withdrawals and transfers from the Debt Service Fund will be made not earlier than one day prior to the Interest Payment Date or Principal Installment Date to which they relate, and the amount so withdrawn or transferred will, for the purposes of the Indenture, be deemed to remain in and be part of the appropriate Account until such Interest Payment Date or Principal Installment Date.

Reserve Account

Establishment of Reserve Account. On the Closing Date, the City will establish the Reserve Account, as an account of the Debt Service Fund, to be held by the Trustee in trust for the benefit of the City and the Owners of the Bonds, and applied solely as provided in the Indenture. The Reserve Account will be held in trust as a reserve for the payment when due of Debt Service on Bonds on behalf of the City.

The Reserve Account will be funded in an amount equal to the “**Reserve Requirement**,” which is defined in the Indenture as an amount equal to 50% of Maximum Annual Debt Service on the Bonds and any Parity Bonds issued in the future that the City elects to secure, in part, with funds on hand in the Reserve Account (collectively, “**Common Reserve Account Bonds**”); provided that, in no event may such amount exceed the lesser of: (i) 10% of the Outstanding principal amount of the Common Reserve Account Bonds, or (ii) 125% of Average Annual Debt Service on the Common Reserve Account Bonds.

Cross-Collateralization with Future Parity Bonds. In connection with the issuance of any Parity Bonds, the City may (but is not required to) deposit into the Reserve Account an amount of funds required to increase the balance in the Reserve Account and all accounts therein to an amount equal to the Reserve Requirement on the Series 2010 Bonds and the proposed issue of Parity Bonds which are to be secured by the Reserve Account. In that event, amounts in the Reserve Account shall constitute a common reserve for the equal and proportionate security of the Series 2010 Bonds and such issue of Parity Bonds. Any deposit made under this provision of the Indenture may be made into one or more separate accounts within the Reserve Account, all of which will be accounted for as part of a common reserve.

Application of Reserve Account. If at any time there are not sufficient amounts in the Debt Service Fund to make payment of Principal Installments or Redemption Price of or interest on the Common Reserve Account Bonds, the Trustee will provide notice of such fact to the City (by telephone, confirmed in writing, provided that no such notice will be required to be given with respect to a withdrawal of amounts in excess of the Reserve Requirement or of withdrawals in connection with the refunding of the Common Reserve Account Bonds in whole or in part) and withdraw from the Reserve Account and pay into the appropriate Fund or Account the amount of the deficiency.

Any amounts in the Reserve Account in excess of the Reserve Requirement (which are derived from interest on investments) will, on October 2 of each year, be paid by the Trustee to the City for deposit in the Wastewater Revenue Fund.

Revenue Stabilization Fund

The City has the right at any time to establish a 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 into the Revenue Stabilization Fund from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien securing the Bonds and any Parity Bonds, as the City may determine.

The City may, but is not required to, withdraw from any amounts on deposit in the Revenue Stabilization Fund and deposit such amounts in the Wastewater Revenue Fund in any Fiscal Year for the purpose of paying Debt Service coming due and payable in such Fiscal Year. Amounts so transferred from the Revenue Stabilization Fund to the Wastewater Revenue 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 Revenue Fund. Amounts on deposit in the Revenue Stabilization Fund will not be pledged to or otherwise secure the Bonds or any Parity Bonds. The City has the right at any time to withdraw any or all amounts on deposit in the Revenue Stabilization Fund and apply such amounts for any lawful purposes of the City.

For purposes of the calculations to be made regarding the rate covenants and the tests for issuing additional bonds under the Indenture, (i) 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 the transfer occurred, and (ii) to the extent that the City appropriates funds from the Revenue Stabilization Fund into the Wastewater Revenue Fund, the City may count the funds so transferred as Gross Revenues in the Fiscal Year in which the transfer occurs. See “–Covenants Regarding Wastewater System Rates and Charges” and “–Issuance of Additional Debt” below.

Covenants Regarding Wastewater System Rates and Charges

Sum Sufficient. Under the Indenture, the City is required to fix, prescribe, revise and collect Charges for 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:

- (1) all Operations and Maintenance Costs of the Wastewater System estimated by the City to become due and payable in such Fiscal Year;
- (2) the Debt Service;
- (3) all other payments required for compliance with the Indenture and the instruments pursuant to which any Parity Bonds relating to the Wastewater System are issued; and
- (4) all payments required to meet any other obligations of the City that are charges, liens, encumbrances upon or payable from the Gross Revenues of the Wastewater System or the Net Revenues of the Wastewater System.

Coverage Covenant. In addition, under the Indenture the City is required to fix, prescribe, revise and collect Charges for the Wastewater System during each Fiscal Year that

are sufficient to yield Net Revenues of the Wastewater System at least equal to 120% of Debt Service in such Fiscal Year for Bonds that have a lien on such Net Revenues.

Issuance of Additional Debt

Parity Bonds. In addition to the Bonds, the City may, by Parity Bonds Instrument, issue or incur other loans, advances or indebtedness payable from Net Revenues to provide financing for the Wastewater System, in such principal amount as may be determined by the City. The City may issue or incur any such Parity Bonds subject to the following specific conditions:

(a) The City must be in compliance with all covenants set forth in the Indenture.

(b) The Net Revenues of the Wastewater System, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year, or any more recent 12-month period selected by the City ending not more than 60 days before the adoption of the Parity Bonds Instrument under which such Parity Bonds are issued, as shown by the books of the City, plus, at the option of the City, the Additional Revenues, shall at least equal 120% of Maximum Annual Debt Service, with Maximum Annual Debt Service calculated on all Bonds to be Outstanding immediately subsequent to the issuance of such Parity Bonds which have a lien on Net Revenues.

(c) The Parity Bonds Instrument providing for the issuance of such Parity Bonds must provide that the proceeds of such Parity Bonds will be applied to the acquisition, construction, improvement, financing or refinancing of additional facilities, improvements or extensions of existing facilities within the Wastewater System, or otherwise for facilities, improvements or property which the City determines are of benefit to the Wastewater System, or for the purpose of refunding any obligations secured by the Net Revenues in whole or in part, including all costs (including costs of issuing such Parity Bonds and including capitalized interest on such Parity Bonds during any period which the City deems necessary or advisable) relating thereto.

For purposes the test for issuing Parity Bonds, "Additional Revenues" is defined in the Indenture as follows:

(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 Bonds, 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 Consultant engaged by the City; and

(ii) an allowance for earnings arising from any increase in the Charges 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 Charges had been in effect during the whole of such Fiscal Year or such 12-month period.

Nothing contained in this Section will limit the ability of the City to issue refunding revenue bonds (“Refunding Bonds”) payable from the Net Revenues and secured by a lien and charge on the Net Revenues, if the effect of issuing such Refunding Bonds is the reduction of the amount of Debt Service payable on such Refunding Bonds in each year, when comparing Debt Service on such Refunding Bonds to the Debt Service payable on the obligations secured by Net Revenues which are being refunded with the proceeds of such Refunding Bonds.

State Loans. The City may borrow money from the State and incur State Loans to finance improvements to the Wastewater System. A State Loan may be treated as a Parity Bond for purposes of the Indenture, so long as the City complies with the conditions for issuing Parity Bonds set forth in the Indenture before incurring the State Loan.

Subordinate Debt. Nothing in the Indenture prohibits or impairs the authority of the City to issue bonds or other obligations secured by a lien on Net Revenues that is subordinate to the lien established under the Indenture, upon such terms and in such principal amounts as the City may determine.

THE CITY UTILITY ENTERPRISES

The City's utility enterprises consist of the Water System, the Wastewater 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 Marvin A. Rose, Director of Public Works. Mr. Rose is a registered civil engineer with B.S. and M.S. degrees in civil and structural engineering. He has worked for 32 years in the public works field in all areas including: design and construction of public infrastructure facilities; private development review and inspection; facilities management; water, sewer and storm water operations; and capital project administration. For more than 20 years Mr. Rose has served as the Director of Public Works for the City. He also held the position of Community Development Director for eight months while the City recruited a new director. Previous experience includes nine years as the City Engineer for the City of Union City, three years with the City of Newark as a Development Services Engineer and the Chief Building Official, and one year with the City of San Mateo as a Design Engineer.

The Public Works Department is a full service department including administration, municipal engineering, traffic engineering, solid waste management, water system operations, sewer collection and treatment, storm water control, street maintenance, street tree maintenance, and concrete repair and replacement in the public right of way.

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 Operating Fund and
- (v) the SMaRT Station Equipment Replacement 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 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 Fund includes an equipment replacement reserve.

Contingency Reserve. The Fiscal Sub-Element of the General Plan 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 purchased 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 revenues of that Enterprise. The budgeted contingency reserve fund amount for Fiscal Year 2009-10 for the Wastewater Fund is \$3,521,292.

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.

The currently planned rate stabilization reserve amounts for Fiscal Year 2009-10 are \$1,001,507 for the Water Fund, \$7,306,982 for the Wastewater Fund and \$296,260 for the Solid Waste Fund. Amounts in the rate stabilization reserve for each System are anticipated to fluctuate each year.

Capital and Infrastructure Reserve. The capital and infrastructure reserves in the Water Fund and Wastewater Fund 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 capital and infrastructure reserve amounts for Fiscal Year 2010-11 are \$295,800 for the Water Fund, \$340,813 for the Wastewater Fund.

Utility Rate Setting

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 with Bay Counties Waste Services, 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 utility rates by spreading the effects of anticipated operation 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 (PAMS). 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

The integrated framework of PAMS has enabled the City, over time, to accomplish the long-range strategic goals established by the Council in the General Plan Elements and Sub-Elements. PAMS 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. PAMS has also served as a valuable tool in producing and capturing remarkable gains in efficiency and productivity. It supports the City's mission of providing the highest possible quality services with 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 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 wild 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 PAMS 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 tremendous 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.

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 Information Regarding the City of Sunnyvale and Santa Clara County.”

Management

Under the direction of the Director of Public Works, the Wastewater System is administered and managed by Jim Craig, the Field Services Superintendent, and Lorrie Gervin, the Environmental Division Manager.

Mr. Craig is responsible for the collection system, and has worked in the municipal services field for over 35 years. He is licensed as a professional civil engineer in the states of California, Oregon, and Washington. Following 20 years in the consulting engineering field, primarily working for cities and special purpose utility districts in western Washington, Mr. Craig entered the public field by accepting the position of Public Works Director and City Engineer for the City of Lake Stevens, Washington. Mr. Craig moved to California and took a position with the City of Gilroy as Operations Services Manager in 2000, and after one year accepted the opportunity to bring his expertise to the City.

Ms. Gervin is responsible for management of the City’s Water Pollution Control Plant, recycled water production and the City’s stormwater program. Ms. Gervin is a registered Civil Engineer with B.S. and M.S. degrees in Civil and Environmental Engineering. She possesses a Grade V Wastewater Treatment Plant Operator Certification, and a Grade III Water Treatment Operator Certification. She has worked for 28 years in the field of water resources planning and water and wastewater utility management. Previous experience included five years as Division Manager of the City of San Jose’s Municipal Water System, and five years, also with the City of San Jose, working in and then managing the process engineering section for San Jose’s 167 million-gallon per day wastewater treatment plant.

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 thirteen to fifteen million gallons per day. The fixed assets controlled by the Wastewater System are currently valued at more than \$270 million, and 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. A portion of the proceeds of the Bonds will be used to improve the condition of the trunk sewer lines. See “– Capital Improvement Plan” below.

Water Pollution Control Plant. The City’s Water Pollution Control Plant is a Grade V Treatment Facility, and the Environmental Division Manager and Water Pollution Control Operations Supervisor are both 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.

Planned Renovation to Water Pollution Control Plant. Original components of the Water Pollution Control Plant were built in 1956, with subsequent additions continuing through the early 1980s. Much of the Water Pollution Control Plant has met or exceeded its projected useful life.

During Fiscal Year 2008-09, the City began work on the Water Pollution Control Plant Strategic Infrastructure Plan. The intent of this work is to develop an infrastructure plan that will set the future direction of the Water Pollution Control Plant for the next 30 years.

The City's current plan is to renovate and replace the Water Pollution Control Plant in phases on the existing site, rather than constructing an entire new facility at a new location. For example, the first stage of construction may be new primary treatment works, which can be constructed in such a way that they can be put into operation by feeding into the old secondary works while the new secondary works are being constructed. This approach will allow the City to finance the project in phases to more efficiently match project funding needs with future debt issues. This approach will also allow for economies and efficiencies, in that new or upgraded facilities that are necessary for the current Water Pollution Control Plant (such as the construction of sedimentation basins and the renovation of existing anaerobic digesters) will be incorporated into the new facility.

The City currently anticipates that the total project will cost approximately \$335 million. The timeline is anticipated to involve design, site preparation and preliminary work through Fiscal Year 2015-16, with construction starting in Fiscal Year 2016-17 and continuing for approximately 10 years thereafter.

Capital Improvement Program

The City's Recommended FY 2010-11 Twenty-Year Resource Allocation Plan projects capital improvements to the Wastewater System for Fiscal Years 2010-11 through 2029-30 in the aggregate amount of approximately \$400 million. Of that amount, \$335 million is attributable to the new or renovated Water Pollution Control Plant, which the City currently plans to finance through a combination of pay-as-you-go revenues and the proceeds of anticipated future issues of Parity Bonds.

As shown in the table below, the City intends to finance approximately \$22.5 million in projects through Fiscal Year 2012-13 with the proceeds of the Bonds; these projects are anticipated to consist generally of storm drain improvements, improvements to sewer system mains and trunk lines, and improvements to the City's Water Pollution Control Plant, mainly in infrastructure related to secondary and tertiary wastewater treatment. See "FINANCING PLAN – The 2010 Wastewater Project."

The City intends to fund approximately \$14 million in projects through Fiscal Year 2014-15 with available Wastewater Fund revenues on a pay-as-you-go basis. The majority of the planned Water Pollution Control Plant expenditures are on projects designed to manage the gap between the old plant and new plant. The City projects that it will issue additional bonds starting in Fiscal Year 2012-13 to begin financing the design and construction of the Water Pollution Control Plant.

Table 1
WASTEWATER SYSTEM
Five Year Capital Improvement Program Summary

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>Total</u>
Projects Funded by Bond Proceeds						
Sewer and Storm Pipe Replacement and Renovation	\$1,505,000	\$1,473,194	\$ -0-	\$ -0-	\$ -0-	\$2,978,194
Pump and Lift Station Renovation	450,000	331,500	-0-	-0-	-0-	781,500
Water Pollution Control Plant Secondary Treatment Works	6,877,372	4,141,811	5,271,075	-0-	-0-	16,290,258
Water Pollution Control Plant Tertiary Works	<u>1,730,750</u>	<u>745,365</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>2,476,115</u>
Sub-total	10,563,122	6,691,870	5,271,075	-0-	-0-	22,526,067
Projects Funded by Revenues						
Sewer and Storm Pipe Replacement and Renovation	-0-	-0-	2,700,647	854,272	871,358	4,426,277
Pump and Lift Station Renovation	-0-	-0-	400,554	1,008,147	1,190,675	2,599,376
Water Pollution Control Plant Primary Treatment Works	2,500,000	-0-	-0-	-0-	-0-	2,500,000
Water Pollution Control Plant Secondary Treatment Works	-0-	-0-	-0-	1,757,833	939,905	2,697,738
Other Projects	<u>1,066,813</u>	<u>340,813</u>	<u>245,670</u>	<u>46,831</u>	<u>47,768</u>	<u>1,747,895</u>
Sub-total	3,566,813	340,813	3,346,871	3,667,083	3,049,706	13,971,286
Projects Funded by Anticipated Future Series of Bonds						
Design and Construction of Water Pollution Control Plant	-0-	-0-	1,385,280	12,105,840	21,441,120	34,932,240
Total	<u>\$14,129,935</u>	<u>\$7,032,683</u>	<u>\$10,003,226</u>	<u>\$15,772,923</u>	<u>\$24,490,826</u>	<u>\$71,429,593</u>

Source: City of Sunnyvale, Department of Public Works.

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 2011-12. 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 2009-10**

<u>User Type</u>	<u>Rate</u>	<u>Basis for Calculation</u>
Single Family Residences	\$27.97	Flat rate per residence
Apartments/Mobile Homes	17.47	Flat rate per unit
Commercial		
Standard Strength (most common users)	2.73	Per hundred cubic feet of water consumed
Low Strength	2.43	Per hundred cubic feet of water consumed
High strength	4.48	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	
	2,594.85	per 1,000,000 gallons of flow
	1,802.88	per 1000 pounds of suspended solids
	1,071.61	per 1000 pounds of total organic carbon
	3,335.19	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 on June 2, 2009, for Fiscal Year 2009-10. 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>
2005-06	5.5%
2006-07	6.0%
2007-08	9.5%
2008-09	8.5%
2009-10	7.5%

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 recommended Fiscal Year 2010-11 Resource Allocation Plan projects that rate increases will be 4.5% in Fiscal Year 2010-11, 7.5% in Fiscal Year 2011-12, 8.5% in Fiscal Year 2012-13, and range between 1.0% to 7.0% per year for the remaining fourteen years of the planning period. The Fiscal Year 2010-11 rate increase is scheduled to be considered by the City Council in mid-June 2010.

All of these projected rate increases are dependant 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. 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 2009-10**

<u>Community</u>	<u>Monthly Residential Rate</u>
Santa Clara	\$16.30
Cupertino	25.00
Fremont	23.01
Mountain View	24.20
Palo Alto	24.65
San Jose	31.00
Sunnyvale [1]	29.23
Milpitas	35.47

[1] Represents proposed 2010-11 rates to be considered by the City Council in mid-June 2010.

Source: City of Sunnyvale Department of Finance.

Customer Base

The following table summarizes the number of customers served as of June 30, 2009, by the Wastewater System, grouped by customer type. The City is largely built out, with no significant growth in the Wastewater System customer base anticipated.

Table 5
WASTEWATER SYSTEM
Summary of Sewer Accounts and Usage by User Type
As of June 30, 2009

<u>User Type</u>	<u>Number of Accounts</u>	<u>Revenues</u>	<u>Billings as Percent of Total</u>
Single Family Residences	24,560	\$7,588,046	38%
Apartments/Mobile Homes	1,670	5,908,159	30
Industrial	64	251,127	1
Commercial	1,703	5,669,782	29
Other	<u>100</u>	<u>420,706</u>	<u>2</u>
Total	28,097	\$19,837,819	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 2004-05 through 2008-09

<u>Fiscal Year</u>	<u>Number of Accounts [1]</u>
2004-05	27,632
2005-06	27,795
2006-07	27,966
2007-08	28,085
2008-09	28,099

[1] As of June 30 each year.

Source: City of Sunnyvale Department of Finance.

The following are the ten largest Wastewater System customers for Fiscal Year 2008-09, which represent approximately 14% of the Wastewater System service charges received by the City for Fiscal Year 2008-09.

**Table 7
WASTEWATER SYSTEM
Ten Largest Customers
Fiscal Year 2008-09**

<u>Customer</u>	<u>Land Use</u>	<u>Primary Business Activity</u>	<u>Percent of Total Revenues</u>
Lockheed Martin	Commercial	Aircraft/Defense Manufacturing	3.34%
Applied Materials	Commercial	Semiconductor and Related	2.56
Northrop Grumman	Commercial	Transportation Equipment Manufacturing	2.00
Spansion LLC	Commercial	Semiconductor and Related	1.65
Casa De Amigos	Multi-Unit Dwelling	Mobile Home Park	0.90
Plaza Del Rey	Multi-Unit Dwelling	Mobile Home Park	0.79
Fair Oaks West	Multi-Unit Dwelling	Apartment	0.75
Avalon Bay Communities	Multi-Unit Dwelling	Homeowners Association	0.70
H & R Christensen	Multi-Unit Dwelling	Apartment	0.66
Mission Pointe Apartments	Multi-Unit Dwelling	Apartment	<u>0.61</u>
Total Top Ten:			13.96%

Source: City of Sunnyvale, Department of Finance.

Outstanding and Anticipated Wastewater System Obligations

General Fund Loans. The Wastewater Fund has two interfund loans that were advanced from the General Fund. The first loan was to finance the remodel of the primary facilities of the wastewater treatment plant, expanding the capacity from 22.5 million gallons per day to 29.5 million gallons per day. The loan was made by the General Fund in Fiscal Year 1980-81 for a total of \$10.7 million at 7% interest. Unpaid interest has increased the amount due to the General Fund. Under a revised schedule repayment has been extended to 25 years ending in Fiscal Year 2033-34.

The second loan from the General Fund was made to assist the Wastewater Fund with cash flow issues by providing needed cash to stabilize rates. The loan was advanced in Fiscal Year 1995-96 for a total of \$2.4 million at 7% interest. That loan has nine years remaining on its term.

Repayment of these two loans, which totaled approximately to \$11.7 million as of June 30, 2009, will be made on a subordinate basis to the payment of debt service on the Bonds.

2001 Bonds. The 2001 Bonds were issued on December 19, 2001, in the total original principal amount of \$32,115,000, and are currently outstanding in the principal amount of \$21,655,000. The City will apply a portion of the proceeds from the sale of the Bonds, together with the proceeds of the 2010 Water Bonds, to prepay its installment payments under the 2001 Installment Sale Agreement, which the Authority will use to refund and legally defease the 2001 Bonds. See "FINANCING PLAN – Refunding Plan."

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 renovation of the Water Pollution Control Plant, which is currently estimated to cost approximately \$335 million, and is

currently anticipated to be complete in approximately 2027. See “– Wastewater Collection and Treatment System – Planned Renovation to Water Pollution Control Plant” and “– Capital Improvement Program” above.

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

	Audited 2004-05	Audited 2005-06	Audited 2006-07	Audited 2007-08	Audited 2008-09
Assets:					
Current Assets					
Cash and Investments Held by City	\$10,960,056	\$13,353,450	\$14,093,254	\$15,343,590	\$17,641,313
Cash and Investments Held by Fiscal Agent	12,081,871	6,012,567	3,756,908	1,402,795	1,304,620
Receivables, Net	2,482,132	2,570,421	2,777,482	2,783,601	2,878,144
Intergovernmental Receivables	11,517	9,915	10,948	8,544	13,518
Inventories and Prepayments	-	-	4,980	9,287	10,530
Total Current Assets	<u>25,535,576</u>	<u>21,946,353</u>	<u>20,643,572</u>	<u>19,547,817</u>	<u>21,848,125</u>
Noncurrent Assets					
Capital Assets:					
Land & Nondepreciable Assets	10,554,168	4,823,293	7,097,974	9,116,839	5,134,421
Depreciable Assets, Net	25,810,977	31,555,590	30,984,759	29,774,830	33,544,111
Total Noncurrent Assets	<u>36,365,145</u>	<u>36,378,883</u>	<u>38,082,733</u>	<u>38,891,669</u>	<u>38,678,532</u>
Total Assets	<u>61,900,721</u>	<u>58,325,236</u>	<u>58,726,305</u>	<u>58,439,486</u>	<u>60,526,657</u>
Liabilities:					
Current Liabilities					
Wages Payable	-	-	-	-	-
Accounts Payable and Accrued Liabilities	2,140,403	427,489	973,155	866,100	927,536
Due to Other Funds	-	-	-	-	3,458,637
Advances from Other Funds	1,186,845	1,161,345	311,345	3,458,637	78,363
Refundable Deposits	20,261	67,431	70,622	80,515	165,754
Interest Payable	197,288	189,949	183,990	175,084	-
Long-term Debt - Due Within One Year	733,911	762,805	791,699	829,262	863,935
Total Current Liabilities	<u>4,278,708</u>	<u>2,609,019</u>	<u>2,330,811</u>	<u>5,409,598</u>	<u>5,494,225</u>
Noncurrent Liabilities					
Advances from Other Funds	15,312,165	15,331,251	16,174,388	10,722,460	8,256,501
Long-term Debt - Due in More than One Year	18,552,371	17,792,925	17,004,584	16,178,680	15,318,103
Total Noncurrent Liabilities	<u>33,864,536</u>	<u>33,124,176</u>	<u>33,178,972</u>	<u>26,901,140</u>	<u>23,574,604</u>
Total Liabilities	<u>38,143,244</u>	<u>35,733,195</u>	<u>35,509,783</u>	<u>32,310,738</u>	<u>29,068,829</u>
Net Assets:					
Invested in Capital Assets, Net of Related Debt	17,078,863	17,823,153	20,286,450	21,883,727	23,801,114
Restricted for Debt Service	1,472,783	1,510,684	1,509,846	1,510,937	-
Restricted for Capital Projects	10,608,757	4,560,114	2,327,709	-	-
Unrestricted	(5,402,926)	(1,301,910)	(907,483)	2,734,084	7,656,714
Total Net Assets	<u>\$23,757,477</u>	<u>\$22,592,041</u>	<u>\$23,216,522</u>	<u>\$26,128,748</u>	<u>\$31,457,828</u>

Source: City of Sunnyvale Finance Department.

Wastewater System Historical Revenues, Expenses and Debt Service Coverage

Historical Revenues and Expenses. Approximately 94% of the Wastewater System's revenues are derived from sewer use fees, while the remaining 6% of revenues come from connection and frontage fees and non-City sewer customers.

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

	Audited 2004-05	Audited 2005-06	Audited 2006-07	Audited 2007-08	Audited 2008-09
<u>Operating Revenues:</u>					
Charges for Services	\$16,671,783	\$18,004,834	\$18,687,472	\$19,774,325	\$20,907,310
<u>Operating Expenses:</u>					
Personnel Services	7,279,128	7,754,337	7,391,190	7,571,521	7,830,217
Contractual Services	1,853,559	1,448,000	1,483,709	1,566,805	2,245,109
Supplies and Materials	2,102,175	2,337,402	2,827,300	2,626,735	2,034,333
Utilities (Gas, Electricity, Water, Telephone)	309,916	453,118	478,711	543,100	624,560
Taxes and Licenses	100,628	109,738	139,731	131,319	108,167
Equipment and Building Rental	1,189,559	1,244,902	608,534	620,563	641,308
Other Operating Expenses	41,682	118,280	105,675	116,081	122,021
Depreciation	<u>1,557,862</u>	<u>1,717,886</u>	<u>1,846,925</u>	<u>1,685,673</u>	<u>1,680,272</u>
Total Operating Expenses	14,434,509	15,183,663	14,881,775	14,861,797	15,285,987
<u>Income from Operations</u>	2,237,274	2,821,171	3,805,697	4,912,528	5,621,323
<u>Non-Operating Revenues (Expenses):</u>					
Investment Income	548,379	691,058	988,737	830,486	527,158
Sewer Connection Fees	907,800	668,509	1,906,702	3,229,573	336,628
Capital Grants and Contributions	2,956,330	489,000	633,549	215,300	319,900
Interest Expense	<u>(1,952,659)</u>	<u>(1,925,426)</u>	<u>(1,899,760)</u>	<u>(1,866,599)</u>	<u>(1,668,382)</u>
Total Non-Operating Revenues (Expenses)	2,459,850	(76,859)	1,629,228	2,408,760	(484,696)
Income (Loss) Before Operating Transfers	4,697,124	2,744,312	5,434,925	7,321,288	5,136,627
Operating Transfers In	9,529,526	—	—	4,841	3,682,930
Operating Transfers Out	<u>(3,320,989)</u>	<u>(3,909,748)</u>	<u>(4,810,444)</u>	<u>(4,413,903)</u>	<u>(3,490,477)</u>
Net income (Loss)	10,905,661	(1,165,436)	624,481	2,912,226	5,329,080
Retained Earnings at Beginning of Year	12,851,816	23,757,477	22,592,041	23,216,522	26,128,748
Retained Earnings at End of Year	<u>\$23,757,477</u>	<u>\$22,592,041</u>	<u>\$23,216,522</u>	<u>\$26,128,748</u>	<u>\$31,457,828</u>

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 revenues available under the 2001 Installment Purchase Agreement and the Wastewater System's allocable share of debt service on the 2001 Bonds.

Table 10
WASTEWATER SYSTEM
Historical Revenues, Expenses and Debt Service Coverage,
and Reserve Balances
As of June 30

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Gross Revenues					
Charges for Services:	\$16,671,783	\$18,004,834	\$18,687,472	\$19,774,325	\$20,907,310
Investment Income/Interest	661,448	691,058	988,737	830,486	527,158
Sewer Connection Fees	<u>907,800</u>	<u>668,509</u>	<u>1,906,702</u>	<u>3,229,573</u>	<u>336,628</u>
Total Gross Revenues:	18,241,031	19,364,401	21,582,911	23,834,384	21,771,096
Operation and Maintenance Costs [1]	13,848,327	15,337,274	15,732,328	16,802,122	15,376,167
Net Revenues [2]	4,392,704	4,027,128	5,772,456	7,003,121	6,335,340
Allocable Share of Debt Service on 2001 Bonds [3]	1,509,546	1,508,387	1,510,684	1,509,846	1,510,937
Debt Service Coverage Ratio:	2.91x	2.67x	3.82x	4.64x	4.19x
Rate Stabilization Reserve [4]	20,005,541	17,856,462	15,924,513	14,839,083	17,024,800
Contingency Reserve [4]	\$2,856,563	\$3,162,793	\$3,120,165	\$3,169,754	\$3,162,839

[1] Represents Operation and Maintenance Costs calculated in accordance with the 2001 Installment Purchase Agreement.

[2] Represents Net Revenues available to pay debt service on the 2001 Bonds under the 2001 Installment Purchase Agreement.

[3] Represents the portion of debt service attributable to the Wastewater System.

[4] 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 Bonds.

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

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Gross Revenues:					
Charges for Services	\$21,038,264	\$21,947,708	\$23,815,030	\$25,956,366	\$28,161,029
Investment Income/Interest	601,661	476,838	623,606	528,747	466,022
Connection fees	<u>700,000</u>	<u>520,200</u>	<u>530,604</u>	<u>541,216</u>	<u>552,040</u>
Total Gross Revenues:	22,339,925	22,944,746	24,969,240	27,026,329	29,179,091
Operation and Maintenance Costs [1]	16,073,582	17,119,792	17,824,781	18,563,821	18,521,359
Net Revenues [2]	6,266,343	5,824,954	7,144,459	8,462,508	10,657,732
Debt Service*	1,512,319	2,548,331	3,078,375	3,081,500	3,081,375
Debt Service Coverage Ratio:*	4.14 x	2.29 x	2.32 x	2.75 x	3.46 x
Rate Stabilization Reserve [3]	7,306,982	8,608,383	6,219,637	2,148,245	1,013,283
Capital and Infrastructure Reserve [3]	3,566,489	340,482	3,346,534	3,667,084	3,049,355
Contingency Reserve [3]	\$3,204,412	\$3,394,549	\$3,508,646	\$3,613,258	\$3,733,358

* 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 Bonds under the Indenture.

[3] 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 4.5% to 8.5% 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 small increase in the customer base of the wastewater enterprise as the City anticipates moderate growth. Connection fees reflect the same anticipated moderate growth.

Operation and Maintenance Costs. Operation and Maintenance Costs are projected to increase at a rate of 3% to 6% per year based primarily on increases to employee salaries and benefits.

Rate Stabilization Reserve. The Rate Stabilization Reserve is projected to be drawn down and decrease until Fiscal Year 2013-14 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 Year 2009-10 represents the Wastewater System's share of debt service on the 2001 Bonds only. Debt Service for Fiscal Years 2010-11 through 2013-14 assumes an interest rate on the Bonds equal to 5%, and a principal amount of the Bonds equal to \$_____.

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 lower 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 referred to above, 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 Water 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 February 2008. 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, establishes a wasteload allocation of 0.05 kg per year for the Water Pollution Control Plant 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 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.

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 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 for Fiscal Year 2008-09 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 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 (PAMS), 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 2008-09, which include financial statements for the Wastewater Fund and the other Enterprise Funds, prepared by the City Department of Finance and audited by Maze & Associates, Pleasant Hill, California (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, 2009, 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 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 August 11, 2009. 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 Finance Manager (Treasury) and Director of Finance (or his/her designee) are authorized to manage the investment portfolio.

At March 6, 2010, the City’s investment portfolio consisted of the following:

U.S. Government Treasury and Agency securities	73.16%
Managed pool accounts	21.55%
Passbook/checking accounts	5.30%

No funds were invested in commercial paper. The City’s Finance Manager (Treasury) 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 890 full-time and regular part-time employees, and approximately 546 casual 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 below.

<u>Labor Organization</u>	<u>Number of Employees</u>	<u>Contract Expiration Date</u>
Sunnyvale Employees' Association	487	June 30, 2012
Public Safety Officers' Association	200	June 30, 2012
Communication Officers' Association	20	December 31, 2012
Service Employees' International Union - Local #715	45	June 30, 2012
Sunnyvale Managers Association	70	June 30, 2012
Public Safety Managers Association	10	Under negotiation

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; the coverage provides \$300,000,000 in excess workers' compensation, subject to \$500,000 self-insured retention for each occurrence.

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.

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 7% of annual salary for miscellaneous participants and the full contribution for safety participants. The total contribution on behalf of employees amounted to \$7,385,731 for Fiscal Year 2008-09.

The City is required to make actuarially determined employer contributions necessary to fund the benefits for its members. For Fiscal Year 2008-09, the City contribution was 16.019% for miscellaneous employees and 27.037% for safety employees. In FY 2008-09 the City elected to make an annual lump sum prepayment to PERS; the contribution was \$9,339,925 for miscellaneous employees and \$8,372,838 for safety employees. The contribution requirements of the plan members are established by State statute.

Annual Pension Cost. For Fiscal Year 2008-09, the City's annual pension cost of \$17,712,763 was equal to the City's required and actual contributions. Originally the required employer contribution was determined as part of the June 30, 2006, 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. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.25% to 14.45% for miscellaneous employees and from 3.25% to 13.15% for safety employees depending on age, service, and type of employment, and (c) 2% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period.

The PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2006, was 22 years for miscellaneous and 32 years for safety employees.

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

Fiscal Year	Annual Pension Cost: Miscellaneous	Annual Pension Cost: Safety Plan	Total Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
Ending 6/30/07	\$6,436,205	\$8,193,013	\$14,629,218	100%	\$-0-
6/30/08	8,827,288	8,447,097	17,274,385	100%	-0-
6/30/09	9,339,925	8,372,838	17,712,763	100%	-0-

Projected Future Increases in Pension Costs. The City has projected and is planning for a substantial increase in retirement costs beginning in Fiscal Year 2011-12, when the impact of PERS current negative returns will begin to be realized.

Other Post-Employment Benefits

General. During fiscal year 2008, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement establishes

uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). The provisions of this statement are applied prospectively and do not affect prior years' financial statements. Required disclosures are presented in the audited financial statements of the City and summarized below.

Plan Description. The City's retired employees' postemployment healthcare plan is a single-employer defined benefit plan administered by the City. The plan provides healthcare benefits to eligible retirees and their dependents through the California Public Employees' Retirement System (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.

Employees who are vested in PERS and who retire from the City are eligible to receive postemployment health benefits. The City remits to PERS the employer's share of the insurance premium on a monthly, pay-as-you-go basis. The City's Employee Benefits Internal Service Funds hold assets set aside for the payment of City's OPEB obligations

The City has not yet participated in the California Employers' Retiree Benefit Trust (CERBT) Fund – an irrevocable trust established by PERS to pre-fund OPEB. The City Council has approved a resolution for the City to enter the CERBT. The specific timing of the entry into the trust depends on current market environment.

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

Funding Policy. The contribution requirements of plan members and the City are established and may be amended by the City Council. Under the PEMHCA, public agencies contracting with PERS for medical coverage are required to make equal contribution towards the cost of medical coverage for retirees and active employees. The City contributes the lower of the insurance premium or a dollar amount as agreed with the respective bargaining units. The limits range from \$311 to \$565 monthly for Fiscal Year 2009-10.

For management employees, the City also maintains a retiree health reimbursement program, providing the retiree a monthly reimbursement amount equal to the difference between the City contribution and the retiree's medical premium for their selected plan. Management employees appointed on or after July 1, 2007, are subject to a vesting schedule with City reimbursement ranging from 50% to 100% after at least five years of management service.

Annual OPEB Cost and Net OPEB Obligation. The annual required contribution (ARC) is an amount actuarially determined in accordance with the guidelines in 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 excess over a period not to exceed 30 years. For FY 2008-09 the City's ARC was \$10,507,000.

In the June 30, 2008, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.75% investment rate of return and a 3.0% general inflation assumption. Premiums were assumed to increase with a pre-Medicare medical cost increase rate of 9.1% for HMOs and 9.8% for PPOs for 2011, both grading down to 4.5% for 2018 and thereafter. The post-Medicare cost increases were 9.4% for HMOs and 9.8% for PPOs for 2011, both grading down to 4.5% for 2018 and thereafter. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll over 30 years. 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 FY 2008-09, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

	<u>June 30, 2009</u>
Annual required contribution (ARC)	\$10,507,000
Interest on net OPEB obligation	187,000
Adjustment to annual required contribution	<u>(304,000)</u>
Annual OPEB cost (expense)	10,390,000
Contributions made	<u>(3,995,000)</u>
Increase in net OPEB obligation	6,395,000
Net OPEB obligation - beginning of year	3,938,500
Net OPEB obligation - end of year	\$10,333,500

The City contributed \$3,995,000 on a pay-as-you-go basis for current benefit payments. During FY 2008-09 the General Fund also made a transfer of \$10 million to the Employee Benefits Internal Service Fund, adding to existing resources earmarked for future deposit into the OPEB trust. Since 2007, the City has set aside funds in the Employee Benefits Internal Service Fund for future OPEB obligations, and the total available is now approximately \$30 million. Staff is authorized to transfer the available balance to an OPEB trust when appropriate.

Wastewater System's Estimated Share of Retirement Obligations. The City estimates that the Wastewater System is responsible for approximately 7% 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 Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors in the Bonds are advised to consider the following special factors along with all other information in this Official Statement in evaluating the Bonds. There can be no assurance that other considerations will not materialize in the future.

Net Revenues; Rate Covenant

Net Revenues are dependent upon the demand for wastewater services, which can be affected by population factors, more stringent wastewater quality regulations, 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 demand 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 Bonds and existing or future Parity Obligations.

Operation and Maintenance Expenses

There can be no assurance that operation and maintenance expenses of the City related to the Wastewater System will be consistent with the levels contemplated in this Official Statement. Changes in technology, changes in wastewater quality xs, Wastewater System operation or other expenses could require substantial increases in rates or charges in order to comply with the rate covenants in the Indenture.

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 debt service on the 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. See "– Proposition 218" below. Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on Bondholder remedies contained in the Indenture, the rights and obligations under the 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 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 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 on the Bonds when due.

Loss of Tax-Exemption

As discussed under the caption "TAX MATTERS," interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the City in violation of their respective covenants in the Indenture. Should such an event of taxability occur, the 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 XIIC and XIID to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related "fee" or "charge," which is defined as "any levy other than an ad valorem tax, a special tax or an assessment, imposed by a [local government] upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service" (and referred to in this section as a "property-related fee or charge").

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 levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIID regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three recent cases have held that certain types of water and wastewater charges could be subject to the requirements of Proposition 218 under certain circumstances.

In *Richmond v. Shasta Community Services District* (9 Cal. Rptr. 3rd 121), the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIID to certain charges related to water service. In *Richmond*, the Court held that connection charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (March 23, 2005), the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and a municipality must comply with Article XIID before imposing or increasing such fees. The California Supreme Court denied the City of Fresno’s petition for review of the Court of Appeal’s decision on June 15, 2005.

In July 2006 the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (S127535, July 24, 2006), addressed the validity of a local voter initiative measure that would have (a) reduced a water agency’s rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency’s charges for ongoing water delivery are “fees and charges” within the meaning of Article XIID, and went on to hold that charges for ongoing water delivery are also “fees” within the meaning of Article XIIC’s mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency’s water rates and other water delivery charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIIC and was therefore invalid.)

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

Current Practice Regarding Rates and Charges. The City's practice in implementing increases in wastewater rates and charges has been to provide property owners with a 45-day mailed notice, public hearing, and opportunity to protest before the City Council approves rate increases. The City's current practices comply with the current judicial interpretation of Proposition 218.

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.

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 Bonds.

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 their 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 or regulations, should impose wastewater quality standards upon the Wastewater System, the City's expenses to operate the Wastewater System 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 in the future, which could result in higher Operations and Maintenance Costs with respect to the Wastewater system.

See "THE WASTEWATER SYSTEM – Environmental Issues Related to the Wastewater System."

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Prices of bond issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

No assurance can be given that the market price for the Bonds will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Internal Revenue Code), or changes in interpretation of the Internal Revenue Code, or any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the Bonds for audit

examination, or the course or result of any Internal Revenue Service audit or examination of the Bonds or obligations that present similar tax issues as the Bonds.

Future Parity Obligations

As described in "SECURITY FOR THE BONDS – Parity Obligations" above, the Indenture permits the City to issue Parity Obligations, its obligations under which would be payable on a parity with the Bonds. The City is planning a substantial capital improvement program to fund necessary improvements to the Wastewater System, which is anticipated to entail the future issuance of significant bonded indebtedness secured by and payable from Net Revenues. See "THE WASTEWATER SYSTEM – Capital Improvement Program."

In the event of a decline in Net Revenues, the existence of Parity Obligations could adversely affect the City's ability to pay debt service on the Bonds.

TAX MATTERS

General. 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 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986 (the "**Code**") that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. 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 Bonds.

Original Issue Discount/Original Issue Premium. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each 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 is disregarded.

Under the Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The

Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 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 Bonds under federal individual and corporate alternative minimum taxes.

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

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

Limited Opinion. Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the 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 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. Certain legal matters will be passed upon for the City by the City Attorney, and for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation.

LITIGATION

To the best knowledge of the City, there is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the City after reasonable investigation, threatened against or affecting the City or the assets, properties or operations of the City which, if determined adversely to the City or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of the Indenture, or upon the financial condition, assets, properties or operations of the City, and the City is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially adversely affect the consummation of the transactions contemplated by the Indenture, or the financial conditions, assets, properties or operations of the City, including but not limited to the payment and performance of the City's obligations under the Indenture.

RATINGS

It is anticipated that, on the Closing Date, Moody's Investors Service ("Moody's") will assign its rating of "____" to the Bonds, and Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. ("S&P"), will assign its rating of "____" to the Bonds.

These ratings reflect only the views of the respective rating agency, and an explanation of the significance of these ratings, and any outlook assigned to or associated with these ratings, should be obtained from the respective rating agency.

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 the rating agencies (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 the respective rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the Bonds may have an adverse effect on the market price or marketability of the Bonds.

CONTINUING DISCLOSURE

The City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City and the Wastewater System (the "Annual Report") and to provide notices of the occurrence of certain enumerated events, if material.

These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5), as amended (the "Rule"). The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in "APPENDIX C — FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The City has never failed to comply, in all material respects, with its previous continuing disclosure undertakings under the Rule to provide annual continuing disclosure reports or notices of material events in the past five years.

UNDERWRITING

E. J. De La Rosa & Co., Inc., (the "Underwriter"), has entered into a Bond Purchase Agreement with the City under which it will purchase the Bonds at a price of \$_____ (equal to the par amount of the Bonds, less an Underwriter's discount of \$_____, and less a net original issue discount of \$_____).

The Underwriter will be obligated to take and pay for all of the Bonds if any are taken. The Underwriter intends to offer the Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. After the initial public offering, the public offering price may be varied from time to time by the Underwriter.

PROFESSIONAL SERVICES

In connection with the issuance of the Bonds, fees payable to the following professionals involved in the offering are contingent upon the issuance and delivery of the Bonds: Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel; Ross Financial, San Francisco, California, as financial advisor to the City; Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California, as Underwriter's counsel; and U.S. Bank National Association, as Trustee.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

_____, Certified Public Accountants, _____, Colorado (the "Verification Agent") upon delivery of the Bonds, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to them which were prepared by the City, relating to (1) the sufficiency of the anticipated receipts from the Federal Securities and uninvested moneys deposited with the Escrow Bank to pay, when due, the principal, interest and prepayment premium requirements of the 2001 Bonds, and (2) the yield on the Bonds and on the Federal Securities to be deposited with the Escrow Agent.

The report of the Verification Agent will include the statement that the scope of their engagement is limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them, and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

EXECUTION

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

CITY OF SUNNYVALE

By : _____
Mary J. Bradley,
Director of Finance

APPENDIX A
SUMMARY OF INDENTURE

APPENDIX B

**AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDING JUNE 30, 2009**

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

\$ _____
CITY OF SUNNYVALE
Wastewater Revenue Bonds,
Series 2010

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the City of Sunnyvale (the "City") in connection with the issuance by the City of the bonds captioned above (collectively, the "Bonds"). The Bonds are being issued under an Indenture of Trust dated as of June 1, 2010 (the "Indenture"), between the City and U.S. Bank National Association, as trustee (the "Trustee"). The City hereby covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the 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 of this Disclosure Certificate.

"*Annual Report Date*" means nine months after the end of the City's fiscal year, (currently March 31 of each year based on the City's June 30 fiscal year end).

"*Dissemination Agent*" means U.S. Bank National Association, 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) of this Disclosure Certificate.

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

"*Official Statement*" means the final official statement executed by the City in connection with the issuance of the Bonds.

"*Participating Underwriter*" means E. J. De La Rosa & Co., Inc., the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same 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, 2011 with the report for the 2009-10 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City will 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 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date if not available by that date. If the City’s fiscal year changes, it will give notice of such change in the same manner as for a Listed Event under Section 5(c).

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

(c) The Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a report with the City 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, which shall include financial statements of the City’s municipal wastewater system (the “Wastewater System”) 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 Annual Report Date, 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) Unless otherwise provided in the audited financial statements filed on or prior to the Annual Report Date, financial information and operating data with respect to the City and the Wastewater System for the preceding fiscal year, in the form of updates to the tables and descriptions contained under the following headings in the Official Statement:

(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 Debt Service Coverage.

(c) Any or all of the items listed in subsections (a) and (b) 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 will clearly identify each such other document so included by reference.

(d) 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.

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 events with respect to the Bonds, if material:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults.
- (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 or events affecting the tax-exempt status of the security.
- (7) Modifications to rights of security holders.
- (8) Contingent or unscheduled bond calls.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities.
- (11) Rating changes.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the City will, or will cause the Dissemination

Agent to, promptly file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Certificates pursuant to 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 Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent will be U.S. Bank National Association.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting

principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

(d) The Dissemination Agent shall not be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the 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. Duties, Immunities and Liabilities of Dissemination Agent.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Trustee, the Bond owners or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent may conclusively rely upon the Annual Report provided to it by the City as constituting the Annual Report required of the City in accordance with this Disclosure Certificate and shall have no duty or obligation to review such Annual Report. The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the City in a timely manner in a form suitable for filing with the Repositories. In accepting the appointment under this Disclosure Certificate, the Dissemination Agent is not acting in a fiduciary capacity to the Holders or Beneficial Owners of the Bonds, the City, the Participating Underwriter or any other party or person. No provision of this Disclosure Certificate shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability. The

Dissemination Agent shall be entitled to compensation for its services as Dissemination Agent and reimbursement for its out-of-pocket expenses, attorney's fees, costs and advances made or incurred in the performance of its duties under the Bonds and this Agreement in accordance with its written fee schedule provided to the City, as such fee schedule may be amended from time to time in writing. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act.

Section 13. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

To the Issuer:	City of Sunnyvale 650 West Olive Avenue Sunnyvale, CA 94088 Attention: Treasurer Fax: 408-737-4950
To the Dissemination Agent and Trustee	U.S. Bank National Association Mail Station: SF-CA-SFCT 1 California Street, Suite 1000 San Francisco, CA 94111 Attention: Corporate Trust Department Fax: 415-273-4591

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Trustee, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: _____, 2010

CITY OF SUNNYVALE

By: _____
Mary Bradley,
Director of Finance

AGREED AND ACCEPTED:
U.S. Bank National Association
as Dissemination Agent

By: _____
Title: _____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Sunnyvale

Name of Bond Issues: City of Sunnyvale
Wastewater Revenue Bonds, Series 2010

Date of Issuance: _____, 2010

NOTICE IS HEREBY GIVEN that the City of Sunnyvale (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated as of _____, 2010 between the City and U.S. Bank National Association. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

U.S. Bank National Association
as Dissemination Agent

By: _____
Its: _____

cc: City of Sunnyvale

APPENDIX D

GENERAL INFORMATION ABOUT THE CITY OF SUNNYVALE AND SANTA CLARA COUNTY

The following information concerning the City and the County of Santa Clara is included only for the purpose of supplying general information regarding the area of the City. The information provided is the most recently available, but in some cases does not show current economic or demographic information, which may be materially different from the data presented. The Bonds are not a debt of the City, the County, 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.

General

The City is located 44 miles south of San Francisco on the San Francisco Bay peninsula, 10 miles northwest of San Jose. The City is home to Silicon Valley high-tech industry leaders in fields ranging from advanced satellite construction to pioneering biotechnology; from semiconductor research, design and manufacturing to leading edge telecommunications systems.

Population

The following chart indicates the change in population for the City, Santa Clara County and the State of California for the last five years.

CITY OF SUNNYVALE Population Estimates Calendar Years 2006 through 2010

Calendar Year	City of <u>Sunnyvale</u>	County of <u>Santa Clara</u>	State of <u>California</u>
2006	133,848	1,776,586	37,114,598
2007	135,514	1,805,314	37,559,440
2008	136,952	1,829,480	37,883,992
2009	138,819	1,857,516	38,255,508
2010	140,450	1,880,876	38,648,090

Source: State Department of Finance estimates (as of January 1)

Employment and Industry

The City is included in the San Jose Sunnyvale Santa Clara Metropolitan Statistical Area (MSA), which includes Santa Clara County. The County civilian labor force figures are shown in the following table. These figures are County-wide and may not necessarily accurately reflect employment trends in the City.

SAN JOSE SUNNYVALE SANTA CLARA METROPOLITAN STATISTICAL AREA Annual Average Labor Force and Industry Employment

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Civilian Labor Force [1]	844,500	854,300	876,500	899,100	902,800
Employment	798,600	815,300	834,800	844,600	802,900
Unemployment	45,900	38,900	41,700	54,500	100,000
Civilian Unemployment Rate	5.4%	4.6%	4.8%	6.1%	11.1%
<u>Wage and Salary Employment: [2]</u>					
Agriculture	6,300	6,200	6,700	6,100	5,700
Natural Resources and Mining	200	300	300	300	200
Construction	44,500	46,800	47,200	44,200	33,900
Manufacturing	164,900	163,700	166,700	168,000	155,700
Wholesale Trade	35,800	38,300	39,800	39,800	35,600
Retail Trade	83,900	85,800	86,400	84,400	78,900
Transportation, Warehousing and Utilities	13,100	13,000	13,500	13,500	12,000
Information	35,300	37,500	39,600	42,300	41,100
Finance and Insurance	21,300	22,100	21,800	20,200	18,700
Real Estate, Rental and Leasing	15,000	15,000	15,300	14,400	13,000
Professional and Business Services	165,800	172,000	178,300	178,900	161,900
Educational and Health Services	96,800	100,400	103,200	107,900	108,100
Leisure and Hospitality	72,800	75,200	76,800	78,100	74,300
Other Services	24,600	24,800	25,100	25,400	24,300
Federal Government	11,300	11,100	11,000	11,000	10,800
State Government	7,400	7,500	7,600	7,500	6,900
Local Government	77,200	77,900	78,500	79,400	80,400
Total All Industries [3]	876,300	897,400	917,900	921,000	861,300

[1] Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

[2] Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

[3] Totals may not add due to rounding.

Source: *State of California Employment Development Department.*

Largest Employers

The following tables list the largest private employers within the City and their estimated number of employees.

CITY OF SUNNYVALE Largest Private Employers June 30, 2008

<u>Employer</u>	<u>Employment</u>	<u>Type of Business</u>
Lockheed Martin Corporation	7,296	Space systems
Yahoo! Inc.	4,906	Online network of integrated services
Network Appliance Inc.	2,620	Storage and data management
Juniper Networks Inc.	2,187	Network Infrastructure
Spansion LLC	1,256	Flash memory
Northrop Grumman Marine Systems	1,200	Global defense system
Applied Materials Inc.	1,140	Semiconductor equipment manufacturer
West Valley Eng. Inc.	1,088	Engineering staffing service
Maxim Integrated Products	946	Analog and mixed-signal engineering
Palm Inc.	849	Mobile products

Source: City of Sunnyvale, 2009 Comprehensive Annual Financial Report (CAFR).

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for the City, the County of Santa Clara, the State and the United States for the period 2004 through 2008.

**CITY OF SUNNYVALE
EFFECTIVE BUYING INCOME
2004 through 2008**

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
2004	City of Sunnyvale	n/a	n/a
	Santa Clara County	\$ 47,476,338	\$62,614
	California	705,108,410	43,915
	United States	5,692,909,567	39,324
2005	City of Sunnyvale	\$ 3,949,363	\$63,817
	Santa Clara County	46,910,278	63,293
	California	720,798,106	44,681
	United States	5,894,663,364	40,529
2006	City of Sunnyvale	\$ 4,155,455	\$66,038
	Santa Clara County	49,261,000	65,458
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	City of Sunnyvale	\$ 4,420,005	\$68,530
	Santa Clara County	52,377,985	67,498
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	City of Sunnyvale	\$ 4,524,300	\$69,676
	Santa Clara County	53,987,635	68,929
	California	832,531,445	48,952
	United States	6,443,994,426	42,303

Source: Sales & Marketing Management Survey of Buying Power for years 2004; Claritas Demographics for 2005 through 2008.

Commercial Activity

During the first quarter of calendar year 2009, total taxable transactions in the City were reported to be \$466,653,000, or 21.56% lesser than total taxable transactions of \$594,929,000 that were reported in the City during the first quarter of calendar year 2008. A summary of historic taxable sales within the City during the past five years is shown in the following table. Annual figures are not yet available for 2009.

CITY OF SUNNYVALE Taxable Transactions (Dollars in thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2004	1,405	1,240,440	3,530	2,075,725
2005	1,320	1,294,868	3,401	2,195,178
2006	1,347	1,459,590	3,369	2,577,368
2007	1,320	1,573,007	3,320	2,691,023
2008	1,308	1,468,250	3,246	2,482,303

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

Building Permit Activity

The following table shows the number and value of building permits issued in the City during calendar years 2004 through 2008.

CITY OF SUNNYVALE Building Permit Valuation For Calendar Years 2004 through 2008 (Dollars in Thousands)

	2004	2005	2006	2007	2008
<u>Permit Valuation</u>					
New Single-family	\$58,874.2	\$34,272.7	\$54,557.5	\$56,154.3	\$57,517.1
New Multi-family	12,223.9	0.0	0.0	0.0	0.0
Res. Alterations/Additions	<u>30,673.8</u>	<u>44,207.2</u>	<u>44,983.1</u>	<u>38,459.4</u>	<u>45,020.7</u>
Total Residential	101,771.9	78,480.0	99,540.6	94,613.7	102,537.8
New Commercial	6,370.6	23,195.7	30,566.8	248,328.8	222,094.7
New Industrial	16,000.0	0.0	56,873.3	47,958.5	1,095.0
New Other	1,908.7	1,675.4	2,003.3	3,033.5	19,488.7
Com Alterations/Additions	<u>51,696.6</u>	<u>113,736.9</u>	<u>108,046.9</u>	<u>158,298.9</u>	<u>170,190.9</u>
Total Nonresidential	75,976.1	138,608.0	197,490.2	457,619.8	412,869.3
<u>New Dwelling Units</u>					
Single Family	323	170	264	317	355
Multiple Family	<u>89</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	412	170	264	317	355

Source: Construction Industry Research Board, Building Permit Summary.

APPENDIX E
FORM OF BOND COUNSEL OPINION

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 Standard & Poor's highest rating: AAA. 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 and www.dtc.org. *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.

RESOLUTION NO. _____

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SUNNYVALE AUTHORIZING PROCEEDINGS RELATING TO THE REFUNDING OF 2001 INSTALLMENT SALE AGREEMENT AND FINANCING OF CAPITAL IMPROVEMENTS FOR THE CITY'S WATER AND WASTEWATER SYSTEMS, AUTHORIZING ISSUANCE AND SALE OF WATER REVENUE BONDS AND WASTEWATER REVENUE BONDS, AND APPROVING RELATED DOCUMENTS AND ACTIONS

WHEREAS, the City is authorized pursuant to the provisions of Chapter 3.70 (commencing with Section 3.70.010) of the Sunnyvale Municipal Code (the "Bond Law"), enacted pursuant to the charter of the City and an ordinance adopted on the date hereof, entitled "Ordinance of the City of Sunnyvale Enacting the City of Sunnyvale Municipal Utilities Revenue Bond Law, Relating to the Financing of Public Utility Enterprises," to issue its revenue bonds for the purposes of financing improvements to a utility enterprise of the City; and

WHEREAS, the City has heretofore executed and delivered an Installment Sale Agreement, dated as of December 1, 2001, in the principal amount of \$32,115,000, between the Sunnyvale Financing Authority (the "Authority") and the City (the "2001 Installment Sale Agreement"); and

WHEREAS, installment payments payable by the City under the 2001 Installment Sale Agreement secure the Authority's \$32,115,000 Water and Wastewater Revenue Bonds, Series 2001 (the "2001 Authority Bonds"); and

WHEREAS, the City entered into the 2001 Installment Sale Agreement for the purpose of: (i) refunding the City's obligations under an Installment Purchase Agreement (Wastewater Reuse and Sludge Maintenance Facilities), dated as of October 1, 1992, between the Authority and the City, in the original principal amount of \$23,485,000, the proceeds of which financed improvements to the City's water system (the "Water System") and wastewater system (the "Wastewater System"); (ii) financing improvements to the City's Wastewater System; (iii) funding a reserve fund for the 2001 Installment Sale Agreement and the 2001 Authority Bonds; and (iv) paying costs of issuance incurred in connection with the 2001 Installment Sale Agreement and the 2001 Authority Bonds; and

WHEREAS, the City, after due investigation and deliberation, has determined that it is in the interests of the City at this time to provide for the issuance of its water revenue bonds (the "2010 Water Revenue Bonds") under the Bond Law and an Indenture of Trust, dated as of June 1, 2010, between The Bank of New York Mellon Trust Company, N.A. (the "Trustee") and the City (the "2010 Water Revenue Bond Indenture") for the purpose of: (i) refunding the portion of the principal payments due under the 2001 Installment Sale Agreement which relate to the Water System (which will simultaneously cause the refunding and defeasance of the portion of the 2001 Authority Bonds which relate to the Water System); (ii) financing certain capital improvements to the Water System; (iii) funding a reserve fund for the 2010 Water Revenue Bonds; and (iv) pay costs of issuance incurred in connection with the issuance of the 2010 Water Revenue Bonds; and

WHEREAS, the City, after due investigation and deliberation, has determined that it is in the interests of the City at this time to provide for the issuance of its wastewater revenue bonds

Attachment E

(the “2010 Wastewater Revenue Bonds”) under the Bond Law and an Indenture of Trust, dated as of June 1, 2010, between the City and the Trustee (the “2010 Wastewater Revenue Bond Indenture”) for the purpose of: (i) refunding the portion of the principal payments due under the 2001 Installment Sale Agreement which relate to the Wastewater System (which will simultaneously cause the refunding and defeasance of the portion of the 2001 Authority Bonds which relate to the Wastewater System); (ii) financing certain capital improvements to the Wastewater System; (iii) funding a reserve fund for the 2010 Wastewater Revenue Bonds; and (iv) paying costs of issuance incurred in connection with the issuance of the 2010 Wastewater Revenue Bonds; and

WHEREAS, the 2010 Water Revenue Bonds and the 2010 Wastewater Revenue Bonds are sometimes referred to herein as the “Bonds”; and

WHEREAS, the City Council wishes at this time to give its approval to the transactions described herein, and the form of the agreements and documents relating thereto;

NOW, THEREFORE, BE IT RESOLVED, BY THE CITY COUNCIL OF THE CITY OF SUNNYVALE AS FOLLOWS:

SECTION 1. AUTHORIZATION OF 2010 WASTEWATER REVENUE BONDS. The City Council hereby authorizes the issuance of the 2010 Wastewater Revenue Bonds by the City under and pursuant to the Bond Law and the 2010 Wastewater Revenue Bond Indenture, in the maximum principal amount of not to exceed \$45,000,000, for the purpose of providing funds to: (1) refund the portion of the principal payments due under the 2001 Installment Sale Agreement which relate to the Wastewater System (which will simultaneously cause the refunding and defeasance of the portion of the 2001 Authority Bonds which relate to the Wastewater System); (2) finance certain additions and improvements to the City’s Wastewater System; (3) fund a reserve fund for the 2010 Wastewater Revenue Bonds; and (4) pay for costs of issuance incurred in connection with the issuance of the 2010 Wastewater Revenue Bonds.

SECTION 2. AUTHORIZATION OF 2010 WATER REVENUE BONDS. The City Council hereby authorizes the issuance of the 2010 Water Revenue Bonds by the City under and pursuant to the Bond Law and the Water Revenue Bond Indenture, in the maximum aggregate principal amount of not to exceed \$30,000,000, for the purpose of providing funds to: (1) refund the portion of the principal payments due under the 2001 Installment Sale Agreement which relate to the Water System (which will simultaneously cause the refunding and defeasance of the portion of the 2001 Authority Bonds which relate to the Water System); (2) finance certain additions and improvements to the City’s Water System; (3) fund a reserve fund for the 2010 Water Revenue Bonds; and (4) pay for costs of issuance incurred in connection with the issuance of the 2010 Water Revenue Bonds.

SECTION 3. APPROVAL OF ESCROW AGREEMENT. In order to provide for the refunding of the 2001 Installment Sale Agreement (and the simultaneous refunding and defeasance of the 2001 Authority Bonds), the City Council hereby approves the Escrow Deposit and Trust Agreement, dated as of June 1, 2010 (the “Escrow Agreement”), by and among U.S. Bank Trust National Association, as escrow bank, the Authority and the City, in substantially the form on file with the City Clerk, together with such additions thereto and changes therein as the City Manager or the Director of Finance shall deem necessary, desirable or appropriate; provided that the execution thereof by the City Manager or the Finance Director shall be conclusive evidence of the approval of any such additions and changes. The City Manager and the Finance Director are each hereby separately authorized and directed to execute, and the City Clerk is hereby authorized and directed to attest and affix the seal of the City to, the final form of the

Attachment E

Escrow Agreement for and in the name and on behalf of the City. The City Council hereby authorizes the delivery and performance of the Escrow Agreement.

SECTION 4. SALE OF BONDS. The City Council hereby approves the sale of the Bonds pursuant to separate Bond Purchase Agreements, between the City and the Underwriter, in the forms on file with the Director of Finance, so long as the principal amount of the Wastewater Revenue Bonds does not exceed \$45,000,000, so long as the principal amount of the Water Revenue Bonds does not exceed \$30,000,000, and so long as the Underwriter's discount on the Bonds does not exceed eight-tenths of one percent (.8%) of the principal amount of the Bonds. The Bonds shall be sold at a purchase price and at such rates of interest as shall produce net present value savings to the City on the refunding of the 2001 Authority Bonds.

SECTION 5. OFFICIAL STATEMENTS. The City Council hereby approves the preparation by Jones Hall, as disclosure counsel to the City, of, and hereby authorizes the City Manager or the Director of Finance to deem final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934 except for permitted omissions, the preliminary forms of Official Statements describing the Bonds. Distribution of such preliminary Official Statements by the Underwriter is hereby approved. The City Manager and the Director of Finance are hereby separately authorized to execute the final forms of the Official Statements, as they may be modified by such additions thereto and changes therein as the City Manager and the Director of Finance shall deem necessary, desirable or appropriate; provided that the execution of the final Official Statements by the City Manager or the Director of Finance shall be conclusive evidence of the approval of any such additions and changes. The City Council hereby authorizes the distribution of the final Official Statements by the Underwriter. The final Official Statements shall be executed in the name and on behalf of the City by the City Manager or the Director of Finance.

SECTION 6. OFFICIAL ACTIONS. The Mayor, the City Manager, the Director of Finance, the City Clerk and any and all other officers of the City are hereby authorized and directed, for and in the name and on behalf of the City, to do any and all things and take any and all actions, including execution and delivery of any and all certificates, requisitions, agreements, notices, consents and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the transactions as described herein. Whenever in this resolution any officer of the City is authorized to execute or attest any document or take any action, such execution, attestation or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf in the case such officer shall be absent or unavailable.

SECTION 7. EFFECTIVE DATE. This Resolution shall take effect upon its passage and adoption.

Adopted by the City Council at a regular meeting held on November 18, 2008, by the following vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

ATTEST:

APPROVED:

City Clerk
(SEAL)

Mayor

APPROVED AS TO FORM AND LEGALITY:

David Kahn, City Attorney