NOVATO SANITARY DISTRICT

Meeting Date: October 9, 2017

The Board of Directors of Novato Sanitary District will hold a regular meeting at 5:30 p.m., Monday, October 9, 2017, at the District Offices, 500 Davidson Street, Novato.

Materials related to items on this agenda that are public records, are available for public inspection in the District Office, 500 Davidson Street, Novato, during normal business hours. They are also available on the District's website: www.novatosan.com. Note: All times and/or order of consideration for agenda items are for reference only. The Board of Directors may consider item(s) in a different order than set forth herein.

AGENDA

1. PLEDGE OF ALLEGIANCE:

2. AGENDA APPROVAL:

3. PUBLIC COMMENT (PLEASE OBSERVE A THREE-MINUTE TIME LIMIT):

This item is to allow anyone present to comment on any subject not on the agenda, or to request consideration to place an item on a future agenda. Individuals will be limited to a three-minute presentation. No action will be taken by the Board at this time as a result of any public comments made.

4. REVIEW OF MINUTES:

a. Consider approval of minutes of the September 25, 2017 regular meeting.

5. CONSENT CALENDAR:

The General Manager-Chief Engineer has reviewed the following items. To his knowledge, there is no opposition to the action. The items can be acted on in one consolidated motion as recommended, or may be removed from the Consent Calendar and separately considered at the request of any person.

a. Approve regular disbursements, September 25 - October 9, 2017.
b. Receive deposit summary, September 2017.
c. Approve the General Manager-Chief Engineer to attend the Water Environment & Reuse Foundation (WE&RF) Funding Innovation Workshop, Denver, Colorado, November 6-7, 2017.

6. SOLID WASTE - INFORMATION ONLY:

a. Receive update on Request for Consent to Reassignment – Amended and Restated Agreement between Novato Sanitary District and Novato Disposal Service, Inc. for Solid Waste Collection, Processing, Diversion and Disposal.

7. REFINANCING OF 2011 CERTIFICATES OF PARTICIPATION (COPS):

a. Receive update on refinancing process from financing team.
b. Adopt Resolution No. 3111 authorizing the issuance of Refunding Bonds to Refinance Certain Outstanding Debt Issued by the District in 2011, and approving and authorizing related agreements and actions.

8. WASTEWATER OPERATIONS:

a. Receive Wastewater Operations Reports, September 2017:

- Collection Systems
- Treatment Facilities
- Reclamation Facilities

9. BOARD MEMBER REPORTS AND REQUESTS:

10. INFORMATIONAL ITEMS:

These items are for information only - no action will be taken on these items as a result of any comments made.

a. Receive copy of State Senate Concurrent Resolution 80 – Relative to Water Professionals ("Water Professionals Appreciation Week").

11. GENERAL MANAGER'S REPORT AND ANNOUNCEMENTS:

12. ADJOURNMENT:

Next Resolution No. 3112.

Next regular meeting date: Monday, October 23, 2017, 5:30 PM, at the Novato Sanitary District office, 500 Davidson Street, Novato, CA.

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the District at (415) 892-1694 at least 24 hours prior to the meeting. Notification prior to the meeting will enable the District to make reasonable accommodation to help ensure accessibility to this meeting.

NOVATO SANITARY DISTRICT

Board Meeting Minutes

Meeting Date: September 25, 2017

A regular meeting of the Board of Directors of the Novato Sanitary District was held at 5:30 p.m., Monday, September 25, 2017, at the District Office, 500 Davidson Street, Novato.

BOARD MEMBERS PRESENT: President Jerry Peters, Directors Carole Dillon-Knutson, William Long, Jean Mariani, and Brant Miller.

STAFF PRESENT: General Manager-Secretary Sandeep Karkal, District Counsel Kent Alm, and Administrative Secretary Julie Hoover.

ALSO PRESENT: Dale Thrasher, Administrative Services/Safety Officer
John O'Hare, Pretreatment Programs Manager, Veolia Water
Dee Johnson, Solid and Household Hazardous Waste Program Coordinator
Jim Salyers, Vice President, Novato Disposal
William Schoen, R3 Consulting Group

PLEDGE OF ALLEGIANCE:

AGENDA APPROVAL: The General Manager noted a change to the agenda: ***Item 7.a., NBWRA meeting, ~~August 21,~~ August 28, 2017***. The agenda was approved as amended.

PUBLIC COMMENT: None.

REVIEW OF MINUTES:

Consider approval of minutes of the September 11, 2017 regular meeting. Director Miller requested a modification to the minutes on page 4, paragraph 4, as follows: **Director Miller asked for clarification on ~~the staffing for the Recycling Center~~ how Recology would perform their services under the agreement,**. Furthermore, Director Miller requested an addition to the minutes on page 5, paragraph 4, as follows: ***…the Board approved the Finance Committee's recommendations as amended to:…***

On motion of Director Dillon-Knutson, seconded by Director Mariani, and carried with the following vote, the September 11, 2017 Board meeting minutes were approved as modified: Ayes: Peters, Dillon-Knutson, Mariani, Miller. Abstain: Long (absent from the September 11th Board meeting).

CONSENT CALENDAR:

Director Miller requested that item d: *Receive update - Refinancing of 2011 Certificates of Participation (COPs)*, be removed from the Consent Calendar for further consideration.

President Peters called for a motion on the remaining Consent Calendar items as follows:

a. Approve capital project disbursements in the amount of $10,642.00, and regular disbursements in the amount of $345,452.23.

b. Approve payroll and payroll related disbursements for the month of September in the amount of $254,404.79.
c. Approve the North Bay Water Reuse Authority fourth Revised Memorandum of Understanding (MOU), subject to minor changes or edits, and authorize the Board President to sign the MOU.

On motion of Director Mariani, seconded by Director Dillon-Knutson, and carried unanimously, the above listed Consent Calendar items were approved.

d. Receive update – Refinancing of 2011 Certificates of Participation (COPs).
Director Miller requested that the Board Agenda Item Summary No. 5.d., on page 55 be amended as follows: **'At its September 11, 2017 meeting, the Board approved *proceeding with the process of* refinancing of the District's 2011 Certificates of Participation (COPs),…'**

On motion of Director Miller, seconded by Director Dillon-Knutson, and carried unanimously, the above listed Consent Calendar item was received and approved as amended.

SOLID WASTE COMMITTEE:

- Receive Solid Waste Committee report, meeting of September 20, 2017, and its recommendation for a Calendar Year (CY) 2018 maximum solid waste rate adjustment of +5.04 percent. The General Manager stated that the Solid Waste Committee met on September 20, 2017, with Committee Members Mariani and Peters in attendance. He stated that the Committee reviewed a CY2018 rate adjustment request of +5.20 percent from Novato Disposal Service (NDS). He stated that a third party report analyzing NDS' request was prepared by R3 Consulting Group, who recommended that the District grant a rate adjustment of +5.04 percent, for the reasons listed in the report. He stated that the Committee reviewed the report and concurs with the R3 report and recommendation of +5.04, and recommends that the Board approve a CY2018 solid waste rate adjustment of +5.04 percent.

The General Manager stated that Dee Johnson, Solid and Household Hazardous Waste Program Coordinator, Jim Salyers, Novato Disposal, and William Schoen, R3 Consulting Group, were in attendance if the Board had any questions on the reports. A brief discussion followed between the Board members, Dee Johnson, Jim Salyers, and William Schoen on various items including solid waste diversion rates, and the proposed CY2018 rate adjustment.

- Review proposed Notice of Intent and Public Hearing, and set public hearing date of October 23, 2017 to establish CY2018 maximum solid waste rates. The General Manager stated that it is recommended that the Board review the proposed Notice of Intent and Public Hearing. He requested the Board set the public hearing to establish the CY2018 maximum solid waste rates for its regular meeting of Monday, October 23, 2017.

On motion of Director Long, seconded by Director Dillon-Knutson, and carried unanimously, the Board set the Public Hearing date of October 23, 2017, to hear public comments and consider adoption of a Resolution setting a proposed 5.04 percent maximum increase in refuse rates for Novato Disposal Services.

Dee Johnson and Jim Salyers left the meeting at 6:00 p.m.

BOARD MEMBER REPORTS AND REQUESTS:

- North Bay Water Reuse Authority (NBWRA) meeting, August 28, 2017. Director Long commented on his attendance at the NBWRA meeting, held at Novato City Hall. He stated that the NBWRA approved revisions to the Memorandum of Understanding and authorized its consideration and approval by the Member Agencies.

INFORMATIONAL ITEMS:

- Article from Popular Mechanics titled "Disgusting 150-ton "Fatberg" found in London sewer". The General Manager noted that the article was for informational purposes only. It was briefly discussed by the General Manager and the Board.

GENERAL MANAGER'S REPORT AND ANNOUNCEMENTS:

- The next regular Board meeting will be held Monday, October 9th at 5:30 p.m.

ADJOURNMENT: There being no further business to come before the Board, President Peters adjourned the meeting at 6:04 p.m.

Respectfully submitted,

_____
Sandeep Karkal
Secretary

Julie Hoover, Recording

Novato Sanitary District
Board Fees for September 2017

October 6, 2017

Date	Num	Name	Credit
Oct 6, 17			
10/06/2017	5151	Mariani, Jean M	860.15
10/06/2017	5153	Peters, Arthur Gerald	575.37
10/06/2017	5150	Long, William C	521.58
10/06/2017	5149	Dillon-Knutson-, Carole	415.57
10/06/2017	5152	Miller, Brant	
Oct 6, 17			**2,372.67**

Novato Sanitary District
Operating Check Register for October 9, 2017

Date	Num	Name	Credit
Oct 9, 17			
10/09/2017	61120	Veolia Water North America, Inc.	181,203.89
10/09/2017	61121	Veolia Water North America, Lab	28,326.35
10/09/2017	61116	Stericycle	18,217.20
10/09/2017	61126	PARS-PSRP-Post Employment Be...	9,298.00
10/09/2017	61125	PARS-OPEB-Post Employment Be...	6,782.75
10/09/2017	61104	North Bay Petroleum	6,628.30
10/09/2017	61099	Johnson, Dee	6,570.00
10/09/2017	61105	North Bay Watershed Assoc.	5,882.57
10/09/2017	61101	Maze & Associates	4,665.00
10/09/2017	61097	Harmony Press	3,280.00
10/09/2017	61091	Dearborn National	2,397.36
10/09/2017	61102	Monterey Mechanical, Inc.	1,800.00
10/09/2017	61083	Calcon Systems, Inc.	1,514.00
10/09/2017	61088	CT Promotions	1,410.39
10/09/2017	61089	Custom Tractor Service	1,400.00
10/09/2017	dd	Long, William C.	1,369.63
10/09/2017	61086	Citi Visa (Costco)	1,293.41
10/09/2017	61118	Unicorn Group	1,052.12
10/09/2017	61098	Jan-Pro Cleaning Systems	1,005.00
10/09/2017	61103	NACWA	1,000.00
10/09/2017	61085	Cintas Corporation	998.96
10/09/2017	61094	Frontier Analytical Laboratory, Inc.	800.00
10/09/2017	61080	B.W.S. Distributors, Inc.	651.35
10/09/2017	61077	Alpha Analytical Lab,Inc.	585.00
10/09/2017	61122	Vision Service Plan	570.58
10/09/2017	61095	Frontier California Inc EQ	566.30
10/09/2017	61112	Rotary Club of Novato Sunrise	420.00
10/09/2017	61110	Pitney Bowes Reserve Account	400.00
10/09/2017	61111	Red Wing Shoe Store	400.00
10/09/2017	61084	Cantarutti Electric, Inc	325.00
10/09/2017	61096	Golden Gate Petroleum, Corp	302.71
10/09/2017	61109	Pini Hardware	278.81
10/09/2017	61081	BoundTree Medical, LLC	259.98
10/09/2017	61107	Novato Disposal-	254.44
10/09/2017	61087	Claremont EAP, Inc.	250.00
10/09/2017	61100	Marin County Ford	197.42
10/09/2017	61113	Roto Rooter-(Inc.)	193.50
10/09/2017	61108	Orkin Pest Control, Inc.	150.34
10/09/2017	61106	Novato Chamber of Commerce	150.00
10/09/2017	61115	Staples Advantage	130.49
10/09/2017	61093	Fishman Supply Company	99.13
10/09/2017	61090	CWEAmembers	90.00
10/09/2017	61092	Fisher-Scientific	81.87
10/09/2017	61114	Schwaab Inc.	72.75
10/09/2017	61078	American Messaging	71.24
10/09/2017	61079	AT&T Mobility	63.28
10/09/2017	61082	Buck's Saw Service, Inc.	37.80
10/09/2017	61119	United Parcel Service	28.38
10/09/2017	61117	U.S. Bank (Sandeep)	21.69
10/09/2017	61076	Aaero Heating & Sheetmetal, Inc.	8.00
Oct 9, 17			**293,554.99**

Novato Sanitary District
Capital Projects Check Register
October 9, 2017

Date	Num	Name	Credit
Oct 9, 17			
10/09/2017	3215	Nute Engineering Inc.	17,183.20
10/09/2017	3216	Sonoma County Water Agency	3,686.00
10/09/2017	3210	Eaton Corporation	2,600.00
10/09/2017	3211	Lateral-Myers	2,000.00
10/09/2017	3212	Lateral-Wilkosz	2,000.00
10/09/2017	3213	Lateral - Lardas	2,000.00
10/09/2017	3214	Marin Independent Journal	1,034.90
10/09/2017	3217	Unicorn Group	906.79
Oct 9, 17			**31,410.89**

Novato Sanitary District
Deposit Detail
September 2017

Item 5.b.
(Pages 9 & 10)

Type	Date	Name		Account	Amount
Deposit	**09/06/2017**			**11113 · Westamerica - Operations**	
		Gopher It		41040 · Permit & Inspection Fee	40.00
		Ben Franklin Plumbing		41040 · Permit & Inspection Fee	40.00
		Deasy, Craig R		66020 · Employee Benefits	178.32
		Deasy, Craig		66020 · Employee Benefits	267.09
		North Marin Water District-		11200 Accounts Receivable	1,705.00
		Kleinfelder	**(1)**	11200 Accounts Receivable	2,183.69
TOTAL					4,414.10
Deposit	**09/12/2017**			**11113 · Westamerica - Operations**	
		Advanced Trenchless		41040 · Permit & Inspection Fee	80.00
		Long, William C		66170 · Travel, Meetings & Training	3.99
		Novato Disposal	**(2)**	11200 Accounts Receivable	26,093.00
TOTAL					26,176.99
Deposit	**09/13/2017**			**11113 · Westamerica - Operations**	
		USCG		11200 Accounts Receivable	15,342.70
TOTAL					15,342.70
Deposit	**09/14/2017**			**11113 · Westamerica - Operations**	
		Zaragoza Plumbing		41040 · Permit & Inspection Fee	40.00
		Ben Franklin Plumbing		41040 · Permit & Inspection Fee	40.00
		Roy's Sewer Service, Inc.-		11200 Accounts Receivable	846.19
		Hayden, Ron	**(3)**	11200 Accounts Receivable	11,527.54
TOTAL					12,453.73
Deposit	**09/25/2017**			**11113 · Westamerica - Operations**	
		Principal Builders		41040 · Permit & Inspection Fee	60.00
		Misco Water		73005 · RWF Expansion	40.00
		Ben Franklin Plumbing		41040 · Permit & Inspection Fee	40.00
		Ben Franklin Plumbing		41040 · Permit & Inspection Fee	40.00
		Craig, Kevin-		66020 · Employee Benefits	178.32
		MISC-		66090 · Office Expense	55.00
		Valentine Corporation		73005 · RWF Expansion	40.00
		Maggiora & Ghilotti		73005 · RWF Expansion	75.00
		Sierra Mountain Const. Inc.		73005 · RWF Expansion	40.00
		Hayden, Ron	**(4)**	11200 Accounts Receivable	54,369.98
		Roto Rooter		11200 Accounts Receivable	1,109.22
TOTAL					56,047.52

Novato Sanitary District
Deposit Detail
September 2017

Deposit	**09/29/2017**			**11113 · Westamerica - Operations**	
		GSE Const. Company, Inc.		73005 · RWF Expansion	40.00
		Pacific Infrastructure		73005 · RWF Expansion	115.00
		Gagne Bros Enterprises		73005 · RWF Expansion	40.00
		Gene Burch Plumbing		41040 · Permit & Inspection Fee	15.00
		Pipe Spy Marin		41040 · Permit & Inspection Fee	40.00
		Steven Paul Ross GC		41040 · Permit & Inspection Fee	1,040.00
		County of Marin		51015 · Property Taxes	224.16
		Mountain Cascade Inc.		73005 · RWF Expansion	40.00
		Redwood Painting Co.		73005 · RWF Expansion	75.00
		Novato Village LP	**(5)**	51020 · Connection Charges	105,186.00
		Novato Village LP	**(5)**	51040 · Special Equalization Charge	4,230.00
		Novato Village LP	**(5)**	51020 · Connection Charges	45,770.00
		Novato Village LP	**(5)**	41030 · Plan Check & Inspection Fee	5,882.00
		SMART-		11200 Accounts Receivable	269.43
		Petaluma Septic		11200 Accounts Receivable	615.67
TOTAL					163,582.26
				Total Deposits for September	**278,017.30**

(1) **Collection on receivable for non-domestic discharge permit fee Exxon-Mobil.**

(2) **Collection on first half of franchise fee for FYE17/18 from Novato Disposal.**

(3) **Collection on receivable for water used by rancher in prior FYE 16/17.**

(4) **Collection on receivable for ranch lease for the period July - December 2016.**

(5) **Collection of partial fees for 801 State Access Road for Hamilton Cottage Senior Apartments.**

NOVATO SANITARY DISTRICT
BOARD AGENDA ITEM SUMMARY

TITLE: Consent Calendar: Water Environment & Reuse Foundation (WE&RF) Funding Innovation Workshop.	**MEETING DATE: October 9, 2017** **AGENDA ITEM NO.: 5.c.**

RECOMMENDED ACTION: Approve the General Manager-Chief Engineer to attend the Water Environment & Reuse Foundation (WE&RF) Funding Innovation Workshop, Denver, Colorado, November 6-7, 2017.

SUMMARY AND DISCUSSION:

The Water Environment & Reuse Foundation (WE&RF) has invited the General Manager-Chief Engineer to participate in the "Funding Innovation Workshop: Turning an Idea into a Line Item", in Denver, Colorado, November 6-7, 2017.

The workshop is an invitation only event, and is intended to have a national focus. It will include water and wastewater utilities from around the United States, and participants will identify tips for successful implementation, potential partnership opportunities, and solutions to overcome utility specific challenges.

Jeff Moeller, WE&RF Director of Research and Technology, has informed that WE&RF will cover all travel related expenses for the meeting (flight, hotel, meals, parking, etc.), and there is no registration fee for the workshop. Therefore, it is anticipated that other than staff time, the expense to the District will be minimal, and be funded from Account No. 66170 - Travel, Meetings and Training.

It is recommended that the Board approve the General Manager-Chief Engineer to attend the workshop.

BUDGET INFORMATION: The costs for attendance would be funded from Account No. 66170 – Travel, Meetings and Training, which has a current balance of $48,214.48, with no outstanding encumbrances.

STRATEGIC PLAN INFORMATION: This item addresses Goal 1 (Operational Excellence) and Goal 5 (Effective Governance and Administration) of the latest Strategic Plan Update.

DEPT. MGR.: ssk	**GENERAL MANAGER: SSK**

NOVATO SANITARY DISTRICT
BOARD AGENDA ITEM SUMMARY

TITLE: Solid Waste – Information only.	**MEETING DATE: October 9, 2017** **AGENDA ITEM NO.: 6.a.**

RECOMMENDED ACTION: Receive update on Request for Consent to Reassignment – Amended and Restated Agreement between Novato Sanitary District and Novato Disposal Service, Inc. for Solid Waste Collection, Processing, Diversion and Disposal.

SUMMARY AND DISCUSSION:

The District currently has an Agreement with Novato Disposal Service, Inc. for solid waste collection, processing, diversion and disposal. The District previously received letters and submittals relating to a potential assignment of this Agreement by Novato Disposal Service, Inc. (NDS) to Recology Inc. (Recology). These letters and submittals were included in the September 11, 2017 Board meeting agenda packet.

The District retained R3 Consulting Group, Inc. (R3) Sacramento, CA, to evaluate the information and submittals presented by NDS and Recology, and assist the District in performing its due diligence efforts. R3 has historically functioned as the District's third party solid waste consultant, and they are also assisting other jurisdictions in Marin and Sonoma Counties with similar due diligence activities for contract reassignments from NDS's parent company to Recology. Note that the Agreement requires NDS to pay the costs of the District's due diligence efforts.

Subsequently, R3, District Counsel Kent Alm, and staff reviewed the information and submittals provided by NDS and Recology, and the attached preliminary review letter was provided to Recology. Briefly, the letter informs Recology that R3, District Counsel, and staff will be seeking to update the District Board at its October 9, 2017 meeting, as well as solicit additional questions or comments from the Board relating to the Agreement. The letter also notes that the District expects Recology to provide information on transition planning following any contract reassignment.

Recology followed up and requested a meeting with R3, District Counsel, and staff to review the letter. The meeting was held Tuesday, October 3, 2017, and upon discussion, Recology committed to provide the District with a response to the District's letter in about a week. They also indicated that any existing concerns referenced in the District's letter would be addressed following contract reassignment.

At this time, the District team (R3, District Counsel, and staff) proposes to review Recology's response when received, and present any conclusions and recommendations on reassignment initially to the Solid Waste Committee, and then to the full Board. The earliest that the District team anticipates any Board action on contract reassignment would be at the Board's November 13, 2017 meeting.

ATTACHMENTS: 1. Referenced District letter of September 28, 2017 to Recology.

STRATEGIC PLAN INFORMATION: This item addresses Goal 1 (Operational Excellence) and Goal 2 (Reliable and Efficient Facilities) of the latest Strategic Plan Update.

DEPT. MGR.: dlj, ka, ssk	**GENERAL MANAGER:** SSK

NOVATO SANITARY DISTRICT

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BOARD OF DIRECTORS

JERRY PETERS, President
CAROLE DILLON-KNUTSON, President Pro-Tem
WILLIAM C. LONG
JEAN MARIANI
BRANT MILLER

SANDEEP KARKAL, P.E.
General Manager-Chief Engineer

KENTON L. ALM
Legal Counsel

September 28, 2017

Mr. Michael J. Sangiacomo
President and Chief Executive Officer
Recology, Inc.
50 California Street, 24th Floor
San Francisco, CA 94111-9796

Subject: Request for Consent to Assignment; A&R Solid Waste Collection, Processing, Diversion and Disposal Agreement between Novato Disposal Service, Inc. ("Contractor") and Novato Sanitary District (the "Agreement").

Dear Mr. Sangiacomo:

The Novato Sanitary District (District) received your August 25, 2017, letter regarding the "Assignment of A&R Solid Waste Collection, Processing, Diversion and Disposal Agreement between Novato Disposal Service, Inc. ("Contractor") and Novato Sanitary District (the "Agreement") to Recology Sonoma Marin ("Recology"). We have engaged R3 Consulting Group, Inc. (R3) to assist the District with its consideration of the requested assignment, and are actively moving forward with our review.

As you are aware, as part of R3's support to the District, and other jurisdictions in Sonoma and Marin County to whom Recology has made similar assignment requests, R3 is conducting due diligence related to Recology's corporate strength, capabilities, and performance. Based on the results of that review, the District may have specific follow-up questions for Recology. At this time, we wish to focus on Recology's request for assignment of the District's franchise, and questions, and requested information specific to the assignment.

The District entered into the Agreement with Novato Disposal Service (NDS) on March 15, 2011. The Agreement expires at midnight on December 31, 2025, except in the event of assignment, in which case the term of the Agreement shall be reduced to a maximum of seven (7) years from the date of the assignment. The District also has the option to extend the term of the Agreement for a maximum additional sixty (60) months.

Under the terms of the Agreement, the Company's[1] rates are to be adjusted annually on January 1st, based on the specified Refuse Rate Index (RRI) calculation, or detailed rate review, if requested by either the District or the Company. The starting basis for a detailed rate review is the Company's audited financial statements for the most recently completed fiscal year (January 1 – December 31). If the Agreement is assigned to Recology prior to January 1, 2018, the soonest that a detailed rate review can be conducted would be in 2019, with Recology's 2018 audited financial statement serving as the starting basis for that review. Any associated rate adjustment would be effective January 1, 2020.

Section 11.6.3 of the Agreement states that: *"Under no circumstances shall the District be obliged to consider any proposed assignment by the District if the Company is in default at any time during the period of consideration."*

Should the District consent to the assignment, much of the basis for that consent is the District's expectation that Recology will:

- Implement and operate a high-diversion system that meets the current 60% Landfill Diversion Requirement, and the 2020 (70%) and 2025 (80%) requirements; and
- Effectively comply with all terms and conditions of the Agreement.

With that understanding, there are a number of critical issues with respect to NDS's performance under the Agreement that require prompt attention, including:

1. Failure of NDS to meet its Zero Waste Minimum Landfill Diversion Requirement of 60% by December 31, 2015;[2,3]
2. The poor performance of NDS's Commercial and MFD Organic Waste Service (Section 4.3.4),[4] particularly given its failure to meet its 60% Landfill Diversion Requirement;
3. Failure to provide MFD Recycling Tote Bags (Section 4.4.2);[5]

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1 The Agreement refers to the "Company" rather than the "Contractor".

2 The Company's 2016 Landfill Diversion Rate was 51.6%.

3 Recognizing that several issues, including markets, have caused problems with diversion percentages, several required programs, including school recycling, and commercial and MFD organics collection have either not been enacted or have not met their implementation dates. The District expects the Company to fulfill the Zero Waste Minimum Landfill Diversion Requirements, and provide the District with a detailed description of the specific programs and efforts it intends to undertake to do so.

4 Although Novato Disposal has provided some commercial organics collection, it is very limited, and appears to be at a standstill. CalRecycle has indicated to the District that this is a very high priority, and AB 1383 will require significant organics diversion in the next few years. The Company needs to provide the services as required under this section of the Agreement.

5 MFD Recycling Tote Bags have never been provided by the Company, as required by the Agreement.

4. Relocation of the Recycling Center (Section 4.11.7)[6], and HHW Facility and the addition of a second buy-back center (4.8.2);[7]
5. Lack of provision of two (2) convenient locations in the Novato area where payments can be made (Section 5.2.1);[8]
6. Lack of adequacy of NDS's customer service system (Section 5.2);[9]
7. Increased community outreach (Section 5.4 and Exhibit 4); [10] and
8. Increased outreach to public schools (Section 4.6.2 and Exhibit 5).[11]

To understand how Recology plans to comply with each of the above existing contractual deficiencies, we request that it provide the District with a "Remediation Plan". That Remediation Plan should provide sufficient detail as to how Recology intends to address each of the eight (8) issues listed above, along with a proposed implementation schedule. Once we receive that information, it will be reviewed, and we will let you know if we have any additional questions.

In addition, to the above items, the District expects the following from Recology as conditions of the assignment:

1. A Review of Billings (Section 5.1.2), within the first year of any assignment;
2. A list of vehicles assigned to the District's franchise, with vehicle ages and anticipated vehicle replacement schedule; and
3. A "Transition Plan" that clearly lists the specific tasks, and associated schedule necessary to facilitate a seamless transition from NDS to Recology, including specific customer outreach to be provided.

Please know that the District is interested in completing its due diligence as quickly as possible. We would welcome the opportunity to meet with Recology to discuss the assignment, and the above issues and requests, and we look forward to working with Recology to develop reasonable Remediation and Transition Plans. Staff and R3 plan to discuss the assignment with the District's

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6 The current Recycling Center property at 7576 Redwood Boulevard may be sold in the near future and is no longer a viable location for the Recycling Center or the HHW Facility. The District has requested that the Company pursue a new location for the Recycling Center and HHW Facility and considers this a very high priority.

7 The second buy-back center was closed several years ago and no new location has been provided. The District is anxious for the Company to provide a second buy-back location and fulfill this Agreement requirement.

8 There are no such required convenient locations available to customers.

9 This entire section speaks to the customer service requirements, including adequacy of telephone system to handle customer inquiries and responsible and qualified Company representatives to communicate with the public. The District continues to receive complaints about wait times and missed pick-ups. It is expected that the Company will resolve all outstanding customer service complaints.

10 The Company should fully promote services in print and electronic material as required by Agreement. The Company website should reflect Zero Waste Goals.

11 Although the Company has provided some outreach to schools, it has not encouraged worm composting, sponsored field trips, or significantly provided any electronic classroom materials. The Company should review school outreach programs to comply with Agreement requirements.

Board of Directors (Board) at the October 9, 2017 Board Meeting. The earliest that we could expect any Board action on the assignment would be at its November 13, 2017 Board meeting, assuming all the above questions and requests, and any additional questions and/or requests that the Board or the District may have, have been effectively addressed by that date.

Please let me know if you would like to schedule a meeting with the District, and your anticipated timeline for responding to this request.

Sincerely,

Sandeep S. Karkal

Sandeep Karkal
General Manager-Chief Engineer

cc: Rick Powell, President, North Bay Corporation
William Schoen, R3 Consulting Group
Kent Alm, District Counsel, Meyers Nave

NOVATO SANITARY DISTRICT
BOARD AGENDA ITEM SUMMARY

TITLE: Issuance of Refunding Bonds to Refinance the 2011 Certificates of Participation (COPs).	**MEETING DATE: October 9, 2017.** **AGENDA ITEM NO.: 7.a.&b.**

RECOMMENDED ACTIONS:

a. Receive update on refinancing process from financing team.
b. Adopt Resolution No. 3111 authorizing the issuance of Refunding Bonds to refinance Certain Outstanding Debt Issued by the District in 2011, and approving and authorizing related agreements and actions.

SUMMARY AND DISCUSSION:

At its September 11, 2017 meeting, the Board approved and directed staff to proceed with the process of refinancing the District's 2011 Certificates of Participation (COPs).

At that meeting, the Board also directed staff to: retain Mr. Steven Gortler as the District's Financial Advisor (FA) for the refinancing process, return to the Board for formal approval of the refinancing when the necessary documents had been drafted, and to provide periodic updates to the Board.

Subsequently, Mr. Gortler provided an update on the process for the Board's September 25, 2017 meeting.

At this time, Mr. Gortler and staff have prepared the attached Memorandum for the Board's consideration. Based on the information provided, it is recommended that the Board adopt the attached Resolution of the District (see Attachment A to the Memorandum) numbered as Resolution No. 3111 authorizing the issuance of Refunding Bonds to refinance the 2011 COPs and approving and authorizing related agreements and actions.

ATTACHMENTS: Memorandum (including its attachments) from staff and the District's Financial Advisor Mr. Steven Gortler, on refinancing the District's 2011 COPs.

STRATEGIC PLAN INFORMATION: This item addresses Goal 4 (Well Planned Finances with a Long Range Outlook), Goal 1 (Operational Excellence), and Goal 3 (Alignment and Communications), of the latest Strategic Plan Update.

DEPT. MGR.: lcc, ssk	**GENERAL MANAGER:** SSK

MEMORANDUM

Date October 9, 2017

To Board of Directors, Novato Sanitary District

From Sandeep Karkal, General Manager – Chief Engineer
Laura Creamer, Finance Officer
Steven Gortler, Registered Municipal Advisor

SUBJECT Refinancing of 2011 Certificates of Participation

RECOMMENDATION

It is recommended that the Board of Directors adopt a Resolution authorizing the issuance of Refunding Bonds to refinance certain outstanding debt issued by the District in 2011, and authorizing the General Manager to execute all necessary and related documents.

BACKGROUND

The District previously issued $21,750,000 of Wastewater Revenue Certificates of Participation (COPs) in October, 2011 to finance wastewater system capital improvements. The 2011 COPs are secured by and payable from wastewater system net revenues. Currently, $17,475,000 of the 2011 COPs remain outstanding.

Interest rates are now considerably lower than when the 2011 COPs were originally issued. Thus, the District can refinance the 2011 COPs at lower interest rates, and realize significant savings much the same as when homeowners refinance their mortgages.

At today's relatively low interest rates, the District can issue Refunding Bonds at a potential interest rate of approximately 2.50% as compared to 4.35% on the outstanding 2011 COPs being refinanced.

FINANCIAL IMPACT

Refinancing the 2011 COPs at today's interest rates will save approximately $160,000 per year from 2018-2031, for total savings of approximately $2.00 million, net of all issuance costs.

Another measure of the savings from this type of refinancing is 'Net Present Value Savings' or NPV Savings. NPV Savings equals totals debt service savings (e.g. $2 million) adjusted for the time value of money, costs of issuance, and any up-front contribution of funds. NPV Savings is considered a better measure of the true or real "economic benefit" of such a refinancing.

At today's interest rates, this refinancing will yield NPV Savings of approximately $1.78 million or 10.2% of the outstanding 2011 COPs being refinanced. Within the public finance industry, NPV Savings of more than 10% is considered an excellent result.

Bear in mind however, the actual amount of savings will not be determined until the Refunding Bonds are sold. Thus, if interest rates increase between now and then, it is possible the savings may be lower than expected. Moreover, if interest rates increase significantly, it is even possible the savings may be insufficient to warrant proceeding with the refinancing, in which case the refinancing may be cancelled, or delayed until a later date.

COSTS OF ISSUANCE

The cost of issuing the Refunding Bonds is expected not-to-exceed $255,000 including fees for Bond Counsel (Jones Hall), Disclosure Counsel (Norton Rose Fulbright), Underwriter (TBD), Financial Advisor (Steven Gortler), Trustee & Escrow Agent (Bank of New York), Rating Agency (Standard & Poor's), Verification Agent (Causey Demgen & Moore) and miscellaneous other fees and expenses. All of these costs are payable from proceeds of the Refunding Bonds upon closing. If for any reason the refinancing fails to close, then all of these fees and expenses will be waived and the District will not be billed, with two exceptions. A portion of the Rating Agency Fee, estimated at approximately $10,000 is not contingent. Also, the fee for the Financial Advisor (Steven Gortler) will be paid from District funds as noted in the staff memo presented to the Finance Committee at its September 6, 2017 meeting, and the Board at the September 11, 2017 Board meeting.

TIMETABLE

If the financing proceeds on schedule, then closing will occur on or about November 1, 2017.

METHOD OF SALE

There are three common methods used by local public agencies such as the Sanitary District to sell bonds: competitive public sales, negotiated public sales, and direct private placements. Depending on a variety of factors including the security for the bonds, the size, term and structure of the bonds, the creditworthiness of the bonds, and the relative degree of stability or volatility in the financial markets, one or another method of sale will likely achieve the best overall result, meaning the lowest possible true interest cost.

District staff in consultation with the District's financing team has determined that a competitive public sale of the proposed Refunding Bonds would likely achieve the best overall result. A competitive public sale is when an issuer such as the Sanitary District offers its bonds for sale on a designated date and time to all eligible underwriters, and awards the bonds to the underwriter who submits a 'bid' to buy the bonds at the lowest true interest cost.

In other words, whichever underwriter submits the bid that saves the District the most money will be awarded the Bonds.

Additionally, as a precaution the attached Resolution also authorizes the District to sell the Bonds via a negotiated public sale, in the unlikely event that circumstances should change such that a competitive sale is no longer advisable.

FINANCING DOCUMENTS

The attached resolution authorizes District staff to execute various Financing Documents including a Trust Indenture and a Preliminary and Final Official Statement. Attached to this report are drafts of each such Document, which drafts may be modified prior to execution by authorized District staff, as necessary.

Additionally, new legislation that was signed into State Law in September 2016, requires all issuers of public debt in California including the Sanitary District, to formally adopt a Debt Management Policy before any new debt can be issued as of January 2017. Such debt management policies must specify the purposes for which debt may be issued, the types of debt that may be issued, and must ensure that any debt issuance is consistent with the public policy objectives of the District, as determined by the Board.

Attached hereto is a proposed Debt Management Policy for the District which meets the requirements of the new law, while preserving necessary flexibility for the District.

Attachments

- **A.** Resolution of the District
- **B.** Debt Service Savings Analysis
- **C.** Preliminary Official Statement
- **D.** Trust Indenture
- **E.** Debt Management Policy

RESOLUTION NO. 3111

RESOLUTION OF THE BOARD OF DIRECTORS OF THE NOVATO SANITARY DISTRICT AUTHORIZING THE ISSUANCE AND SALE OF WASTEWATER REVENUE REFUNDING BONDS TO REFINANCE OUTSTANDING WASTEWATER REVENUE OBLIGATIONS OF THE DISTRICT IN AN AMOUNT NOT TO EXCEED $[18,500,000], APPROVING OFFICIAL STATEMENT AND APPROVING RELATED AGREEMENTS AND ACTIONS

WHEREAS, the Novato Sanitary District (the "District") owns and operates facilities and property for the collection, treatment and disposal of wastewater within the service area of the District (the "Wastewater System"); and

WHEREAS, the District has heretofore caused to be issued $21,750,000 Wastewater Revenue Certificates of Participation, Series 2011 (the "2011 Certificates") pursuant to a Trust Agreement, dated as of October 1, 2011 (the "2011 Trust Agreement"), by and among the District, Public Property Financing Corporation of California, and The Bank of New York Mellon Trust Company, N.A., as trustee, which are presently outstanding in the principal amount of $17,475,000; and

WHEREAS, under the 2011 Trust Agreement, the District has the option to prepay the 2011 Certificates maturing on or after February 1, 2021, in whole or in part, on February 1, 2020, at a prepayment price equal to 100.5% of the principal amount of the 2011 Certificates to be prepaid, together with accrued interest represented thereby to the prepayment date; and

WHEREAS, the District wishes at this time to refinance the 2011 Certificates in accordance with the 2011 Trust Agreement; and

WHEREAS, pursuant to the State Revolving Fund ("SRF") program, the District has previously entered into an Interagency Sales Agreement (Installment Sale Agreement No. C-06-4903-110; Agreement No. 07-824-550-0) with the State Water Resources Control Board in 2008, in the maximum principal amount of $81,329,083 (the "SRF Loan"), under which the District is obligated to make installment payments from the net revenues of the Wastewater System; and

WHEREAS, the SRF Loan and the SRF policy with respect thereto permit the incurrence of obligations payable from net revenues of the Wastewater System on a parity basis; and

WHEREAS, the Board of Directors wishes at this time to authorize the issuance and sale of the Novato Sanitary District 2017 Wastewater Revenue Refunding Bonds (the "Refunding Bonds") under the Bond Law (as herein defined) to provide funds to refinance the 2011 Certificates, such Refunding Bonds to be secured by a pledge of the net revenues of the Wastewater System on a parity with the SRF Loan; and

WHEREAS, Senate Bill 1029 (SB 1029), which became effective on January 1, 2017, amended California Government Code 8855 to add certain requirements related to

the issuance and administration of debt by local agencies such as the District, including the adoption of a debt policy meeting the requirements of California Government Code 8855; and

WHEREAS, the Board of Directors wishes at this time to approve a debt policy that is compliant with California Government Code 8855 to govern the issuance and administration of the Refunding Bonds and future debt issued by the District; and

WHEREAS, the Board of Directors of the District has duly considered such transactions and wishes at this time to approve said transactions in the public interests of the District;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Novato Sanitary District as follows:

Section 1. Adoption of Debt Management Policy. The Board of Directors hereby approves and adopts the Debt Management Policy in the form presented to the Board, and on file with the Secretary. The Debt Management Policy shall govern the issuance and administration of debt issued by the District, including the Refunding Bonds, all in accordance and subject to the conditions set forth in such policy.

Section 2. Issuance of Refunding Bonds. The Board of Directors hereby authorizes the issuance of the Refunding Bonds under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code (the "Bond Law"), for the purpose of providing funds to refinance the 2011 Certificates, and paying the costs of issuing and selling the Refunding Bonds.

Section 3. Approval of Indenture. The Refunding Bonds shall be issued under an Indenture of Trust between the District and The Bank of New York Mellon Trust Company, N.A., as trustee, which is hereby approved in substantially the form on file with the Secretary together with any changes therein or additions thereto deemed advisable by the President of the Board of Directors or the General Manager-Chief Engineer/Secretary, or either of their designees (each an "Authorized Officer"), and the execution thereof by an Authorized Officer shall be conclusive evidence of the approval of such changes and additions. The Board of Directors hereby authorizes and directs an Authorized Officer to execute, and the Secretary to attest, said form of the Indenture of Trust for and in the name of the District. The Board of Directors hereby authorizes the delivery and performance of the Indenture of Trust.

Section 4. Refinancing of the 2011 Certificates. The Board of Directors hereby authorizes and approves the refinancing of the 2011 Certificates from the proceeds of the Refunding Bonds. Such refinancing shall be accomplished as provided in the Indenture of Trust.

Section 5. Sale of Refunding Bonds via Public Offering. The Board of Directors hereby authorizes the sale of the Refunding Bonds through a public offering; provided, however, that the principal amount of the Refunding Bonds shall not exceed $18,500,000, and the net present value savings to the District shall be at least 5.00% of the outstanding principal amount of the 2011 Certificates.

Such public offering may be accomplished by either competitive bidding or through negotiation with an underwriter, as determined by an Authorized Officer to be in the best interests of the District. If competitive sale is chosen, the sale of the Refunding Bonds shall be undertaken pursuant to and in accordance with a notice of sale to be prepared by the District's municipal advisor and approved by an Authorized Officer. The Board of Directors hereby delegates to each of the Authorized Officers the authority to accept an offer from the winning bidder to purchase the Refunding Bonds from the District. In the alternative, the Board of Directors hereby delegates to each of the Authorized Officers authority to enter into a negotiated sale of the Refunding Bonds pursuant to a bond purchase agreement with an underwriter selected by an Authorized Officer.

Section 6. Official Statement; Continuing Disclosure Certificate. The Board of Directors hereby approves the Preliminary Official Statement describing the Refunding Bonds in the form on file with the Secretary, and authorizes each of the Authorized Officers to approve revisions to said Preliminary Official Statement if and to the extent necessary for distribution in connection with a public offering of the Refunding Bonds. An Authorized Officer shall execute a certificate deeming the Preliminary Official Statement, as so revised, to be nearly final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934, as amended. Distribution of the Preliminary Official Statement by the underwriter of the Refunding Bonds to prospective purchasers of the Refunding Bonds is hereby approved. Each of the Authorized Officers is hereby authorized and directed to approve any changes in or additions to a final form of said Official Statement, and the execution thereof by an Authorized Officer shall be conclusive evidence of approval of any such changes and additions. The Board of Directors hereby authorizes the distribution of the final Official Statement by the underwriter. The final Official Statement shall be executed in the name and on behalf of the District by an Authorized Officer.

The Board of Directors hereby approves the Continuing Disclosure Certificate to be executed by the District, the form of which is attached as an exhibit to the Preliminary Official Statement. Each of the Authorized Officers is hereby authorized and directed to approve any changes in or additions to a final form of said Continuing Disclosure Certificate, and the execution thereof by an Authorized Officer shall be conclusive evidence of approval of any such changes and additions. The final Continuing Disclosure Certificate shall be executed in the name and on behalf of the District by an Authorized Officer.

Section 7. Documents in Substantially Final Form; Further Authority. The documents on file with the Secretary and herein approved are in substantially final form; that is, they are final as to important business terms such as the rate covenant undertaken by the District as to the wastewater rates the District will enact so long as the Refunding Bonds are outstanding, and parity bond restrictions, governing limitations on future issues of bonds secured by net revenues of the Wastewater System, but do not contain the numbers resulting from the sale of the Refunding Bonds, which numbers will be inserted once the Refunding Bonds are sold. This resolution is intended to be a "parameters resolution," in which the Board of Directors approves a refunding wastewater revenue bond issue at a not to exceed principal amount and a minimum savings threshold, payable solely from net revenues of the Wastewater System.

Each of the Authorized Officers is authorized to purchase on behalf of the District a municipal bond insurance policy and/or debt service reserve fund policy and to comply with the terms of such policies.

Section 8. Engagement of Professional Services. In connection with the issuance and sale of the Refunding Bonds, the Board of Directors hereby authorizes Steven Gortler to act as municipal advisor to the District, the firm of Jones Hall, A Professional Law Corporation, to act as bond counsel to the District, and the firm of Norton Rose Fulbright US LLP to act as disclosure counsel to the District. Each of the Authorized Officers is hereby authorized and directed to execute an agreement with each of the foregoing firms in substantially the forms on file with the Secretary.

Section 9. Official Actions. The President of the Board, the General Manager-Chief Engineer/Secretary and any and all other officers of the District are hereby authorized and directed, for and in the name and on behalf of the District, to do any and all things and take any and all actions, including execution and delivery of any and all assignments, certificates, requisitions, agreements (including an escrow agreement related to the 2011 Certificates), notices, consents, instruments of conveyance, warrants and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the transactions described herein, and the execution or taking of such action shall be conclusive evidence of such necessity or advisability. Whenever in this resolution any officer of the District is authorized to execute or countersign any document or take any action, such execution, countersigning or action may be taken on behalf of such officer by any person designated by such officer to act on his or her behalf if such officer is absent or unavailable.

Section 10. Effective Date. This Resolution shall take effect from and after the date of its passage and adoption.

The foregoing resolution was adopted at a regular meeting of the Board of Directors of the Novato Sanitary District held on the 9th day of October 2017, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

_____
A. Gerald Peters
President

ATTEST:

_____
Sandeep Karkal
Secretary

Novato Sanitary District

2017 Wastewater Revenue Refunding Bonds

Debt Service Savings Analysis

October 3, 2017

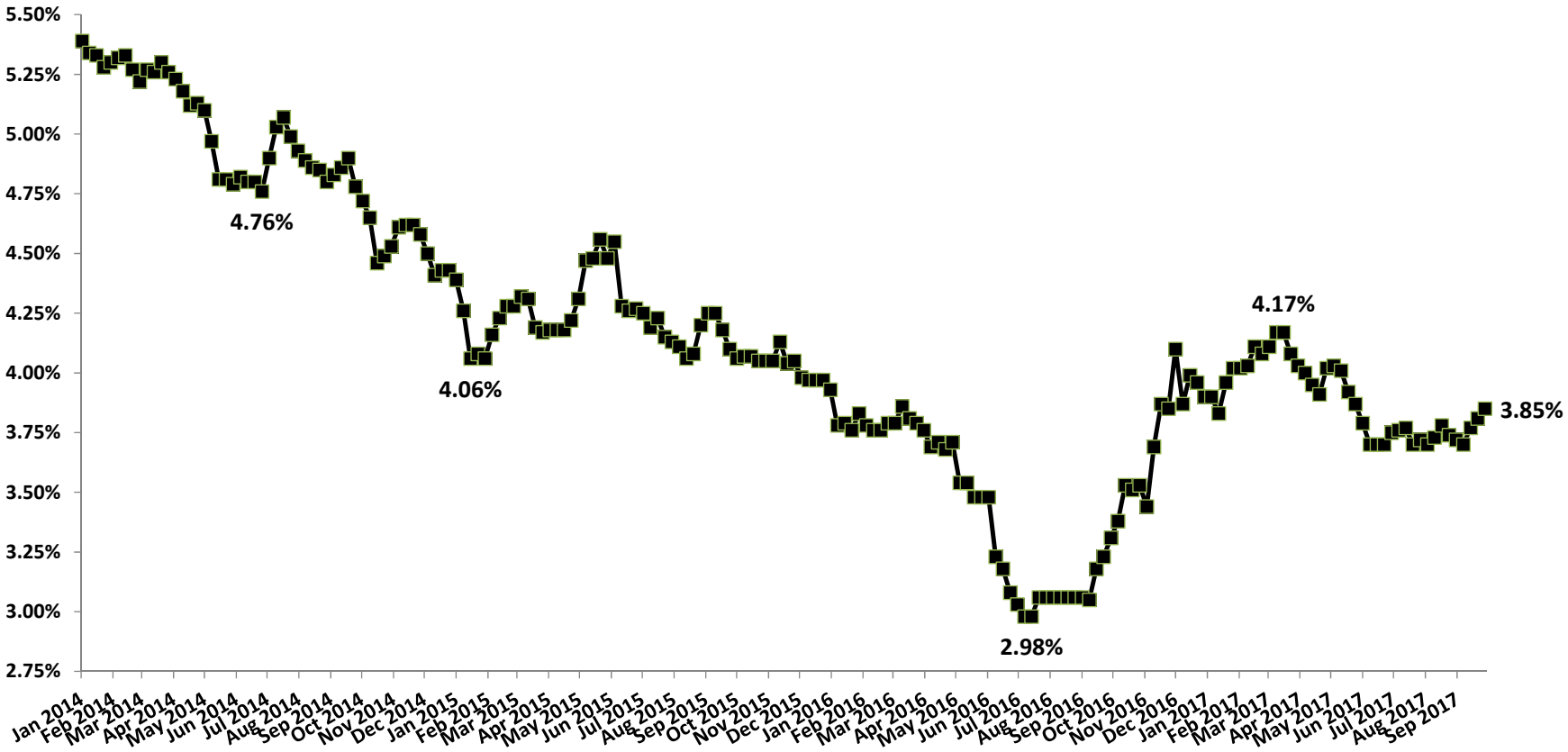
Prepared by Steven Gortler
Telephone (415) 298-3319
Email: steven.gortler@att.net

The Outstanding 2011 Certificates of Participation

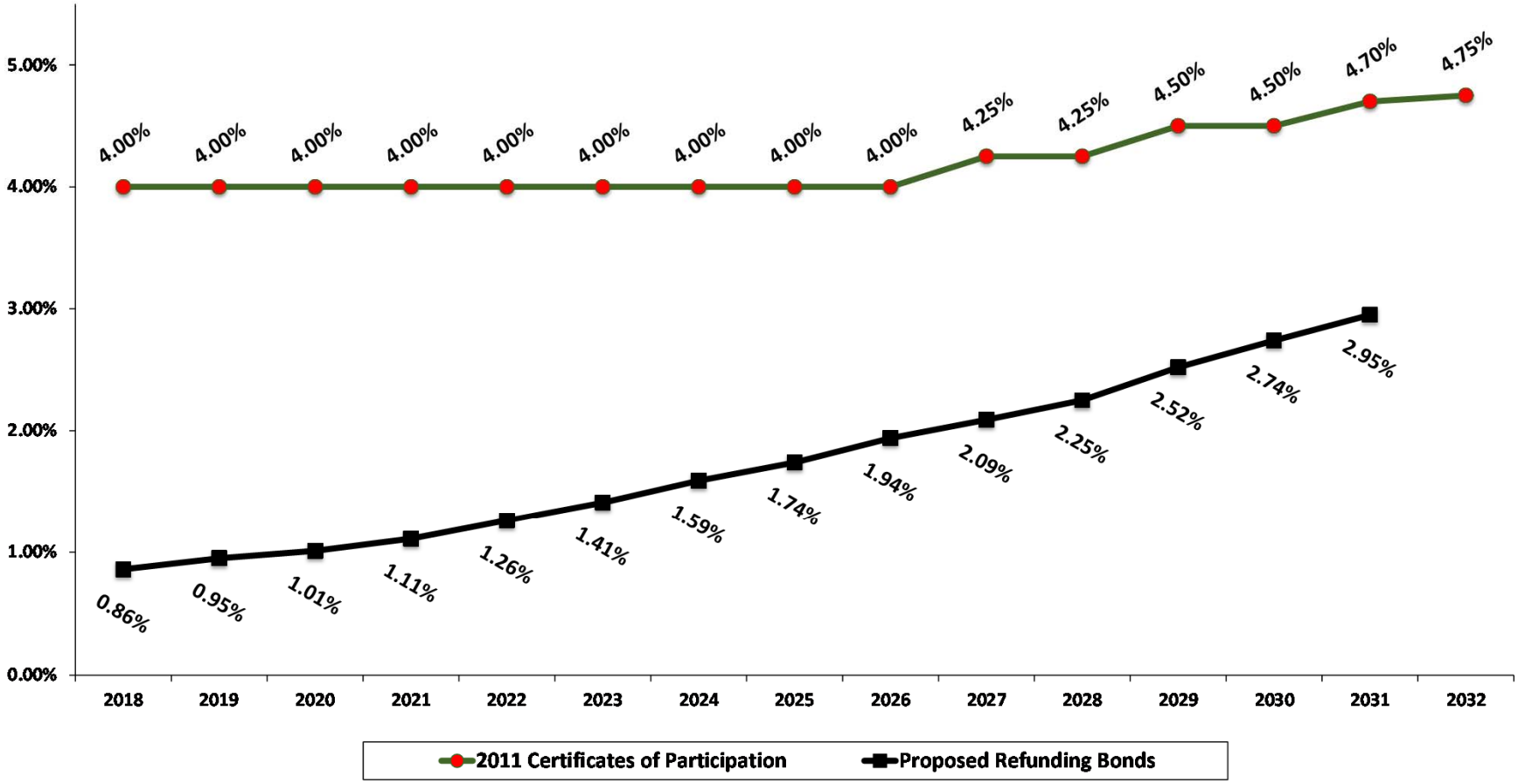
Date of Issuance	Oct 12, 2011
Original Par Amount	21,750,000
Outstanding Par Amount	17,475,000
Final Maturity	Feb 1, 2032
Redemption Date	Feb 1, 2020
Redemption Price	100.5%

Recent Trends in Municipal Bond Yields

(Bond Buyer Revenue Bond Index)



Interest Rate Comparison: 2011 COPs vs. Proposed Refunding Bonds



Estimated Debt Service Savings

FYE 6/30	2011 COPs				2017 Refunding Bonds			Annual Savings
	Principal	Interest	Reserve	Total	Principal	Interest	Total	
2018	925,000	369,774		1,294,774	965,000	170,025	1,135,025	**159,749**
2019	945,000	702,548		1,647,548	835,000	651,150	1,486,150	**161,398**
2020	970,000	664,748		1,634,748	855,000	617,750	1,472,750	**161,998**
2021	1,000,000	625,948		1,625,948	880,000	583,550	1,463,550	**162,398**
2022	1,035,000	585,948		1,620,948	915,000	548,350	1,463,350	**157,598**
2023	1,065,000	544,548		1,609,548	940,000	511,750	1,451,750	**157,798**
2024	1,105,000	501,948		1,606,948	980,000	464,750	1,444,750	**162,198**
2025	1,145,000	457,748		1,602,748	1,025,000	415,750	1,440,750	**161,998**
2026	1,190,000	411,948		1,601,948	1,075,000	364,500	1,439,500	**162,448**
2027	1,235,000	364,348		1,599,348	1,130,000	310,750	1,440,750	**158,598**
2028	1,285,000	311,860		1,596,860	1,185,000	254,250	1,439,250	**157,610**
2029	1,340,000	257,248		1,597,248	1,240,000	195,000	1,435,000	**162,248**
2030	1,395,000	196,948		1,591,948	1,300,000	133,000	1,433,000	**158,948**
2031	1,455,000	134,173		1,589,173	1,360,000	68,000	1,428,000	**161,173**
2032	1,385,000	65,788	(1,696,148)	(245,361)	0	0	0	**(245,361)**
	17,475,000	**6,195,516**	**(1,696,148)**	**21,974,368**	**14,685,000**	**5,288,575**	**19,973,575**	**2,000,793**

Estimated Net Present (NPV) Savings

Net Present Value (NPV) Savings	**1,784,431**
Par Amount of Refunded Bonds	17,475,000
NPV Savings / Refunded Par Amount	**10.2%**

Estimated Sources & Uses of Funds

Sources of Funds:	
Par Amount of Bonds	14,685,000
Reoffering Premium	2,601,679
Transfer from 2011 Reserve Fund	1,696,148
Total Sources	**18,982,827**

Uses of Funds:	
Deposit to 2011 Redemption Fund	18,726,117
Estimated Costs of Issuance	256,710
Total Uses	**18,982,827**

Estimated Costs of Issuance

Service	Estimated Fee
Underwriter	80,768
Bond Counsel	50,000
Financial Advisor	35,000
Disclosure Counsel	35,000
Rating Agency	20,000
Rate Consultant	5,000
Trustee & Counsel	5,000
Escrow Verification Agent	2,500
Financial Printer	2,000
Continuing Disclosure Compliance Review	1,500
Advertising	1,500
Bidding Platform	1,500
Contingency	16,942
	256,710

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER ___, 2017

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

NEW ISSUE-FULL BOOK-ENTRY

RATING: S&P: "__"
(See "Rating" herein)

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest on the 2017 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, interest on the 2017 Bonds is exempt from State of California personal income tax. See "TAX MATTERS."

$_____*

NOVATO SANITARY DISTRICT
2017 WASTEWATER REVENUE REFUNDING BONDS

Dated: Date of Delivery **Due: February 1, as shown below**

The $_____* Novato Sanitary District 2017 Wastewater Revenue Refunding Bonds (the "2017 Bonds") are being issued by the Novato Sanitary District (the "District") to (i) refund on an advance basis all of the Wastewater Revenue Certificates of Participation, Series 2011, currently outstanding in the principal amount of $17,475,000 (the "2011 Certificates") and (ii) pay the costs of issuing the 2017 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "PLAN OF REFUNDING." The District is not funding a reserve fund for the 2017 Bonds.

The 2017 Bonds are being issued as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to ultimate purchasers in the denomination of $5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Ultimate purchasers of 2017 Bonds will not receive physical certificates representing their interest in the 2017 Bonds. So long as the 2017 Bonds are registered in the name of Cede & Co., as nominee of DTC, references herein to the owners shall mean Cede & Co., and shall not mean the ultimate purchasers of the 2017 Bonds. Interest on the 2017 Bonds will be payable on February 1 and August 1 of each year, commencing February 1, 2018. Payments of the principal of, premium, if any, and interest on the 2017 Bonds will be made directly to DTC, or its nominee, Cede & Co., by The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), so long as DTC or Cede & Co. is the registered owner of the 2017 Bonds. Disbursements of such payments to DTC's Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of DTC's Participants and Indirect Participants, as more fully described herein. See APPENDIX D – "BOOK-ENTRY SYSTEM."

The 2017 Bonds are subject to optional, extraordinary and mandatory sinking fund redemption prior to maturity as described herein. See "THE 2017 BONDS – Redemption."

The 2017 Bonds are special obligations of the District and are payable exclusively from Net Revenues (defined herein) of the Wastewater System (defined herein) and from amounts on deposit in certain funds and accounts established under the Indenture (defined herein). The 2017 Bonds are not a debt, liability or obligation of the State of California or any of its political subdivisions other than the District. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2017 BONDS."

This cover page contains information for quick reference only. It is not intended to be a summary of all factors relating to an investment in the 2017 Bonds. Investors must read the entire Official Statement before making any investment decision.

BIDS FOR THE PURCHASE OF THE 2017 BONDS WILL BE RECEIVED BY THE DISTRICT UNTIL __:__ A.M., CALIFORNIA TIME ON OCTOBER ___, 2017 UNLESS POSTPONED OR CANCELLED AS SET FORTH IN THE OFFICIAL NOTICE OF SALE RELATING TO THE 2017 BONDS.

The 2017 Bonds are offered when, as and if issued and accepted by the Underwriter subject to the approval, as to their validity, by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by the District's Counsel and by Norton Rose Fulbright US LLP, as Disclosure Counsel. It is expected that the 2017 Bonds will be available for delivery in book-entry form through the facilities of DTC on or about November __, 2017.

Dated: _____, 2017

* Preliminary, subject to change.

$_____*

NOVATO SANITARY DISTRICT
2017 WASTEWATER REVENUE REFUNDING BONDS

Maturity Date (February 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP** (Base No. ____)
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					

$_____ ___% Term Bond due February 1, 20__ Yield – ____ % Price _____%
CUSIP _____**

* Preliminary, subject to change.

** CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers have been assigned by an independent company not affiliated with the District and are included solely for the convenience of investors. Neither the District nor the Municipal Advisor is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the 2017 Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2017 Bonds.

No dealer, broker, salesperson or other person has been authorized by the District, the Municipal Advisor 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 is not to be construed as a contract with the purchasers of the 2017 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. This Official Statement is submitted in connection with the sale of the 2017 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The information set forth herein has been obtained from official sources which are believed to be reliable. The information and expressions of opinion 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 District since the date hereof. All summaries of the Indenture and other documents referred to in this Official Statement, are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2017 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board (the "MSRB") through the Electronic Municipal Marketplace Access ("EMMA") website.

The District maintains a website. However, the information presented therein is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2017 Bonds.

FORWARD-LOOKING STATEMENTS

This Official Statement contains certain "forward-looking statements" concerning the Wastewater System and the operations, performance and financial condition of the District, including their future economic performance, plans and objectives and the likelihood of success in developing and expanding. These statements are based upon a number of assumptions and estimates which are subject to significant uncertainties, many of which are beyond the control of the District. The words "may," "would," "could," "will," "expect," "anticipate," "believe," "intend," "plan," "estimate" and similar expressions are meant to identify these forward-looking statements. Results may differ materially from those expressed or implied by these forward-looking statements.

NOVATO SANITARY DISTRICT BOARD OF DIRECTORS

A. Gerald Peters – *President*
Carole Dillon-Knutson – *President Pro-Tem*
William C. Long – *Director*
Jean Mariani – *Director*
Brant M. Miller – *Director*

DISTRICT STAFF

Sandeep Karkal, *General Manager – Chief Engineer/Secretary*
Laura Creamer – *Finance Officer*
Kenton Alm, Esq. – *General Counsel*

SPECIAL SERVICES

Municipal Advisor

Steven Gortler
San Francisco, California

Bond Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Disclosure Counsel

Norton Rose Fulbright US LLP
Los Angeles, California

Trustee

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

Dissemination Agent

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

Verification Agent

Causey Demgen & Moore P.C.
Denver, Colorado

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OFFICIAL STATEMENT

$_____*
NOVATO SANITARY DISTRICT
2017 WASTEWATER REVENUE REFUNDING BONDS

INTRODUCTION

General

This Official Statement, including the cover page and appendices hereto, sets forth certain information in connection with the sale of $_____* Novato Sanitary District 2017 Wastewater Revenue Refunding Bonds (the "2017 Bonds") that are being issued by the Novato Sanitary District (the "District"). This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents described herein.

Authority for Issuance and Application of Proceeds

The 2017 Bonds are being issued under the provisions of Articles 10 and 11 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Bond Law") and an Indenture of Trust, dated as of November 1, 2017 (the "Indenture"), between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The 2017 Bonds are being issued to (i) refund on an advance basis all of the Wastewater Revenue Certificates of Participation, Series 2011, currently outstanding in the principal amount of $17,475,000 (the "2011 Certificates") and (ii) pay the costs of issuing the 2017 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "PLAN OF REFUNDING." All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" or, if not defined therein, shall have the meanings assigned to such terms in the Indenture.

The District

The District is a sanitary district created and existing under the Sanitary District Act of 1923 (California Health & Safety Code Section 6400 *et seq.*) to provide for the collection, treatment, reclamation, and disposal of sewage within its service area.

The District was chartered on October 5, 1925 and is governed by a five-member Board of Directors. Each Board Member is elected at large for a four-year term. The District serves a resident population of about 60,000 in an area of approximately thirty-four square miles in the City of Novato, California (the "City") and surrounding unincorporated areas in the County of Marin, California (the "County"). For additional information regarding the District, see "THE

* Preliminary, subject to change.

DISTRICT" and APPENDIX A – "GENERAL INFORMATION ABOUT THE CITY OF NOVATO AND MARIN COUNTY."

The 2017 Bonds

The 2017 Bonds will be dated their date of issuance and delivery, will bear interest at the rates per annum set forth on the inside cover page hereof payable semiannually on February 1 and August 1, commencing February 1, 2018 (each, an "Interest Payment Date"), and will mature on the dates and in the amounts set forth on the inside cover page hereof. The 2017 Bonds will be delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to ultimate purchasers ("Beneficial Owners") in the denomination of $5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Beneficial Owners will not be entitled to receive delivery of bonds representing their ownership interest in the 2017 Bonds. See "THE 2017 BONDS."

The 2017 Bonds are subject to optional, extraordinary and mandatory sinking fund redemption prior to maturity as described herein. See "THE 2017 BONDS – Redemption."

Security for the 2017 Bonds

The 2017 Bonds are secured by a pledge of and payable from Net Revenues (as defined herein) on a parity with the District's obligations under Installment Sales Agreement No. C-06-4903-110 by and between the District and the California State Water Resources Control Board that extended a loan to the District (the "SRF Loan") from the State Revolving Fund ("SRF"). The SRF Loan was entered into in 2008 in the principal amount of $81,329,083, which amount is to be repaid by the District in annual installments payable on December 31 of each year until December 31, 2030 together with interest payable at the rate of 2.40%. As of October 1, 2017, the SRF Loan was outstanding in the principal amount of $_____. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2017 BONDS – Parity Debt – Existing Parity Debt."

No Reserve Fund

The District has not funded a debt service reserve fund for the 2017 Bonds.

Special Obligations

The 2017 Bonds are special obligations of the District, payable exclusively from Net Revenues (defined herein) of the Wastewater System (defined herein) of the District and from amounts on deposit in certain funds and accounts established under the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2017 BONDS." The 2017 Bonds are not a debt, liability or obligation of the State or any of its political subdivisions other than the District.

Further Information

The summaries and references of the Indenture and other documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to the Indenture and each document, statute, report or instrument. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" for summaries of certain of such definitions.

THE 2017 BONDS

General

The 2017 Bonds will be dated their date of issuance and delivery, will bear interest at the rates per annum set forth on the inside cover page hereof payable on each Interest Payment Date and will mature on the dates and in the amounts set forth on the inside cover page hereof. The 2017 Bonds will be issued in denominations of $5,000 or any integral multiple thereof, so long as no 2017 Bond may have more than one maturity date. The 2017 Bonds will be issued only as one fully registered 2017 Bond for each maturity, in the name of Cede & Co., as nominee for DTC, as registered owner of all 2017 Bonds. See APPENDIX D – "BOOK ENTRY SYSTEM." Ownership may be changed only upon the registration books maintained by the Trustee as provided in the Indenture.

Interest on the 2017 Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

(a) a 2017 Bond is authenticated between an Interest Payment Date and the 15th calendar day of the month immediately preceding such Interest Payment Date (each, a "Record Date"), in which event it will bear interest from such Interest Payment Date,

(b) a 2017 Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the date of original delivery of the 2017 Bonds, or

(c) interest on any 2017 Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Interest on the 2017 Bonds (including the final interest payment upon maturity or redemption) is payable when due by check or draft of the Trustee mailed to the Owner thereof at such Owner's address as it appears on the Registration Books at the close of business on the preceding Record Date; provided that at the written request of the Owner of at least $1,000,000 aggregate principal amount of 2017 Bonds, which written request is on file with the Trustee as of any Record Date, interest on such 2017 Bonds will be paid on the succeeding Interest Payment Date to such account in the United States as specified in such written request.

Redemption*

Extraordinary Redemption from Net Proceeds of Insurance or Condemnation. The 2017 Bonds shall be subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date, as determined by the District, from Net Proceeds, upon the terms and conditions of, and as provided for in the Indenture, at a Redemption Price equal to the principal amount of the 2017 Bonds to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption.

Optional Redemption. The 2017 Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, in whole or

* Preliminary, subject to change.

in part, on any date on or after February 1, 2028, at a redemption price equal to the principal amount to be redeemed, plus accrued interest to the date fixed for redemption, without premium.

Sinking Fund Redemption. The 2017 Bonds maturing on February 1, 20__ are subject to mandatory sinking fund redemption in part, by lot, on February 1 of each year in accordance with the schedule set forth below. The 2017 Bonds so called for mandatory sinking fund redemption will be redeemed at the principal amount to be redeemed, plus accrued but unpaid interest, without premium.

Redemption Date (February 1)	Sinking fund Amount

If some but not all of the 2017 Bonds have been optionally redeemed, the total amount of all sinking account payments will be reduced by the aggregate principal amount of 2017 Bonds so redeemed to be allocated among such sinking fund payments as determined by the District (notice of which determination shall be given by the District to the Trustee).

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

All notices of redemption will be dated and will state: (i) the redemption date, (ii) the redemption price of the 2017 Bonds being redeemed (the "Redemption Price"), (iii) if fewer than all Outstanding 2017 Bonds are to be redeemed, including (A) the CUSIP numbers of all 2017 Bonds being redeemed; (B) the stated interest rate with respect to each 2017 Bond being redeemed; (C) the maturity date of each 2017 Bond being redeemed; and (D) any other descriptive information needed to identify accurately the 2017 Bonds being redeemed, (iv) that on the redemption date the Redemption Price will become due and payable with respect to each such 2017 Bond or portion thereof called for redemption, and that interest with respect thereto shall cease to accrue from and after said date, and (v) the place or places where such 2017 Bonds are to be surrendered for payment of the Redemption Price, which places of payment may include the Office of the Trustee.

Rescission of Notice of Redemption. The District has the right to rescind any notice of the redemption of 2017 Bonds by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the 2017 Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture. The District and the Trustee have no liability to the 2017 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.

Consequences of Notice. Notice of redemption having been given as required by the Indenture, the 2017 Bonds or portions of 2017 Bonds so to be redeemed will, on the redemption date, become due and payable at the Redemption Price, and from and after such date (unless the District defaults in the payment of the Redemption Price) such 2017 Bonds or portions of 2017 Bonds will cease to have interest accrue thereon. Upon surrender of 2017 Bonds for redemption in accordance with a redemption notice, the 2017 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. Upon surrender for any partial redemption of any 2017 Bond, there will be prepared for the Owner a new 2017 Bond or 2017 Bonds of the same maturity in the amount of the unredeemed principal. All 2017 Bonds which have been redeemed will be cancelled and destroyed by the Trustee and will not be redelivered.

Partial Redemption of 2017 Bonds. In the event only a portion of any 2017 Bond is called for redemption, then upon surrender of such 2017 Bond redeemed in part only, the District will execute and the Trustee will authenticate and deliver to the Owner, at the expense of the District, a new 2017 Bond or 2017 Bonds, of the same series and maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the 2017 Bond or 2017 Bonds.

Manner of Redemption. Whenever any 2017 Bonds are to be selected for redemption, the Trustee will determine, by lot, the numbers of the 2017 Bonds to be redeemed, and will notify the District of its determination.

Purchase of 2017 Bonds in lieu of Redemption. In lieu of any mandatory sinking fund redemption of any 2017 Bonds, amounts on deposit in the Redemption Account may also be used and withdrawn by the District at any time for the purchase of such 2017 Bonds at public or private sale as and when and at such prices (including brokerage and other charges and including accrued interest) as the District may in its discretion determine. The par amount of any of such 2017 Bonds so purchased by the District in any twelve-month period ending on January 1 in any year will be credited towards and shall reduce the par amount of such 2017 Bonds required to be redeemed on the next succeeding February 1.

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DEBT SERVICE REQUIREMENTS

The amounts required to be set aside each fiscal year ending June 30 for principal of and interest on the 2017 Bonds and the parity SRF Loan are set forth below. See "PLAN OF REFUNDING."

Fiscal Year Ending	SRF Loan			2017 Bonds			Grand
June 30	Principal	Interest	Total	Principal	Interest	Total	Total
2018							
2019							
2020							
2021							
2022							
2023							
2024							
2025							
2026							
2027							
2028							
2029							
2030							
2031							
Total							

ESTIMATED SOURCES AND USES OF FUNDS

The following sets forth the estimated sources and uses of funds related to the 2017 Bonds.

Sources of Funds:	
Principal Amount	$
(Premium/Discount)	
Release from 2011 Trust Agreement	
Total Sources of Funds	$
Uses of Funds:	
Deposit to Escrow Fund	$
Costs of Issuance[1]	
Total Uses of Funds	$

[1] Includes fees and expenses of Bond Counsel, Disclosure Counsel, the Rating Agency, the Verification Agent, the Municipal Advisor and the Trustee, Underwriter's discount, printing costs, and other miscellaneous fees and expenses.

PLAN OF REFUNDING

The proceeds of the 2017 Bonds, together with other available amounts, will be used to (i) refund on an advance basis all of the 2011 Certificates and (ii) pay the costs of issuing the 2017 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS."

The 2011 Certificates were issued pursuant to a Trust Agreement, dated as of October 1, 2011 (the "2011 Trust Agreement"), by and between the District and The Bank of New York Mellon Trust Company, N.A. (the "Prior Trustee"). Pursuant to the terms of an Escrow Agreement, dated as of November 1, 2017 (the "Escrow Agreement"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the "Escrow Agent"), a portion of the proceeds of the 2017 Bonds, together with other available moneys (collectively, the "Escrow Deposit"), will be deposited into the Escrow Fund established under the Escrow Agreement.

The Escrow Deposit will be sufficient to purchase investment securities (the "Defeasance Securities"), the principal and interest on which when due will provide moneys that, together with uninvested moneys deposited with the Escrow Agent, will be sufficient to pay (i) the principal amount of the 2011 Certificates maturing on and prior to February 1, 2020 (the "Redemption Date") and to pay interest thereon to their respective maturity dates and (ii) a redemption price equal to 100.5% of the principal amount of the 2011 Certificates (the "Redemption Price") on the Redemption Date for the 2011 Certificates maturing on and after February 1, 2021.

Causey Demgen & Moore P.C., certified public accountants (the "Verification Agent"), will deliver a report stating that the firm has verified the accuracy of mathematical computations concerning the adequacy of the Escrow Deposit deposited in the Escrow Fund. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

SECURITY AND SOURCES OF PAYMENT FOR THE 2017 BONDS

Pledge of Net Revenues

The 2017 Bonds, the SRF Loan and any Parity Debt are secured by a first pledge and lien on Net Revenues. **"Net Revenues"** means, for any Fiscal Year, an amount equal to all of the Revenues for such Fiscal Year, less the Operations and Maintenance Costs for such Fiscal Year. In addition, the 2017 Bonds are secured by a pledge of all of the moneys in the Debt Service Fund, including all amounts derived from the investment of such moneys. So long as any of the 2017 Bonds are Outstanding, the Net Revenues and such moneys may not be used for any other purpose, except that out of the Net Revenues there may be apportioned such sums, for such purposes, as are expressly permitted by the Indenture.

"Revenues" means, for each Fiscal Year, all gross income and revenue received or receivable by the District from the ownership or operation of the Wastewater System, determined in accordance with generally accepted accounting principles, including all rates, fees and charges (including connection fees and charges) as received by the District for the services of the Wastewater System, and all other income and revenue howsoever derived by the District from the ownership or operation of the Wastewater System or arising from the Wastewater System, and also including all income from the deposit or investment of any money in the Wastewater Fund or any rate stabilization fund, and any refundable deposits made to establish credit, and advances or contributions in aid of construction.

The term "Revenues" does not include (i) customers' deposits or any other deposits subject to refund until such deposits have become the property of the District, (ii) the proceeds of any *ad valorem* property taxes levied to pay general obligation bond indebtedness of the District with respect to the Wastewater System, (iii) special assessments or special taxes levied for the purpose of paying special assessment bonds or special tax obligations of the District relating to the Wastewater System, and (iv) amounts in the Rate Stabilization Fund unless and until such amounts are deposited to the Wastewater Fund.

The District receives a portion of the County-wide one percent property tax, which is included as Revenues. See "FINANCIAL MATTERS OF THE DISTRICT - Historical Property Tax Levy and Collection and Teeter Plan."

"Wastewater System" means all wastewater collection, transport, treatment, storage and disposal facilities, including land and easements thereof, owned by the District, and all other properties, structures or works hereafter acquired and constructed by the District and determined to be a part of the Wastewater System, together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof hereafter acquired and constructed.

"Operation and Maintenance Costs" means the reasonable and necessary costs paid or incurred by the District for maintaining and operating the Wastewater System, determined in accordance with generally accepted accounting principles, including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and including all reasonable and necessary administrative costs of the District that are charged directly or apportioned to the operation of the Wastewater System, such as salaries and wages of employees, overhead, taxes (if any), the cost of permits, licenses and charges to operate the Wastewater System and insurance premiums; but excluding, in all cases, depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

Special Obligation

The 2017 Bonds are special obligations of the District and are payable exclusively from Net Revenues and from amounts on deposit in certain funds and accounts established under the Indenture. The 2017 Bonds are not a debt, liability or obligation of the State of California or any of its political subdivisions other than the District.

No Reserve Fund

The District has not funded a debt service reserve fund for the 2017 Bonds.

Wastewater Fund; Flow of Funds under Indenture

General. The District reports its activities as an enterprise fund ("Wastewater Fund"), which it will continue to hold and maintain for the purposes and uses set forth in the Indenture. The District will deposit all Revenues in the Wastewater Fund promptly upon receipt, and will apply amounts in the Wastewater Fund solely for the uses and purposes set forth in the Indenture and for the uses and purposes set forth in any agreement, indenture of trust, resolution or other instrument authorizing the issuance of Parity Debt (each a "Parity Debt Document"). In addition to transfers which are required to be made for repayment of any Parity Debt, the District will

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

(i) Operation and Maintenance Costs. The District will apply amounts on deposit in the Wastewater Fund to pay all Operation and Maintenance Costs when due.

(ii) Debt Service Fund. On or before the 3rd Business Day preceding each Interest Payment Date, so long as any 2017 Bonds remain outstanding, the District will withdraw from the Wastewater Fund and pay to the Trustee for deposit into the Debt Service Fund (which the Trustee will establish and hold in trust pursuant to the Indenture) an amount which, together with other available amounts then on deposit in the Debt Service Fund, is at least equal to the aggregate amount of principal of and interest coming due and payable on the 2017 Bonds on such Interest Payment Date.

The Trustee will apply amounts in the Debt Service Fund solely for the purpose of (A) paying the interest on the 2017 Bonds when due and payable (including accrued interest on any 2017 Bonds purchased or redeemed under the Indenture), and (B) paying the principal of the 2017 Bonds at the maturity thereof. Upon the payment of all 2017 Bonds, the Trustee will transfer any moneys remaining in the Debt Service Fund to the District for deposit into the Wastewater Fund.

Other Uses of Wastewater Fund. The District will manage, conserve and apply moneys in the Wastewater Fund in such a manner that all deposits required to be made under the Indenture, and under any Parity Debt Document, will be made at the times and in the amounts so required.

So long as no Event of Default has occurred and is continuing under the Indenture, the District may at any time use and apply moneys in the Wastewater Fund for any one or more of the following purposes:

(i) the payment of any subordinate obligations or any unsecured obligations;

(ii) the acquisition and construction of extensions and improvements to the Wastewater System;

(iii) the payment or retirement of any of the 2017 Bonds or any other obligations of the District relating to the Wastewater System; or

(iv) any other lawful purpose of the District relating to the Wastewater System.

Rate Stabilization Fund

The District has previously established the Rate Stabilization Fund, which it will continue to hold and maintain for the purpose of stabilizing the rates and charges imposed by the District with respect to the Wastewater System. The target amount for the Rate Stabilization Fund is $1,500,000 as of July 1, 2013, adjusted annually based on the ENR Construction Cost Index for the San Francisco Bay Area. As of June 30, 2017, the Rate Stabilization Fund had a balance of [$1,639,091]. Pursuant to the District's reserve policy, expenditures from the Rate Stabilization Fund must be approved by the Board of Directors except that the General Manager-Chief Engineer may authorize expenditures from the Fund in the event of an emergency that threatens public health or environmental quality, provided however that the Manager-Engineer must then convene a noticed meeting of the Board of Directors as soon as it is feasible to obtain a quorum. In the event of a drawdown, the Rate Stabilization Fund must be replenished within four years.

From time to time the District may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secures the Bonds and any Parity Debt, as the District may determine. The District may, but is not required to, withdraw from any amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Wastewater 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 Rate Stabilization Fund to the Wastewater Fund shall constitute Revenues for such Fiscal Year (except as otherwise provided in the Indenture), and shall be applied for the purposes of the Wastewater Fund. Amounts on deposit in the Rate Stabilization Fund will not be pledged to or otherwise secure the Bonds or any Parity Debt. The District has the right at any time to withdraw any or all amounts on deposit in the Rate Stabilization Fund and apply such amounts for any lawful purposes of the District relating to the Wastewater System.

Rate Covenants; Collection of Rates and Charges

In the Indenture, the District covenants to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Revenues sufficient to pay the following amounts in the following order of priority:

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

(b) The principal of and interest on the 2017 Bonds and any Parity Debt as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such interest is payable from proceeds of Parity Debt deposited for such purpose; and

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

In addition, the District is required to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year which are sufficient to yield Net Revenues which are at least equal to 120% of the amount described in the preceding clause (b) for such Fiscal Year. For purposes of this covenant, the amount of Net Revenues for a Fiscal Year will be computed on the basis that (a) any transfers from the Rate Stabilization Fund into the Wastewater Fund in such Fiscal Year are included in the calculation of Net Revenues, (b) any transfers from the Wastewater Fund into the Rate Stabilization Fund in such Fiscal Year are deducted from the amount of Net Revenues to the extent such deposits are made from Revenues received by the District during that Fiscal Year and (c) Revenues will not include connection fees or interest income expected to be received in such Fiscal Year.

Insurance; Net Proceeds

The District will at all times maintain with responsible insurers all such insurance on the Wastewater System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Wastewater System. All amounts collected from insurance against accident to or destruction of any portion of the Wastewater System constitute Revenues and must be used to repair or rebuild such damaged or destroyed portion of the Wastewater System, and to the extent not so applied, will be applied on a pro rata basis to

redeem the 2017 Bonds and any Parity Debt in accordance with the Indenture and the related Parity Debt Documents. The District will also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the District, the Trustee and the Owners of the 2017 Bonds.

No Senior Obligations

The District may not issue or incur any additional bonds or other obligations having any priority over the 2017 Bonds in the payment of principal or interest out of the Net Revenues.

Parity Debt

Existing Parity Debt. The Bonds are secured by a pledge of and are payable from Net Revenues on a parity with the District's obligations under the SRF Loan. Under the terms of the SRF Loan, the District borrowed $81,329,083 at an interest rate of 2.40%, payable annually on December 31 through December 31, 2030. As of October 1, 2017, the SRF Loan was outstanding in the amount of $63,322,683. The District has no outstanding debt that is secured by a lien that is senior to the lien on Net Revenues under the Indenture. The 2011 Certificates will be defeased when the 2017 Bonds are issued and delivered, whereupon the SRF Loan will be the only Parity Debt outstanding.

Additional Parity Debt. The District may issue any bonds, notes or other obligations ("Parity Debt") payable from Net Revenues on a parity with the 2017 Bonds and the SRF Loan, provided that certain conditions are satisfied, including the following:

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

(b) The amount of Net Revenues as shown by the books of the District for the most recent completed Fiscal Year for which audited financial statements of the District are available or for any more recent consecutive 12-month period selected by the District, in either case verified by an Independent Accountant or a Financial Consultant or shown in the audited financial statements of the District, plus, at the option of the District, any Additional Revenues (as defined below), are at least equal to 125% of the maximum amount of Debt Service coming due and payable in the current or any future Fiscal Year with respect to (i) the Bonds and all Parity Debt then outstanding and (ii) the Parity Debt then proposed to be issued.

For purposes of calculating Net Revenues to demonstrate compliance with paragraph (b) above, Revenues does not include connection fees, transfers from the Rate Stabilization Fund, or interest income on the Wastewater Fund received during the period for which calculations of Net Revenues are made.

"Additional Revenues" is defined in the Indenture to mean, with respect to the issuance of any Parity Debt, any or all of the following amounts:

(i) An allowance for Net Revenues from any additions or improvements to or extensions of the Wastewater System to be made from the proceeds of such Parity Debt in an amount equal to 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 by the certificate or opinion of a Financial Consultant.

(ii) An allowance for Net Revenues arising from any increase in the charges made for service from the Wastewater System which has been duly approved by the Board of Directors of the District prior to the incurring of such Parity Debt, but which, during all or any part of the most recent completed Fiscal Year for which audited financial statements of the District are available, or for any more recent consecutive 12-month period selected by the District, was not in effect, in an amount equal to the total 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 12-month period, all as shown by the certificate or opinion of a Financial Consultant.

Parity State Loans

The District may borrow money from the State and incur State Loans, in addition to the SRF Loan, to finance additional improvements to the Wastewater System. "State Loans" means loans secured by a pledge of Net Revenues of the Wastewater System and incurred by the District to finance improvements to the Wastewater System. A State Loan may be treated as a Parity Debt for purposes of the Indenture, so long as the District complies with the requirements for issuing Parity Debt under the Indenture described above before incurring such State Loan.

Subordinate Obligations

Nothing in the Indenture limits or affects the ability of the District to issue or incur obligations which are either unsecured or which are secured by an interest in the Net Revenues which is junior and subordinate to the pledge of and lien upon the Net Revenues established under the Indenture.

THE DISTRICT

General

The District was chartered on October 5, 1925. The District is a sanitary district created and existing under the Sanitary District Act of 1923 (California Health & Safety Code Section 6400 *et seq.*) to provide for the collection, treatment, reclamation, and disposal of sewage within its service area. The District is governed by a five-member board of directors. Each Board Member is elected at large for a four-year term. The District serves a resident population of about 60,000 in a non-contiguous area covering approximately thirty-four square miles including the City of Novato and the surrounding unincorporated areas of Marin County.

The District is also responsible for refuse disposal, recycling, and green-waste collection through its franchise collection entity, currently Novato Disposal Service ("Novato Disposal"). The franchise contract requires Novato Disposal to meet a series of performance goals, including achieving 70% diversion by 2020, and 80% by 2025. The District (in conjunction with the North Marin Water District), also has a recycled water program whereby a portion of the District's secondary effluent receives a high level of additional treatment to meet California Title 22 recycled water standards for golf course, cemetery and landscape irrigation.

The District's service area continues to exhibit low-to-moderate growth, primarily from medium-to-high density residential and light commercial units. A current project under

construction includes a 48-unit multifamily residential development. There are also other projects in the planning stages, including a new hotel with over 100 service units, and possibly three multi-family residential developments, with potentially 100-150 additional service units. The District cannot predict whether any particular project will be completed.

The following map shows the service area of the District.

[insert map of service area]

Board of Directors

The current Directors and the years their respective terms expire are set forth in the following table.

Board Members	Expiration of Term
A. Gerald Peters, *President*	2020
Carole Dillon-Knutson, *President Pro-Tem*	2018
William C. Long, *Director*	2018
Jean Mariani, *Director*	2020
Brant M. Miller, *Director*	2018

A. Gerald Peters, President. Mr. Peters is retired from the airline industry, where he worked for 26 years as a supervisor, manager and executive. He also worked in property and facilities management for 20 years. Mr. Peters is past president and long-time board member of the Novato Chamber of Commerce. He holds a Bachelor's degree in business and an MBA from San Francisco State University.

Carole Dillon-Knutson, President Pro-Tem. Ms. Dillon-Knutson is a retired business manager of a geotechnical consulting firm and the former Mayor of the City of Novato. She has served on the Marin Community College District Board of Trustees, the Sonoma Marin Area Rail Transit (SMART) Executive Board, the Transportation Authority of Marin (TAM) Executive Board and the Association of Bay Area Governments (ABAG) Executive Board.

William C. Long, Director. Mr. Long is retired from Chevron where he worked in technical and marketing management for 32 years, and as a consultant and expert witness to industry for ten years. Mr. Long has served as Chair for the Bay Area Ridge Trail Council and the Marin Open Space Trust (MOST), and served on the Board of Directors for the North Bay Water Reuse Authority (NBWRA). He holds Bachelors and Masters degrees in Chemical Engineering from the Massachusetts Institute of Technology.

Jean Mariani, Director. Ms. Mariani is retired from the City and County of San Francisco, where she worked in various budget and finance positions. She also served as the Director of the Office of Management and Budget for the East Bay Municipal Utility District and as project manager for the Sonoma County Water Agency. She holds a Bachelor of Science in Economics from Santa Clara University.

Brant M. Miller, Director. Mr. Miller is retired from Chevron, where he worked in engineering and project management for 35 years. He served on the 2010-11 Marin County Civil Grand Jury, and holds a Bachelor of Science in Chemical Engineering, from the University of California, Berkeley.

Management and District Staff

Sandeep Karkal, P.E., M. ASCE, General Manager – Chief Engineer/Secretary. The General Manager-Chief Engineer is responsible for carrying out the policies and ordinances of the District Board and for overseeing the day-to-day operations of the District. Mr. Karkal joined the District in October 2004 as the District's Deputy Manager-Engineer. He has over 30 years of experience in the water/wastewater industry in both the public and private sectors. Prior to joining

the District, Mr. Karkal worked for another sanitation district, where he managed their engineering and construction division and $35 million capital improvement program. His private sector experience includes over 12 years with two large consulting environmental engineering and operations management firms. Mr. Karkal has Bachelors and Masters degrees in Civil/Environmental Engineering from the University of Bombay, India, and California State University, Sacramento, respectively, and continuing business education from the University of North Carolina, Chapel Hill. . He is a registered Civil Engineer in California and Arizona and holds high-grade operator certifications in water or wastewater plant operations in both states. Mr. Karkal is also actively involved in several key industry organizations, including the California Association of Sanitation Agencies ("CASA") and the California Water Environment Association ("CWEA"). He is a former Executive Board member and Secretary/Treasurer of the CWEA and a former President of its San Francisco Bay section.

Laura Creamer, CPA – Finance Officer. Ms. Creamer joined the District in 2006, after initially working with the District as a consultant. She has been in the accounting and finance field for more than 20 years and has substantial experience as a special district finance officer. Ms. Creamer graduated from California State University, Sacramento, in 1994 with a Bachelors degree in Business, with a concentration in Accounting. She has been a certified public accountant since 1997 and a notary since 2008. Ms. Creamer is a member of the California Society of Municipal Finance Officers (CSMFO) and the Government Finance Officers Association (GFOA).

Employees and Labor Arrangement

The District currently has 19 full-time employees. Ten of these employees are members of the Teamsters Local 315 Union, which has a Memorandum of Understanding with the District that expires on June 30, 2018. The District has not experienced any work stoppages or delays by its employees within the past five years.

THE WASTEWATER SYSTEM

The District owns the public wastewater system within its service area including the wastewater collection system, the wastewater treatment plant, the reclamation facility and the recycled water treatment facility described below. The District is charged with operating the Wastewater System in compliance with the terms of its National Pollutant Discharge Elimination System ("NPDES") Permit No. CA0037958 and with various other regulatory and statutory requirements.

This year the National Association of Clean Water Agencies ("NACWA"), awarded the Treatment Plant its Platinum5 Peak Performance Award, which is given only to wastewater treatment facilities that have perfect permit performance records for five consecutive calendar years. NACWA's Peak Performance Awards program recognizes NACWA-member agency facilities for excellence in wastewater treatment as measured by their compliance with their NPDES permits. Each year about 125 to 150 treatment facilities earn this honor out of more than 16,000 publicly owned wastewater treatment plants operating in the United States of America.

Collection System

The District's wastewater collection system collects and transports wastewater flows to the Novato Wastewater Treatment Plant (the "Treatment Plant") through a series of gravity sewers and interceptors, pump stations, and force mains. The collection system includes approximately

225 miles of public gravity sewers ranging from 4-inch to 54-inch diameter, about 25 miles of force mains, and 40 pump stations. The pump stations vary in capacity from roughly 50 gallons per minute ("gpm") to about 5 million gallons per day ("MGD"), and individual pumps range from 3 horsepower ("hp") to 90 hp. The District does not own or operate sewer laterals (the pipe connecting a residence or commercial property to the public sewer). All sewer laterals are private property, and the property owners are responsible for the proper construction, operation and maintenance of their private sewer laterals.

A Collection System Master Plan is underway to programmatically plan the repair/replacement of aging sewer lines and pump stations. The resulting program is intended to meet the District's needs over the next 25 to 50 years. The District has upgraded its Treatment Plant (described below) and continues to upgrade its collection system to manage high inflows of storm-water into damaged or aging public sewers or private sewer laterals. Upgraded public sewers, together with the upgraded Treatment Plant are expected to accommodate inflows until about 2025.

Wastewater Treatment Plant

General. The Treatment Plant provides wastewater service to areas of the City that have sewers and developed areas outside the City limits. The Treatment Plant was upgraded and placed in service in October 2010, and replaced two aging treatment facilities that were originally built in the 1940s and 1950s. The upgraded plant combines the capacity to meet future needs of the District with a reduced carbon footprint and lower greenhouse gas generation through greater energy efficiency. The total cost of the Treatment Plant was approximately $90 million for design, engineering, environmental, construction and other costs. Proceeds of the SRF Loan were used to improve the Treatment Plant, by adding efficient treatment processes and backup facilities in case of equipment failure or emergencies.

Management Contract. Since 2010, Veolia Water West Operating Services, LLC ("Veolia Water") has managed the operation and maintenance of the Treatment Plant pursuant to a contract with the District. The parent company of Veolia Water West, Veolia North America, operates and maintains over 200 treatment plants, over 5,000 miles of wastewater collection lines and 1,150 wastewater and storm-water pump stations across the country. The company's expertise covers the wastewater collection process, from planning, design and construction to long-term operations, maintenance and management of collection networks.

Under an Amended and Restated Contract Service Agreement for Operation, Maintenance and Management of Wastewater Treatment Facilities, dated February 18, 2014 (the "Veolia Contract"), the District continues to own the facilities, set rates, and make all policy decisions, while Veolia Water is responsible for the day-to-day operations of the Treatment Plant. In addition, Veolia Water is responsible for certain other components of the Wastewater System, such as the Ignacio Transfer Pump Station and operation of its flow equalization basins, and the Decant pump station at the Wastewater Reclamation Facility (described below) and the biosolids storage facilities. Operation of all other pump stations are the responsibility of the District. Veolia Water prepares and submits monthly and annual operations and maintenance reports for the District and to all applicable permitting and regulatory agencies. The Contract was further amended by Addendum No. 1 dated January 12, 2015 to include the certified environmental laboratory and the industrial pretreatment program.

Process Description. Wastewater is collected throughout the District service area and conveyed by gravity as well as mechanical means (pump stations) to the Treatment Plant. When the wastewater arrives at the Treatment Plant it is pumped from the Influent Pump Station to the Headworks. The Headworks provides screening of coarse materials and removal of grit which consists of heavy matter such as sand, silt, and gravel.

After the Headworks screening and grit removal, primary clarifiers typically remove approximately 60 – 70% of the solids from raw wastewater. Clarifiers are large tanks that slow the flow of water and allow the force of gravity to remove solids. Heavier solids referred to as "sludge" settles to the bottom. Lighter material such as fat, oil, grease and plastic referred to as "scum" rises to the surface. Both sludge and scum are removed from the waste stream and pumped to a digester for additional treatment.

Secondary treatment of all wastewater is achieved with large rectangular tanks with baffle walls, mechanical mixers, air diffusers, and recirculation pumps that make up the aeration basins. Four aeration basins, each with a capacity of more than 850,000 gallons provide full secondary treatment under all flow conditions. The Treatment Plant is unique in that unlike other wastewater treatment plants it has been designed to completely eliminate the risk of potential permit violations from wet weather blending events. The aeration basins are well mixed and as a result, a continuous stream of water and solids leaves the aeration basins. Solids are captured in the secondary clarifiers and the majority is returned to the head end of the aeration basins to maintain the proper biomass concentration for treatment. The water (treated effluent) is disinfected by ultra violet (UV) light which disrupts the DNA of pathogens and other life forms leaving them incapable of reproduction.

Effluent Disposal. Treated effluent is discharged to San Pablo Bay, recycled at the Recycled Water Facility (RWF – see below) at the Treatment Plant site, or transmitted to the District's Reclamation Facility (see below). Discharge to San Pablo Bay is prohibited beginning June 1st through August 31st. Bay Discharge is permitted (with stringent effluent discharge limits) in the months of May, September and October. Throughout the non-Bay discharge season, effluent is either recycled for a higher use such as irrigation of parks, landscaping, and golf courses, or transmitted and stored at the Reclamation Facility for pasture irrigation.

Rated Capacities. The Treatment Plant is currently permitted for an average dry weather flow of 7.0 MGD, with a maximum peak wet weather flow of 47 MGD. The following table sets forth the historical average daily wastewater flow to the Treatment Plant for the past five fiscal years.

Table 1
Novato Sanitary District Wastewater System
Historical Average Daily Flow

12-Month Period Ending December 31	Total Volume Processed (million gal)	Average Dry Weather Flow (MGD)	Peak Wet Weather Flow (MGD)
2011	1,950	4.20	19.97
2012	1,875	4.00	20.27
2013	1,546	3.88	6.51
2014	1,655	3.37	28.04
2015	1,397	3.25	14.22
2016	1,726	3.46	16.51

Source: The Novato Sanitary District.

Reclamation Facility

The District has a Wastewater Reclamation Facility consisting of some 820 acres of pastures in three separate sites adjacent to Highway 37. This acreage is irrigated with recycled water during the summer months for grazing cattle during 5 to 6 months of the year. Another unique feature of the reclamation facility is a ten (10)-acre wildlife pond utilizing recycled water. The pond supports a variety of freshwater aquatic life and grasses, and is a preserve for birds and other forms of wildlife. A third feature of the reclamation facility is the six (6) acres of treated biosolids storage ponds (including the biosolids Decant Pump Station), and a separate fifteen (15) acre area that serves as a dedicated land disposal ("DLD") site.

Recycled Water Facility

The District completed construction of the Recycled Water Facility ("RWF") in September 2012. The RWF is located on the site of the Treatment Plant, and the project is part of a regional recycled water program - North Bay Water Reuse Authority ("NBWRA"). Twenty-five percent of the cost was paid from a grant from the U.S. Bureau of Reclamation. Five percent was paid from a grant from the California Department of Water Resources. The recycled water is distributed by North Marin Water District ("NMWD") to irrigate a golf course, cemetery and landscaping, in NMWD's Novato North and Novato East Service Areas. The Facility became operational in September 2012, and is being currently expanded to serve NMWD's Novato Central Service Area.

General Obligation Bond Authorization

On December 8, 1970, by a margin of ___%, District voters authorized the issuance of $5,500,000 of general obligation bonds to finance wastewater system improvements. Subsequently, the District issued $3,225,000 of such bonds, which are no longer outstanding.

On September 23, 1986, by a margin of 82.17%, District voters authorized the issuance of $4,500,000 of general obligation bonds to finance wastewater system improvements. Subsequently, the District issued $3,500,000 of such bonds, which are no longer outstanding.

Currently, the District has $3,275,000 of unissued general obligation bond authorization.

Wastewater Capital Reserve Fund

Under the terms of the SRF Loan, the District was required to establish a Wastewater Capital Reserve Fund. The District must deposit sufficient funds to build up the Wastewater Capital Reserve Fund at a minimum rate of 0.5% of the SRF Loan amount each year for a period of ten years. The District's unused general obligation bonding capacity of $3,275,000 described above may be used to offset, dollar for dollar, the required cash deposits to the Wastewater Capital Reserve Fund. Money deposited in the Wastewater Capital Reserve Fund will be available for the costs for planning, design, and construction of capital improvements to the wastewater treatment facilities. However, the District must replace any amounts expended from the Wastewater Capital Reserve Fund by depositing at a minimum annual rate of ten percent of the expended amount.

Anticipated Capital Improvements

The District anticipates spending funds for capital improvements in the next five fiscal years. The District does not provide any assurance that any specific improvements will be completed or completed on the anticipated schedule, or that the expenditures shown below will made.

Table 2
Novato Sanitary District Wastewater System
Capital Improvements Fiscal Years Ended June 30

	2018 Budget	2019 Preliminary	2020 Preliminary	2021 Preliminary	2022 Preliminary
Pump Station Rehab.	$ 150,000	$ 250,000	$ 500,000	$ 500,000	$ 500,000
N. Bay Water Reuse Authority	100,000	100,000	50,000	50,000	50,000
Collection System Improvements	1,700,000	1,700,000	2,000,000	2,300,000	2,800,000
Lateral Replacement Program	80,000	100,000	150,000	175,000	240,000
Hamilton Wetlands/Outfall monitoring	10,000	10,000	10,000	10,000	10,000
Cogeneration/Alt. Energy	350,000	700,000	250,000	150,000	150,000
Annual Sewer Adj. for City Projects	40,000	20,000	20,000	20,000	30,000
Annual Coll. Sys. Repairs (Spot Repairs)	200,000	225,000	200,000	200,000	200,000
Annual Recl. Facilities Improvements	175,000	100,000	100,000	100,000	100,000
Annual Treatment Plant Improvements	300,000	100,000	100,000	100,000	100,000
Annual Pump Station Improvements	100,000	140,000	100,000	100,000	100,000
Annual Ignacio Facility Improvements	50,000	50,000	50,000	50,000	50,000
Strategic Plan Update	20,000	20,000	-	20,000	-
Novato Creek Watershed	5,000	5,000	5,000	10,000	10,000
Admin Bldg. Upgrades/Maintenance Bldg.	350,000	50,000	30,000	30,000	30,000
Odor Control & NTP Landscaping	50,000	50,000	50,000	50,000	50,000
RWF Expansion	1,460,000	50,000	50,000	-	-
NTP Corrosion Control	150,000	150,000	75,000	75,000	75,000
Vehicle Replacement	390,000	25,000	400,000	300,000	50,000
	$5,680,000	**$3,845,000**	**$4,140,000**	**$4,240,000**	**$4,545,000**

Source: The Novato Sanitary District.

FINANCIAL MATTERS OF THE DISTRICT

Wastewater Rates and Charges

Rate Study and Adopted Rates. In April 2016, Bartle Wells Associates ("Bartle Wells"), an independent utility rate consultant, completed a wastewater rate study for the District. The rate study recommended a series of annual sewer rate increases over the five-year period from fiscal 2017 through fiscal 2021, to provide funding for operations and maintenance, debt service expense, pay-as-you-go capital improvements, and to align rates by customer class with the cost of providing services by customer class.

Approved Multi-Year Rate Increases. On June 13, 2016, the District adopted Ordinance No. 120 increasing sewer service charges in accordance with the recommendations contained in the aforementioned rate study. As such, sewer service charges increase each year on July 1 from 2016-2020, absent any further action by the Board of Directors of the District. The $21 annual

increase in single-family residential service charges equals $1.75 per month through fiscal year 2021.

Levy and Collection of Sewer Service Charges on Annual Property Tax Bill by County Tax Collector. The District's annual wastewater service charges are levied and collected by the County on annual property tax bills. Property tax bills are payable in two installments due on December 10 and April 10 of each year.

Residential Service Charges. Residential customers are charged for sewer service based on water usage during the winter months, as measured in Equivalent Dwelling Units ("EDUs"). An EDU is a standard unit of water demand equal to one single family residence. Charges are tiered based on the amount of water used:

- *High Use Charge.* 200% or more than the average water use are charged for 1.8 EDU

- *Average Use Charge.* Between 26% and 199% of the average use of all customers are charged for one unit of service (1 EDU). This covers the vast majority of all customers. Non-metered residential customers are also charged one service unit (1 EDU)

- *Low Use Charge.* 25% or less than average user are charged for 0.6 units of service (0.6 EDU)

Non-Residential Service Charges. Non-residential customers are charged for sewer service based on three factors:

1. Square Footage of the non-residential space, which reflects its capacity to generate wastewater, called the Flow Factor.

2. Winter Water Use as measured by the water bill, which in turn reflects the amount of wastewater generated.

3. Strength of the Wastewater based on the type of business, which reflects the cost to treat the wastewater. Strength varies among non-residential uses. For example the strength for a restaurant would be much greater than that for an office because of the grease and food waste generated by a restaurant. The greater the strength of wastewater, the greater the cost to treat, and thus the greater the charge. There are different strength factors for a variety of business types.

Equivalent Dwelling Units. The following table sets forth the EDUs by Customer Type for the fiscal years shown as of each June 30.

Table 3
Novato Sanitary District Wastewater System
Equivalent Dwelling Units by Customer Type
Fiscal Years Ended June 30

Fiscal Year	Single-Family Residential	Multi-Family Residential	Non-Residential	Total
2008	17,193	4,608	3,682	25,483
2009	17,572	4,970	6,746	29,288
2010	17,569	5,017	6,812	29,397
2011	17,407	5,130	6,577	29,114
2012	17,474	5,183	6,677	29,334
2013	17,706	5,184	6,814	29,704
2014	17,717	5,220	7,102	30,039
2015	17,741	5,234	6,313	29,288
2016	17,542	5,210	7,003	29,756
2017	17,657	5,219	6,384	29,260

Source: The Novato Sanitary District.

Residential Service Charge. The following table sets forth the annual residential service charge per EDU and the percentage change for the fiscal years shown.

Table 4
Novato Sanitary District Wastewater System
Annual Service Charge Per Equivalent Dwelling Units
Fiscal Years Ended June 30

Fiscal Year	Annual Service Charge	Percent Change
2008	$422	10.5%
2009	462	9.5
2010	462	0.0
2011	462	0.0
2012	462	0.0
2013	493	6.7
2014	512	3.9
2015	531	3.7
2016	552	4.0
2017	573	3.8

Source: The Novato Sanitary District.

	EDU Factor
Single-Family Homes	1
Multi-Family Units	1 per living unit
Motor Home / Trailer Park	1 per space
Guest House w/ kitchen and bedroom	1 per living unit
Guest House w/o kitchen	0 per living unit

Non-Residential Service Charge. The following table sets forth the annual non-residential service charges for the fiscal years shown.

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Table 5
Novato Sanitary District Wastewater System
Non-Residential Rates
Fiscal Years Ended June 30

	2014		2015		2016		2017		2018		2019		2020		2021	
	Charge per Square Foot	Charge per HCF Water Use	Charge per Square Foot	Charge per HCF Water Use	Charge per Square Foot	Charge per HCF Water Use	Charge per Square Foot	Charge per HCF Water Use	Charge per Square Foot	Charge per HCF Water Use	Charge per Square Foot	Charge per HCF Water Use	Charge per Square Foot	Charge per HCF Water Use	Charge per Square Foot	Charge per HCF Water Use
Base Charge	0.21	2.79	0.22	2.89	0.23	3.00	0.24	3.11	0.25	3.23	0.26	3.34	0.27	3.46	0.27	3.57
Auditoriums theaters	0.21	2.79	0.22	2.89	0.23	3.00	0.24	3.11	0.25	3.23	0.26	3.34	0.27	3.46	0.27	3.57
Auto service stations	0.21	2.79	0.22	2.89	0.23	3.00	0.24	3.11	0.25	3.23	0.26	3.34	0.27	3.46	0.27	3.57
Churches	0.21	2.79	0.22	2.89	0.23	3.00	0.24	3.11	0.25	3.23	0.26	3.34	0.27	3.46	0.27	3.57
Gymnasiums w/ showers	0.21	2.79	0.22	2.89	0.23	3.00	0.24	3.11	0.25	3.23	0.26	3.34	0.27	3.46	0.27	3.57
Office	0.21	2.79	0.22	2.89	0.23	3.00	0.24	3.11	0.25	3.23	0.26	3.34	0.27	3.46	0.27	3.57
Public office	0.21	2.79	0.22	2.89	0.23	3.00	0.24	3.11	0.25	3.23	0.26	3.34	0.27	3.46	0.27	3.57
Retail	0.21	2.79	0.22	2.89	0.23	3.00	0.24	3.11	0.25	3.23	0.26	3.34	0.27	3.46	0.27	3.57
School classroom/admin.	0.21	2.79	0.22	2.89	0.23	3.00	0.24	3.11	0.25	3.23	0.26	3.34	0.27	3.46	0.27	3.57
Meetings halls w/ kitchens	0.21	3.91	0.22	4.05	0.23	4.20	0.24	4.36	0.25	4.52	0.26	4.68	0.27	4.84	0.27	5.00
Mortuary	0.21	6.07	0.22	6.29	0.23	6.52	0.24	6.77	0.25	7.02	0.26	7.26	0.27	7.51	0.27	7.76
Supermarkets	0.21	6.07	0.23	6.29	0.23	6.52	0.24	6.77	0.25	7.02	0.26	7.26	0.27	7.51	0.27	7.76
Dental offices	0.28	2.79	0.23	2.89	0.23	3.00	0.31	3.00	0.32	3.00	0.33	3.00	0.35	3.00	0.36	3.00
Hospitals	0.28	2.79	0.23	2.89	0.23	3.00	0.31	3.00	0.32	3.00	0.33	3.00	0.35	3.00	0.36	3.00
Veterinary offices	0.28	2.79	0.23	2.89	0.23	3.00	0.31	3.00	0.32	3.00	0.33	3.00	0.35	3.00	0.36	3.00
Bakeries	0.42	6.07	0.44	6.29	0.45	6.52	0.47	6.77	0.48	7.02	0.50	7.26	0.52	7.51	0.54	7.76
Cafeteria/dining area	0.42	6.07	0.44	6.29	0.45	6.52	0.47	6.77	0.48	7.02	0.50	7.26	0.52	7.51	0.54	7.76
Delicatessens	0.42	6.07	0.44	6.29	0.45	6.52	0.47	6.77	0.48	7.02	0.50	7.26	0.52	7.51	0.54	7.76
Ice cream/yogurt shops	0.42	6.07	0.44	6.29	0.45	6.52	0.47	6.77	0.48	7.02	0.50	7.26	0.52	7.51	0.54	7.76
Restaurants cafes	0.42	6.07	0.44	6.29	0.45	6.52	0.47	6.77	0.48	7.02	0.50	7.26	0.52	7.51	0.54	7.76
Laundry and Laundromats	0.63	3.91	0.65	4.05	0.68	4.20	0.71	4.36	0.73	4.52	0.76	4.68	0.78	4.84	0.81	5.00

Source: The Novato Sanitary District.

Estimated Service Charges by Customer Type

Approximately 98% of the District's annual wastewater service charges are levied and collected by the County on annual property tax bills. Property tax bills are mailed in October of each year and are payable in two installments due on December 10 and April 10 of each such year. The following table sets forth the estimated service charges by customer type for the fiscal years shown.

Table 6
Novato Sanitary District Wastewater System
Estimated Service Charges by Customer Type
Fiscal Year Ended June 30

	Single-Family		Multi-Family		Non-Residential		
Fiscal Year	Service Charges	% of Total	Service Charges	% of Total	Service Charges	% of Total	Total Service Charges
2007	$6,325,538	65.0%	$1,808,999	18.6%	$1,591,087	16.4%	$ 9,725,625
2008	7,255,446	67.5	1,944,660	18.1	1,553,800	14.4	10,753,906
2009	8,118,356	60.0	2,295,955	17.0	3,116,634	23.0	13,530,945
2010	8,116,693	59.8	2,317,762	17.1	3,147,130	23.2	13,581,585
2011	8,042,219	59.8	2,370,245	17.6	3,038,366	22.6	13,450,830
2012	8,073,173	59.6	2,394,361	17.7	3,084,811	22.8	13,552,345
2013	8,728,959	59.6	2,555,811	17.5	3,359,322	22.9	14,644,092
2014	9,071,104	59.0	2,672,742	17.4	3,636,173	23.6	15,380,019
2015	9,420,577	60.6	2,779,360	17.9	3,352,176	21.6	15,552,114
2016	9,683,294	59.0	2,876,141	17.5	3,865,656	23.5	16,425,091
2017	10,117,690	60.3	2,990,487	17.8	3,658,032	21.8	16,766,209

Source: The Novato Sanitary District.

Top 10 Customers

The following table shows the top ten customers of the Wastewater System for the fiscal year ended June 30, 2017.

Table 7
Novato Sanitary District Wastewater System
Top 10 Customers, Fiscal Year ended June 30, 2017

Customer	EDU's	Service Charges	Percent of Total
Novato Unified School District	391	$ 224,043	1.3%
BioMarin Pharmaceutical	390	223,470	1.3
Hamilton Hangars (3-10)	352	201,696	1.2
Sutter Health	170	97,198	0.6
Vintage Oaks Shopping Center[1]	158	90,534	0.5
Nave Merchant Association	112	64,176	0.4
Buck Institute	110	63,030	0.4
Novato Fair Shopping Center	104	59,592	0.4
City of Novato	93	53,289	0.3
	93	53,289	0.3
Total Service Charges, Top 10 Customers	**1,973**	**$ 1,130,317**	**6.7%**
Total Service Charges, All Customers	**29,756**	**$16,836,699**	**100.0%**

Source: The Novato Sanitary District.
[1] Excludes Costco and Target, which are each billed separately.

Comparison with Neighboring Agencies

The following table sets forth the average monthly service charge for neighboring agencies and the District.

Table 8
Novato Sanitary District Wastewater System
Comparison with Neighboring Agencies
Average Monthly Wastewater Service Charge

Agency	Amount
Sanitary District No. 5 - Belvedere	$1,985[1]
Tamalpais Community Service District	1,397[2]
Sausalito-Marin City Sanitary District	1,377[2]
Sanitary District No. 1 - City of Larkspur	1,125[2]
Sanitary District No. 5 - Tiburon	1,034[1]
City of Santa Rosa	957[2]
Las Gallinas Valley Sanitary District	870[2]
Ross Valley Sanitary District (SD#1)	856[2]
City of Petaluma	823[2]
City of Mill Valley	779[2]
Napa Sanitation District	638[2]
Novato Sanitary District	**594[2]**
Vallejo Sanitation & Flood Control District	520[1]
Town of Corte Madera	500[1]

Source:
[1] Fiscal Year ended June 30, 2017.
[2] Proposed for the Fiscal Year ending June 30, 2018.

Historical Property Tax Levy and Collection and Teeter Plan

In addition to wastewater service charges, the District also receives a portion of the property taxes that are levied and collected within the boundaries of the District. Property taxes for the District have been collected since the time of District formation in 1925. The property tax collected on behalf of the District is limited to a maximum total levy, which is adjusted annually by a cost of living factor and a change of population factor in accordance with Article XIIIB of the California State Constitution. The District requests an allocation of property tax revenues, up to the maximum, each year by resolution. Property taxes are collected by the County as a part of the County's one percent general levy.

The Board of Supervisors of Marin County has adopted the "Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds" (the "Teeter Plan"), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. The Teeter Plan provides for the allocation and distribution of property tax levies and collections and of tax sale proceeds. Under this method, the County pays the District 100 percent of property tax due to the District and retains any penalties or delinquencies collected to offset such gross payment. There can be no assurance that the County will not discontinue the Teeter Plan or remove the District, or

the property tax payable to the District, from the Teeter Plan in the future. The following table sets forth the historical assessed values for the fiscal years shown.

Table 9
Novato Sanitary District Wastewater System
Historical Assessed Values
Fiscal Year Ended June 30

Fiscal Year	Secured	Utility	Unsecured	Total	Percentage Change
2009	$9,475,459,643	$ 925,353	$197,262,188	$9,673,647,184	3.4%
2010	9,228,309,897	925,353	232,080,671	9,461,315,921	-2.2
2011	9,114,069,426	925,353	255,159,280	9,370,154,059	-1.0
2012	8,989,905,897	1,420,159	242,951,967	9,234,278,023	-1.5
2013	8,867,520,980	799,300	235,901,173	9,104,221,453	-1.4
2014	9,211,068,163	799,300	227,152,020	9,439,019,483	3.7
2015	9,684,095,984	799,300	239,404,757	9,924,300,041	5.1
2016	10,326,418,363	799,300	252,692,227	10,579,909,890	6.6
2017	10,895,749,646	799,300	243,976,289	11,140,525,235	5.3
2018	11,464,405,252	799,300	249,454,456	11,714,659,008	5.2

Source: California Municipal Statistics.

The following table sets forth the property tax levy and collections for the fiscal years shown.

Table 10
Novato Sanitary District Wastewater System
Historical Property Tax Levy, Collection and Delinquencies
Fiscal Year Ended June 30

Fiscal Year	Tax Levy	Collections	Delinquency Rate
2008	$1,999,824	$2,002,026	100.11%
2009	1,926,506	1,928,207	100.09
2010	1,724,197	1,725,949	100.10
2011	1,771,181	1,773,877	100.15
2012	1,793,101	1,795,167	100.12
2013	1,794,220	1,795,765	100.09
2014	1,939,773	1,941,094	100.07
2015	1,997,120	1,999,816	100.13
2016	2,154,133	2,155,479	100.06
2017	2,291,508	2,292,988	100.06

Source: The Novato Sanitary District.

Historical Property Tax Revenue and Service Charges

The following table sets forth historical property tax revenue and service charges for the fiscal years shown.

Table 11
Novato Sanitary District Wastewater System
Historical Property Tax Revenue and Service Charges
Fiscal Year Ended June 30

Fiscal Year Ended June 30	Property Taxes	Service Charges Collected by the County	Service Charges Billed by the District	Total
2008	$1,995,120	$10,624,483	$315,738	$12,935,341
2009	1,928,207	11,237,813	370,916	13,536,936
2010	1,866,049	12,982,050	339,483	15,187,582
2011	1,773,877	13,084,434	339,592	15,197,903
2012	1,795,489	13,194,480	335,352	15,325,321
2013	1,795,781	14,148,187	359,381	16,303,349
2014	1,941,241	14,574,871	422,345	16,938,457
2015	1,999,816	15,172,311	376,489	17,548,616
2016	2,155,479	15,635,425	413,565	18,204,469
2017	2,185,147	16,228,246	430,474	18,843,867

Source: The Novato Sanitary District.

Wastewater System Summary Financial Information

The following table presents the financial results of the Wastewater System for the fiscal years shown.

Table 12
Novato Sanitary District Wastewater System
Historical Revenues, Expenses and Debt Service Coverage, Fiscal Years Ended June 30

	2012 Audit	2013 Audit	2014 Audit	2015 Audit	2016 Audit	2017 Estimate
Operating Revenues:						
Sewer service charges	$13,671,131	$14,670,826	$15,157,903	$15,706,704	$16,222,876	$16,836,699
Other service charges	227,067	305,154	254,797	231,594	207,416	188,945
Permit, inspection and other fees	21,441	34,505	39,023	44,494	46,283	39,256
Recycled water facility	8,060	33,458	99,790	91,942	100,433	177,285
AB 939 - solid waste programs	297,586	297,586	297,586	297,586	342,621	354,134
Total	**14,225,285**	**15,341,529**	**15,849,099**	**16,372,320**	**16,919,629**	**17,596,320**
Operating Expenses (excluding depreciation):						
Collection system	1,274,730	1,022,006	1,188,408	1,277,022	1,116,422	1,178,117
Treatment plant	2,560,633	2,561,314	2,562,314	2,757,514	2,734,327	2,824,699
Reclamation and disposal	442,266	423,670	418,748	398,118	337,887	493,925
Laboratory and monitoring	621,758	572,718	534,959	555,215	487,623	512,003
Pump stations	758,563	668,427	668,841	686,789	641,966	731,684
AB 939 - solid waste programs	310,890	318,616	320,938	289,586	325,068	341,580
Recycled water	0	31,301	104,837	100,354	92,028	105,327
Administrative and engineering	3,789,425	2,505,751	2,523,606	2,173,241	2,528,449	2,485,415
Pension expense	0	0	0	(343,533) [1]	128,697[1]	0
Total	**9,758,265**	**8,103,803**	**8,322,651**	**7,894,306**	**8,392,467**	**8,672,751**
Non-Operating Revenue (Expenses):						
Property taxes	1,795,489	1,795,781	1,941,241	1,999,816	2,155,479	2,185,147
Franchise fees	45,000	46,170	51,019	49,768	51,059	52,485
Rental revenue	(18,901)	67,246	76,689	92,829	101,530	94,439
Interest income	37,129	67,050	45,673	43,117	71,592	136,596
Gain (loss) on sale of assets	(367,095)	2,529	0	13,364	0	1,627
Other	210,320	(339,631)	(270,260)	(135,556)	(83,683)	227,891
Total	**1,701,942**	**1,639,145**	**1,844,362**	**2,063,338**	**2,295,977**	**2,698,185**
Revenue minus Expense	**6,168,962**	**8,876,871**	**9,370,810**	**10,541,352**	**10,823,139**	**11,621,753**
Debt Service Expense						
SRF Loan Interest	0	1,946,989	1,869,024	1,784,785	1,698,525	1,610,195
SRF Loan Principal	21,136	3,431,967	3,509,933	3,594,171	3,680,431	3,768,762
2011 COP Interest	268,170	885,698	861,698	836,798	811,148	775,748
2011 COP Principal	0	800,000	830,000	855,000	885,000	905,000
Total	**289,306**	**7,064,654**	**7,070,655**	**7,070,754**	**7,075,104**	**7,059,704**
Debt Service Coverage	**21.32**	**1.26**	**1.33**	**1.49**	**1.53**	**1.65**
Net Cash Flow	**5,879,656**	**1,812,218**	**2,300,156**	**3,470,598**	**3,748,035**	**4,562,050**

Source: The Novato Sanitary District.

[1] Governmental Accounting Standards Board 68 implementation.

The following table presents the projected financial results of the Wastewater System for the fiscal years shown. The debt service coverage is preliminary and subject to change. Actual results during the projection period may vary from those set forth in the following table. Under certain circumstances, such variances may be material.

Table 13
Novato Sanitary District Wastewater System
Projected Revenues, Expenses and Pro Forma Debt Service Coverage
Fiscal Years Ended June 30

	2018 Budget	2019 Projection	2020 Projection	2021 Projection	2022 Projection
Operating Revenues:					
Sewer service charges					
Other service charges					
Permit, inspection and other fees					
Recycled water facility					
AB 939 - solid waste programs					
Total					
Operating Expenses (excluding depreciation):					
Collection system					
Treatment plant					
Reclamation and disposal					
Laboratory and monitoring					
Pump stations					
AB 939 - solid waste programs					
Recycled water					
Administrative and engineering					
Pension expense					
Total					
Non-Operating Revenue (Expenses):					
Property taxes					
Franchise fees					
Rental revenue					
Interest income					
Gain (loss) on sale of assets					
Other					
Total					
Revenue minus Expense					
Debt Service Expense					
SRF Loan Interest					
SRF Loan Principal					
2011 COP Interest					
2011 COP Principal					
Total					
Debt Service Coverage					
Net Cash Flow					

Source: The Novato Sanitary District and Bartle Wells.

The following table shows the audited assets and liabilities of the Wastewater System for the fiscal years shown.

Table 14
Novato Sanitary District Wastewater System
Balance Sheet
Fiscal Years Ended June 30

	2012	2013	2014	2015	2016
Current Assets:					
Cash & investments (unrestricted)	$10,331,492	$13,231,902	$15,612,749	$18,102,303	$19,742,079
Accounts receivable, net	1,308,499	544,544	300,683	373,490	318,238
Accrued interest receivable	15,093	13,401	11,352	3,702	29,263
Prepaid expenses and other deposits	52,813	53,581	55,178	52,296	55,224
Total	**11,707,897**	**13,843,428**	**15,979,962**	**18,531,791**	**20,144,804**
Current Liabilities:					
Accounts payable & accrued expenses	2,065,576	978,949	1,235,959	749,097	812,354
Customer deposits	44,041	38,006	43,006	43,006	36,556
Special assessment payable	163,708	166,077	163,271	179,541	179,174
Interest payable	971,294	1,293,552	1,241,058	1,187,241	1,128,325
Compensated absences	39,111	40,242	39,976	33,486	39,246
Current portion of long-term debt	4,231,967	4,339,933	4,449,171	4,565,431	4,673,763
Total	**7,515,697**	**6,856,759**	**7,172,441**	**6,757,802**	**6,869,418**

Source: The Novato Sanitary District.

Investment Policy

The District Board periodically reviews and adopts or ratifies the District's Statement of Investment Policy in accordance with Section 53600 of the Government Code of the State of California. The policy was adopted in its current form as Policy 3120 – Investment of Public Funds, in December 2012, and updated in March 2014 (the "Investment Policy"). The Investment Policy sets forth the following objectives:

Safety: Safety of principal is the foremost objective of the investment program. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity: The investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated.

Return on Investments: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Retirement Plans

California Public Employees Retirement System. The District contributes to the California Public Employees Retirement System ("CalPERS"), a cost-sharing multi-employer defined benefit pension plans (each, a "Plan"). CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service. Members with five years of total service are eligible to retire at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. See APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015. The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous Tier I
Hire date	Prior to January 1, 2012
Benefit Formula	2% @ 55
Benefit vesting schedule	5 years' service
Benefit payments	monthly for life
Retirement age	50-67
Monthly benefits, as a % of eligible compensation	1.43% to 2.42%
Required employee contribution rates	7.0%
Required employer contribution rates	8.512%

	Miscellaneous Tier II
Hire date	Between January 1, 2012 through December 31, 2012
Benefit Formula	2.0% @ 60
Benefit vesting schedule	5 years' service
Benefit payments	monthly for life
Retirement age	50-67
Monthly benefits, as a % of annual salary	1.1% to 2.42%
Required employee contribution rates	7.0%
Required employer contribution rates	6.709%

	Miscellaneous Tier III
Hire date	On or after January 1, 2013
Benefit Formula	2.0% @ 62
Benefit vesting schedule	5 years' service
Benefit payments	monthly for life
Retirement age	50-67
Monthly benefits, as a % of annual salary	1.0% to 2.5%
Required employee contribution rates	6.25%
Required employer contribution rates	6.237%

Source: APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015.

Contributions and Pension Liabilities. Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability and side fund. The dollar amounts are billed on a monthly basis. The District's required contribution for the unfunded liability and side fund was $144,000 in fiscal year 2016. In fiscal year 2016, the contributions recognized as part of the pension expense for each Plan were $261,884 (employer - Tier I), $20,350 (employer on behalf of employee - Tier I), $7,635 (employer – Tier II), and $11,416 (employer – Tier III).

As of June 30, 2016, the District reported net pension liabilities for its proportion shares of the net pension liability of each Plan as follows:

Miscellaneous Tier I	$3,529,806
Miscellaneous Tier II	(2,366)
Miscellaneous Tier III	809
Total Net Pension Liability	$3,528,249

Source: APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015.

Other Post-Employment Benefits

The District follows the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions ("OPEB"). Membership in the OPEB plan consisted of the following members as of the fiscal years ended each June 30:

	2016	2015	2014
Active plan members	12	14	14
Retirees and beneficiaries receiving benefits	20	20	20
Total plan membership	32	34	34

Source: APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015.

The District offers OPEB medical benefits to retired employees who satisfy the eligibility rules. Spouses, surviving spouses and eligible dependents are also eligible to receive benefits. Retirees may enroll in any plan available through the District's CalPERS medical plan (the "OPEB Plan"). The contribution requirements of OPEB Plan members and the District were adopted by the Board of Directors in July 2008 as follows:

- The District contributes toward post-retirement benefits for employees who retire after age 50 with at least 5 years of service. For those employed prior to July 1, 2008, who retire after age 55 with at least 10 years of service, the District will pay the full monthly premiums for medical coverage for the retired employee, but not more than the Kaiser Bay Area

amount. If the retiree is at least age 60 with at least 15 years of service, or age 55 with at least 25 years of service, the premium for the employee's eligible spouse is paid. Coverage is for the lives of the retired employee and spouse. Medical coverage is provided under any plans offered by CalPERS.

- For all other employees, hired on or after July 1, 2008, who retire after age 50 with at least 5 years of service, the District will pay the minimum CalPERS medical benefit. In 2016 and 2015, this minimum amount was $125 and $122 per month, respectively. This benefit is paid for as long as the retiree or spouse is living, provided he/she is covered under the CalPERS medical plans.

- In addition, for employees hired after July 1, 2008, the District contributes 1.5% of the employees base monthly salary toward a Medical After Retirement Account ("MARA") while employed.

The District is required to contribute the Annual Required Contribution ("ARC") of the Employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 34.02% of the annual covered payroll. The District will pay 100% of the cost of the post-employment benefit plan for those employees employed prior to July 1, 2008 who meet the required service years. The District will pay the minimum CalPERS medical benefit for all other employees who do not meet the previously noted service requirements. The District funds the OPEB Plan on a pay-as-you-go basis and records a liability for the difference between pay-as-you-go and the actuarially determined ARC cost. For employees hired after July 1, 2008, the District contributions to the MARA are not included in OPEB accounting, but are accrued each year as an operating expense as they are contributed. For a description of the actuarial assumptions for the OPEB Plan, see Appendix B, Note 7.

The District's Net OPEB Obligation ("NOO") is recorded in the Statement of Net Position and is calculated as set forth in the following table.

	2016	2015	2014
Annual OPEB expense:			
Annual required contribution (ARC)	$ 452,506	$ 425,357	$ 413,773
Interest on net OPEB obligation	50,272	43,361	36,772
Adjustment to annual required contribution	(82,429)	(69,391)	(57,519)
Total annual OPEB expense	420,349	399,327	393,026
Change in net OPEB payable obligation:			
Age adjusted contributions made	(242,322)	(226,567)	(228,301)
Total change in net OPEB obligation	178,027	172,760	164,725
OPEB obligation – beginning of year	1,256,796	1,084,036	919,311
OPEB obligation – end of year	$1,434,823	$1,256,796	$1,084,036

Source: APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015.

The actuarial accrued liability ("AAL") representing the present value of future benefits as of June 30, 2016 amounted to $6,313,211 per the actuarial study dated July 1, 2015. The OPEB Plan's annual required contributions and actual contributions for fiscal years ended June 30, is set forth below:

Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2016	$420,349	$242,322	57.65%	$1,434,823
2015	399,327	226,567	56.74	1,256,796
2014	393,026	228,301	58.09	1,084,036

Source: APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015.

The following table sets forth the funded status of the OPEB Plan.

Actuarial Valuation Date	Actuarial Value of OPEB Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL)(b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/15	$0	$6,313,211	$6,313,211	0.00%	$1,329,966	474.690%
7/1/12	0	5,347,276	5,347,276	0.00	1,973,900	270.899
7/1/10	0	6,112,283	6,112,283	0.00	2,000,000	305.610

Source: APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015.

RISK FACTORS

Wastewater System Demand

There can be no assurance that the demand for wastewater services will occur as described in this Official Statement. Reduction in levels of demand could require an increase in rates or charges to comply with the covenants to fix rates and charges.

Wastewater System Expenses

There can be no assurance that the District's expenses will be consistent with the descriptions in this Official Statement. Increases in expenses could require an increase in rates or charges to comply with the rate covenant.

Regulatory Requirements

The operations of the Wastewater System are subject to state and federal laws and regulations, particularly with respect to water quality discharge requirements. The adoption of more stringent laws or regulations may cause the District to incur greater expenses for the operation of the Wastewater System. No assurance can be given that the costs of complying with any such new laws or regulations will not adversely affect the District's ability to generate sufficient Net Revenues in the amounts or on the schedule required by the Indenture.

Natural Disasters

General. From time to time, the service area of the District is subject to natural calamities that may adversely affect economic activity in the District, which could have a negative impact on Wastewater System finances. There can be no assurance that the occurrence of any natural calamity would not cause substantial damage to the Wastewater System, or that the District would have insurance or other resources available to make repairs to the Wastewater System in order to generate sufficient Net Revenues to pay debt service on the 2017 Bonds when due. The casualty and liability insurance maintained by the District may not cover damages and losses to the Wastewater System due to earthquake, fire, flood or other natural calamities.

Seismic. The District is located in a seismically active area. The San Andreas Fault is located 12-14 miles west of the City of Novato. The Hayward Fault (located approximately 8 miles east of the eastern edge of the City of Novato) and the Healdsburg-Rodgers Creek Fault located northeast of the City of Novato are both active faults. Silt and mud deposits have accumulated over 10,000 years in flat areas with elevations generally below sea level in portions of the City of Novato. Formerly much of these lands would flood during high tide. Some of these lands have been "reclaimed" through the construction of levees and drainage channels and used for urban development. During an earthquake, the sandy soils may become fluid-like, in a process known as liquefaction, greatly increasing the potential damage to buildings. Urban development on bay front areas is thus potentially exposed to a very high level of geologic risk. Potential hazards related to earthquakes include ground shaking, surface rupture along the fault zone, and related secondary ground failures. Typical seismically-induced ground failures include liquefaction, lateral spreading, ground lurching, landslides, inundation, and settlement.

Flood. Novato Creek has a long history of flooding and is the main flood hazard in the City. Flooding along Novato Creek usually occurs in three stages; when the water levels rises above storm drains, resulting in flooded roads and lots; when Warner Creek and Arroyo Avichi rise and overflow their banks at the confluence with Novato Creek; and when Novato Creek itself rises to a level where it overflows at low points in its levees. In addition, localized flooding occurs periodically in certain locations within the City of Novato. Dam failure resulting from earthquakes is another potential source of flooding. Novato Creek Dam, an earth embankment constructed in 1951, is 71 feet high. This dam creates Stafford Lake, which has a capacity of approximately 4,500 acre-feet of water. The dam, located upstream of the City of Novato along Novato Creek at Stafford Lake, is designed to withstand an earthquake with a magnitude of 8.25 on the San Andreas Fault with a design epicenter located 10 miles from the dam.

Limited Recourse on Default

If the District defaults on its obligation to make the debt service payments under the Indenture, the Trustee has the right to accelerate the total unpaid principal amount of such payments. However, in the event of a default and such acceleration there can be no assurance that the District will have sufficient funds to pay the accelerated payments.

Limitations on Remedies

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

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

Articles XIIIC and XIIID

General. An initiative measure entitled the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIIIC and Article XIIID to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property related assessments, fees and charges."

Article XIIID. Article XIIID defines the terms "fee" and "charge" to mean "any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service." A "property related service" is defined as "a public service having a direct relationship to property ownership." Article XIIID further provides that reliance by an agency on any parcel map (including an assessor's parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

Article XIIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, if and to the extent that a fee or charge imposed by a local government for wastewater service is ultimately determined to be a "fee" or "charge" as defined in Article XIIID, the local government's ability to increase such fee or charge may be limited by a majority protest.

In addition, Article XIIID includes a number of limitations applicable to existing fees and charges including provisions to the effect that: (a) revenues derived from the fee or charge may not exceed the funds required to provide the property-related service; (b) such revenues may not be used for any purpose other than that for which the fee or charge was imposed; (c) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership may not exceed the proportional cost of the service attributable to the parcel; (d) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property related fees or charges based on potential or future use of a service are not permitted; and (e) no fee or change may be imposed for general governmental purposes.

Based upon the California Court of Appeal decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the State Supreme Court, it was generally believed that Article XIIID did not apply to charges for water services that are "primarily based on the amount consumed" (i.e., metered water rates), which had been held to be commodity charges related to consumption of the service, not property ownership. The Supreme Court stated in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal. 4th 205 (2006) (the "Bighorn Case"), however, that fees for ongoing water service through an existing connection were property-related fees and charges. The Supreme Court specifically disapproved the holding in *Howard Jarvis Taxpayers Association v. City of Los Angeles* that metered water rates are not subject to Proposition 218. The District has complied with the notice and public hearing requirements of Article XIIID in establishing Wastewater System rates and charges.

Article XIIIC. Article XIIIC provides that the initiative power may not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges is applicable to all local governments. Article XIIIC does not define the terms "local tax," "assessment," "fee" or "charge," so it was unclear whether the definitions set forth in Article XIIID referred to above are applicable to Article XIIIC. Moreover, the provisions of Article XIIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. On July 24, 2006, the Supreme Court held in the Bighorn Case that the provisions of Article XIIIC included rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. In any event, the District does not believe that Article XIIIC grants to the voters within the District the power to repeal or reduce rates and charges for the wastewater service in a manner which would be inconsistent with the contractual obligations of the District. However, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the 2017 Bonds. Remedies available to beneficial owners of the 2017 Bonds in the event of a default by the District are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. So long as the 2017 Bonds are held in book-entry form, DTC (or its nominee) will be the sole registered owner of the 2017 Bonds and the rights and remedies of the Bond Owners will be exercised through the procedures of DTC.

Proposition 26

Proposition 26 was approved by the electorate at the November 2, 2010 election and amended California Constitution Articles XIIIA and XIIIC. The proposition imposes a two-thirds voter approval requirement for the imposition of fees and charges by the State. It also imposes a majority voter approval requirement on local governments with respect to fees and charges for general purposes, and a two-thirds voter approval requirement with respect to fees and charges for special purposes. Proposition 26, according to its supporters, is intended to prevent the circumvention of tax limitations imposed by the voters in California Constitution Articles XIIIA, XIIIC and XIIID pursuant to Proposition 13, approved in 1978, Proposition 218, approved in 1996, and other measures through the use of non-tax fees and charges. Proposition 26 expressly excludes from its scope a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable cost to the State or local government of providing the service or product to the payor. Proposition 26 applies to charges imposed or increased by local governments after the date of its approval. The District believes its Wastewater System rates and charges are not taxes under Proposition 26. The District is unable to predict at this time how Proposition 26 will be interpreted by the courts or what its ultimate impact will be.

Constitutional Limitations on Appropriations and Fees

Under Article XIIIB of the California Constitution, as amended, state and local government entities have an annual "appropriations limit" which limits their ability to spend certain moneys called "appropriations subject to limitation," which consist of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge. The District is of the opinion that the user charges of the Wastewater System imposed by the District

do not exceed the costs the District reasonably bears in providing the Wastewater Service. In general terms, the "appropriations limit" is to be based on certain 1978/79 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population, and services provided by these entities. Among other provisions of Article XIIIB, if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Future Initiatives

Articles XIIIB, XIIIC and XIIID were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives have been and could be proposed and adopted affecting the Wastewater System's revenues or ability to increase revenues. Neither the nature and impact of these measures nor the likelihood of qualification for ballot or passage can be anticipated by the District.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of owners of the 2017 Bonds to provide certain financial information and operating data relating to the District and the Wastewater System by not later than eight months after the end of the District's fiscal year (presently June 30) in each year commencing with its report for the fiscal year ended June 30, 2017 (the "Annual Report") and to provide notices of the occurrence of certain enumerated events. The District has retained The Bank of New York Mellon Trust Company, N.A. to serve as its Dissemination Agent in connection with the 2017 Bonds. The Annual Reports and notices of enumerated events will be filed with the Municipal Securities Rulemaking Board (the "MSRB") by the Dissemination Agent on behalf of the District. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12 (the "Rule"). The specific nature of the information to be contained in the Annual Report and the enumerated events is summarized in APPENDIX F – "FORM OF CONTINUING DISCLOSURE AGREEMENT."

In conjunction with the delivery of the 2017 Bonds, the District engaged the services of Willdan Financial Services ("Willdan") to conduct a continuing disclosure compliance review. The District has not failed to file annual reports or notices of enumerated events under the Rule in the past five years.

LEGAL OPINIONS

Legal matters incident to the authorization and issuance of the 2017 Bonds are subject to the approving opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by the District's Counsel and for the District by Norton Rose Fulbright US LLP, Disclosure Counsel. The compensation of Bond Counsel and Disclosure Counsel for this issue is contingent on the successful sale of the 2017 Bonds.

TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2017 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 District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Tax Code"), that must be satisfied subsequent to the issuance of the 2017 Bonds. The District 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 2017 Bonds.

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

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of a 2017 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2017 Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2017 Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2017 Bonds who purchase the 2017 Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2017 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2017 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 2017 Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of a 2017 Bond (said term being the shorter of the 2017 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 2017 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a 2017 Bond is amortized each year over the term to maturity of the 2017 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized 2017 Bond premium is not deductible for federal income tax purposes. Owners of premium 2017 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 2017 Bonds.

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

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

The form of the proposed opinion of Bond Counsel is attached as Appendix E.

NO LITIGATION

There is no action, suit, or proceeding known by the District to be pending or threatened at the present time restraining or enjoining the delivery or in any way contesting or affecting the validity of the 2017 Bonds, the Indenture or the proceedings of the District taken with respect to the execution or delivery thereof.

RATING

S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P") has assigned the 2017 Bonds a rating of "__." Such rating reflects only the views of such organization and any desired explanation of the significance of such rating should be obtained from S&P, at the following address: S&P Global Ratings, 55 Water Street, New York, New York 10041. The District has furnished to S&P certain materials and information with respect to the District and the 2017 Bonds. Generally, a rating agency bases its ratings on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. The District and the Municipal Advisor undertake no responsibility to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of any rating might have an adverse effect on the market price or marketability of the 2017 Bonds.

MUNICIPAL ADVISOR

The District has retained Steven Gortler, San Francisco, California as municipal advisor (the "Municipal Advisor") in connection with the structuring, marketing and pricing of the 2017 Bonds. The Municipal Advisor has reviewed this Official Statement but makes no guaranty, warranty or other representation respecting the accuracy and completeness of the information contained herein.

UNDERWRITING

_____ (the "Underwriter") has purchased the 2017 Bonds from the District at a competitive sale for a purchase price of $_____ (representing the aggregate principal amount of the 2017 Bonds, [plus/minus] a [premium/Discount] of $_____, and less an underwriting discount of $_____). The public offering prices may be changed from time to

time by the Initial Purchaser. The Underwriter may offer and sell the 2017 Bonds to certain dealers and others at prices lower than the offering prices shown on the inside cover page hereof.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The Verification Agent will verify the accuracy of (i) mathematical computations concerning the adequacy of the maturing principal amounts of and interest earned on the Defeasance Securities deposited in the Escrow Fund, together with amounts held as cash therein, to provide for payment of the Redemption Price of the 2011 Certificates on the Redemption Date and (ii) certain mathematical computations supporting the conclusion that the 2017 Bonds are not "arbitrage bonds" under the Code, which will be used in part by Bond Counsel to be delivered at the closing of the 2017 Bonds in concluding that interest on the 2017 Bonds is excluded from gross income of the Owners thereof for federal income tax purposes under present laws, including applicable provisions of the Code, existing court rulings, regulations and Internal Revenue Service rulings.

The report of the Verification Agent will include the statement that the scope of its engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to it and that the Verification Agent has no obligation to update its report because of events occurring, or data or information coming to its attention, after the date of its report.

MISCELLANEOUS

Any statement in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Holders of any of the 2017 Bonds.

The preparation and distribution of this Official Statement has been duly authorized by the District.

NOVATO SANITARY DISTRICT

By: _____
General Manager - Chief Engineer/Secretary

[insert Appendix A]

APPENDIX B

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015

[insert Appendix C]

APPENDIX D

BOOK-ENTRY SYSTEM

The information in this Appendix D concerning DTC and its book-entry system has been obtained from sources that the District believe to be reliable, but the District take no responsibility for the accuracy thereof.

General

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2017 Bonds. The 2017 Bonds 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 bond certificate will be issued for each maturity of the 2017 Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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 rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.org. The information on such website is not incorporated by reference herein.

Purchases of 2017 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2017 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2017 Bond ("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 2017 Bonds 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 2017 Bonds, except in the event that use of the book-entry system for the 2017 Bonds is discontinued.

To facilitate subsequent transfers, all 2017 Bonds 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 2017 Bonds 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 2017 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2017 Bonds 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.

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.

Redemption notices shall be sent to DTC. If less than all of the 2017 Bonds 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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2017 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy 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 2017 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the 2017 Bonds 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 the District or the Trustee, on a 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 nor its nominee, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, 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.

DTC may discontinue providing its services as depository with respect to the 2017 Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

APPENDIX E

FORM OF BOND COUNSEL OPINION

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

INDENTURE OF TRUST

between the

NOVATO SANITARY DISTRICT

and

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
as Trustee

Dated as of November 1, 2017

Relating to

$_____
Novato Sanitary District
2017 Wastewater Revenue Refunding Bonds

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APPENDIX B: FORM OF BOND

INDENTURE OF TRUST

This INDENTURE OF TRUST, dated as of November 1, 2017, is between the NOVATO SANITARY DISTRICT, a sanitary district duly organized and existing under the Constitution and laws of the State of California (the "District"), and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., a national banking association organized and existing under the laws of the United States of America, with a corporate trust office in San Francisco, California, and being qualified to accept and administer the trusts hereby created (the "Trustee").

BACKGROUND:

1. The District has heretofore caused to be issued $21,750,000 Wastewater Revenue Certificates of Participation, Series 2011 (the "2011 Certificates") pursuant to a Trust Agreement, dated as of October 1, 2011 (the "2011 Trust Agreement"), by and among the District, Public Property Financing Corporation of California, and The Bank of New York Mellon Trust Company, N.A., as trustee, which are presently outstanding in the principal amount of $17,475,000.

2. Under the 2011 Trust Agreement, the District has the option to prepay the 2011 Certificates maturing on or after February 1, 2021, in whole or in part, on February 1, 2020, at a prepayment price equal to 100.5% of the principal amount of the 2011 Certificates to be prepaid, together with accrued interest represented thereby to the prepayment date.

3. The District has decided to defease, pay and optionally prepay the 2011 Certificates in accordance with the 2011 Trust Agreement, and in order to provide funds for that purpose, the Board of Directors of the District has authorized the issuance of the Novato Sanitary District 2017 Wastewater Revenue Refunding Bonds in the aggregate principal amount of $_____ (the "Bonds") under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code (the "Bond Law").

4. Pursuant to the State Revolving Fund ("SRF") program, the District has previously entered into an Interagency Sales Agreement (Installment Sale Agreement No. C-06-4903-110; Agreement No. 07-824-550-0) with the State Water Resources Control Board in 2008, in the maximum principal amount of $81,329,083 (the "SRF Loan"), under which the District is obligated to make installment payments from the Net Revenues derived by the District from the operation of its Wastewater System (as such terms are defined herein).

5. The SRF Loan and the SRF policy with respect thereto permit the incurrence of obligations payable from Net Revenues on a parity basis.

6. The Bonds will be secured by a pledge of and lien on the Net Revenues derived by the District from the operation of its Wastewater System, on parity with the SRF Loan.

7. In order to provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued

and secured and to secure the payment of the principal thereof and of the interest and premium, if any, thereon, the Board of Directors of the District has authorized the execution of this Indenture.

A G R E E M E N T :

In order to secure the payment of the principal of and the interest on all the Bonds under this Indenture according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the Owners thereof, and for other valuable considerations, the receipt of which is hereby acknowledged, the District and the Trustee hereby covenant and agree with one another, for the benefit of the respective Owners from time to time of the Bonds, as follows:

ARTICLE I

DEFINITIONS; RULES OF CONSTRUCTION

SECTION 1.01. *Definitions*. Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms defined in Appendix A attached to this Indenture have the respective meanings specified in Appendix A when used in this Indenture.

SECTION 1.02. *Authorization*. Each of the parties hereby represents and warrants that it has full legal authority and is duly empowered to enter into this Indenture, and has taken all actions necessary to authorize the execution hereof by the officers and persons signing it.

SECTION 1.03. *Interpretation.*

(a) Unless the context otherwise indicates, words expressed in the singular include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and do not affect the meaning, construction or effect hereof.

(c) All references herein to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Indenture; the words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

ARTICLE II

ISSUANCE OF BONDS

SECTION 2.01. *Authorization and Purpose of Bonds*. The District has reviewed all proceedings heretofore taken and has found, as a result of such review, and hereby finds and determines that all things, conditions and acts required by law to exist, happen or be performed precedent to and in connection with the issuance of the Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and the District is now duly empowered, under each and every requirement of law, to issue the Bonds in the manner and form provided in this Indenture.

The District hereby authorizes the issuance of Bonds in the aggregate principal amount of $_____ under the Bond Law for the purposes of providing funds to defease, pay and prepay the 2011 Certificates as set forth in the Escrow Agreement, and thereby discharge the District's obligations under the 2011 Trust Agreement and the 2011 Installment Sale Agreement. The Bonds are authorized and issued under, and are subject to the terms of, this Indenture and the Bond Law. The Bonds are designated the "Novato Sanitary District 2017 Wastewater Revenue Refunding Bonds".

SECTION 2.02. *Terms of the Bonds*. The Bonds are issuable in fully registered form without coupons in denominations of $5,000 or any integral multiple thereof, so long as no Bond has more than one maturity date. The Bonds will be dated as of the Closing Date, and will mature on February 1 in the years and in the respective principal amounts and bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) at the respective rates per annum, as set forth in the following table:

Maturity Date (February 1)	**Principal Amount**	**Interest Rate**
	$	%

Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

(a) a Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date,

(b) a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the Closing Date, or

(c) interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date

to which interest has been paid in full, payable on each Interest Payment Date.

Interest is payable on each Interest Payment Date to the persons in whose names the ownership of the Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any Bond which is not punctually paid or duly provided for on any Interest Payment Date is payable to the person in whose name the ownership of such Bond is registered on the Registration Books at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee, notice of which is given to such Owner by first-class mail not less than 10 days prior to such special record date.

The Trustee will pay interest on the Bonds by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. At the written request of the Owner of Bonds in an aggregate principal amount of at least $1,000,000, which written request is on file with the Trustee as of any Record Date, the Trustee will pay interest on such Bonds on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial institution within the United States of America as specified in such written request, which written request will remain in effect until rescinded in writing by the Owner. The Trustee will pay principal of the Bonds in lawful money of the United States of America by check of the Trustee upon presentation and surrender thereof at the Office of the Trustee.

SECTION 2.03. *Redemption of Bonds*.

(a) Optional Redemption. The Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, in whole or in part, on any date on or after February 1, 2028, at a redemption price equal to the principal amount to be redeemed, plus accrued interest to the date fixed for redemption, without premium. The District shall give written notice of any redemption of Bonds under this subsection (a) to the Trustee at least 45 days prior to the date of redemption or such shorter time as shall be acceptable to the Trustee.

(b) Sinking Fund Redemption.

(i) The Bonds maturing on February 1, 20__ are subject to mandatory sinking fund redemption in part, by lot, on February 1 of each year in accordance with the schedule set forth below. The Bonds so called for mandatory sinking fund redemption will be redeemed at the principal amount to be redeemed, plus accrued but unpaid interest, without premium.

Redemption Date (February 1)	**Sinking Fund Amount**
20__	$
20__	
20__ (maturity)	

(ii) The Bonds maturing on February 1, 20__ are subject to mandatory sinking fund redemption in part, by lot, on February 1 of each year in accordance with the schedule set forth below. The Bonds so called for mandatory sinking fund redemption will be redeemed at the principal amount to be redeemed, plus accrued but unpaid interest, without premium.

Redemption Date (February 1)	**Sinking Fund Amount**
20__	$
20__	
20__	
20__ (maturity)	

If some but not all of the Bonds have been redeemed pursuant to Section 2.03(a), the total amount of all sinking account payments shall be reduced by the aggregate principal amount of Bonds so redeemed to be allocated among such sinking fund payments as determined by the District (notice of which determination shall be given by the District to the Trustee).

(c) Extraordinary Redemption from Net Proceeds. The Bonds shall be subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date, as determined by the District, from Net Proceeds, upon the terms and conditions of, and as provided for in Sections 5.04 or 5.05, as applicable, at a Redemption Price equal to the principal amount of the Bonds to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption. The District shall give written notice of any redemption of Bonds under this subsection (c) to the Trustee at least 45 days prior to the date of redemption or such shorter time as shall be acceptable to the Trustee.

(d) Notice of Redemption. Unless waived by any Owner of Bonds to be redeemed, notice of any redemption of Bonds shall be given, at the expense of the District, 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 and containing the information set forth in clause (e) below; provided, that neither the failure to receive such notice nor any immaterial defect in any notice shall affect the sufficiency of the proceedings for the redemption of the Bonds.

(e) Contents of Notice. All notices of redemption shall be dated and shall state:

(i) the redemption date,

(ii) the redemption price of the Bonds being redeemed (the "Redemption Price"),

(iii) if fewer than all Outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed, including (A) the CUSIP numbers of all Bonds being redeemed; (B) the stated interest rate with respect to each Bond being redeemed; (C) the maturity date of each Bond being redeemed; and (D)

any other descriptive information needed to identify accurately the Bonds being redeemed,

(iv) that on the redemption date the Redemption Price will become due and payable with respect to each such Bond or portion thereof called for redemption, and that interest with respect thereto shall cease to accrue from and after said date, and

(v) the place or places where such Bonds are to be surrendered for payment of the Redemption Price, which places of payment may include the Office of the Trustee.

(g) Rescission of Notice of Redemption. The District has the right to rescind any notice of the redemption of Bonds given under Section 2.03(d) by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default. The District 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 shall mail notice of such rescission of notice of redemption in the same manner as the original notice of redemption was sent under Section 2.03.

(h) Deposit of Money. On or prior to any redemption date, the District shall deposit with the Trustee an amount of money sufficient to pay the Redemption Price of all the Bonds or portions of Bonds which are to be redeemed on that date.

(i) Consequences of Notice. Notice of redemption having been given as aforesaid, the Bonds or portions of Bonds so to be redeemed shall, on the redemption date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the District shall default in the payment of the Redemption Price) such Bonds or portions of Bonds shall cease to have interest accrue thereon. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Trustee at the Redemption Price. Installments of interest due on or prior to the redemption date shall be payable as herein provided for payment of interest. Upon surrender for any partial redemption of any Bond, there shall be prepared for the Owner a new Bond or Bonds of the same maturity in the amount of the unredeemed principal. All Bonds which have been redeemed shall be cancelled and destroyed by the Trustee and shall not be redelivered.

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

(k) Manner of Redemption. Whenever any Bonds are to be selected for redemption, the Trustee shall determine, by lot, the numbers of the Bonds to be redeemed, and shall notify the District thereof.

(l) Purchase of Bonds in lieu of Redemption. In lieu of redemption of any Bonds pursuant to 2.03(b), amounts on deposit in the Redemption Account may also be used and withdrawn by the District 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 District may in its discretion determine. The par amount of any of such Bonds so purchased by the District in any twelve-month period ending on January 1 in any year shall be credited towards and shall reduce the par amount of such Bonds required to be redeemed pursuant to Section 2.03(b) on the next succeeding February 1.

All Bonds redeemed pursuant to this Section and all Bonds purchased by the District pursuant to this subsection (l) shall be cancelled and destroyed pursuant to Section 9.07.

SECTION 2.04. *Book Entry System*.

(a) Original Delivery. The Bonds will be initially delivered in the form of a separate single fully registered bond (which may be typewritten) for each maturity of the Bonds. Upon initial delivery, the Trustee shall register the ownership of each Bond on the Registration Books in the name of the Nominee. Except as provided in subsection (c), the ownership of all of the Outstanding Bonds shall be registered in the name of the Nominee on the Registration Books.

With respect to Bonds the ownership of which is registered in the name of the Nominee, the District and the Trustee has no responsibility or obligation to any Depository System Participant or to any person on behalf of which the Nominee holds an interest in the Bonds. Without limiting the generality of the immediately preceding sentence, the District and the Trustee has no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Depository System Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any notice with respect to the Bonds, (iii) the selection by the Depository of the beneficial interests in the Bonds to be redeemed if the District elects to redeem the Bonds in part, (iv) the payment to any Depository System Participant or any other person, other than a Bond Owner as shown in the Registration Books, of any amount with respect to principal, interest and premium, if any, on the Bonds or (v) any consent given or other action taken by the Depository as Owner of the Bonds. The District and the Trustee may treat and consider the person in whose name each Bond is registered as the absolute owner of such Bond for the purpose of payment of principal of and the interest and premium, if any, on such Bond, for the purpose of giving notices of matters with respect to such Bond, for the purpose of registering transfers of ownership of such Bond, and for all other purposes whatsoever. The Trustee shall pay the principal of and the interest and premium, if any, on the Bonds only to the respective Owners or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge all obligations with respect to payment of principal of and interest and premium, if any, on the Bonds to the extent of the sum or sums so paid. No person other than a Bond Owner shall receive a Bond evidencing the obligation of the District to make payments of principal, interest and premium, if any, under this Indenture. Upon delivery by the Depository to the District of written notice to the effect that the Depository has determined to substitute a new Nominee in its place, and subject to the provisions herein with respect to Record

Dates, such new nominee shall become the Nominee hereunder for all purposes; and upon receipt of such a notice the District shall promptly deliver a copy of the same to the Trustee.

(b) Representation Letter. In order to qualify the Bonds for the Depository's book-entry system, the District shall execute and deliver to such Depository a letter representing such matters as shall be necessary to so qualify the Bonds. The execution and delivery of such letter shall not in any way limit the provisions of subsection (a) above or in any other way impose upon the District or the Trustee any obligation whatsoever with respect to persons having interests in the Bonds other than the Bond Owners. Upon the written acceptance by the Trustee, the Trustee shall agree to take all action reasonably necessary for all representations of the Trustee in such letter with respect to the Trustee to at all times be complied with. In addition to the execution and delivery of such letter, the District may take any other actions, not inconsistent with this Indenture, to qualify the Bonds for the Depository's book-entry program.

(c) Transfers Outside Book-Entry System. If either (i) the Depository determines not to continue to act as Depository for the Bonds, or (ii) the District determines to terminate the Depository as such, then the District shall thereupon discontinue the book-entry system with such Depository. In such event, the Depository shall cooperate with the District and the Trustee in the issuance of replacement Bonds by providing the Trustee with a list showing the interests of the Depository System Participants in the Bonds, and by surrendering the Bonds, registered in the name of the Nominee, to the Trustee on or before the date such replacement Bonds are to be issued. The Depository, by accepting delivery of the Bonds, agrees to be bound by the provisions of this subsection (c). If, prior to the termination of the Depository acting as such, the District fails to identify another Securities Depository to replace the Depository, then the Bonds shall no longer be required to be registered in the Registration Books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging Bonds shall designate, in accordance with the provisions hereof.

If the District determines that it is in the best interests of the beneficial owners of the Bonds that they be able to obtain certificated Bonds, the District may notify the Depository System Participants of the availability of such certificated Bonds through the Depository. In such event, the Trustee will issue, transfer and exchange Bonds as required by the Depository and others in appropriate amounts; and whenever the Depository requests, the Trustee and the District shall cooperate with the Depository in taking appropriate action (i) to make available one or more separate certificates evidencing the Bonds to any Depository System Participant having Bonds credited to its account with the Depository, or (ii) to arrange for another Securities Depository to maintain custody of a single certificate evidencing such Bonds, all at the District's expense.

(d) Payments to the Nominee. Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal of and interest and premium, if any, on such Bond and all notices with respect to such Bond shall be made and given, respectively, as provided in the letter described in subsection (b) of this Section or as otherwise instructed by the Depository.

SECTION 2.05. *Form and Execution of Bonds*. The Bonds, the form of Trustee's certificate of authentication, and the form of assignment to appear thereon, are set forth in Appendix B attached hereto and by this reference incorporated herein, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Indenture.

The President of the Board of Directors of the District (or his or her designee) shall execute, and the Secretary of the District shall attest each Bond. Either or both of such signatures may be made manually or may be affixed by facsimile thereof. If any officer whose signature appears on any Bond ceases to be such officer before the Closing Date, such signature will nevertheless be as effective as if the officer had remained in office until the Closing Date. Any Bond may be signed and attested on behalf of the District by such persons as at the actual date of the execution of such Bond are the proper officers of the District, duly authorized to execute debt instruments on behalf of the District, although on the date of such Bond any such person was not an officer of the District.

Only those Bonds bearing a certificate of authentication in the form set forth in Appendix B, manually executed and dated by the Trustee, are valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee is conclusive evidence that such Bonds have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

SECTION 2.06. *Transfer and Exchange of Bonds.*

(a) Transfer. Any Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by a duly authorized attorney of such person, upon surrender of such Bond to the Trustee at its Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee shall collect any tax or other governmental charge on the transfer of any Bonds under this Section 2.06. Whenever any Bond or Bonds shall be surrendered for transfer, the District shall execute and the Trustee shall authenticate and deliver to the transferee a new Bond or Bonds of like series, interest rate, maturity and aggregate principal amount. The District shall pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer of Bonds. The Trustee may refuse to transfer, under the provisions of this Section 2.06, either (a) any Bonds during the period 15 days prior to the date established by the Trustee for the selection of Bonds for redemption, or (b) any Bonds selected by the Trustee for redemption.

(b) Exchange. The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of the same series, interest rate and maturity. The Trustee shall collect any tax or other governmental charge on the exchange of any Bonds under this subsection (b). The District shall pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange of Bonds. The Trustee may refuse to exchange, under the provisions of this Section 2.06, either (a) any Bonds during the 15 days prior to the date established by the Trustee for the selection of Bonds for redemption or (b) any Bonds selected by the Trustee for redemption.

SECTION 2.07. *Registration Books*. The Trustee will keep or cause to be kept, at its Office, sufficient records for the registration and registration of transfer of the Bonds, which must at all times during normal business hours, and upon reasonable notice, be open to inspection by the District; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on the Registration Books, Bonds as hereinbefore provided.

SECTION 2.08. *Bonds Mutilated, Lost, Destroyed or Stolen*. If any Bond is mutilated, the District, at the expense of the Owner of such Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. The Trustee shall cancel every mutilated Bond surrendered to it and deliver such mutilated Bond to, or upon the order of, the District. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory and if indemnity satisfactory to the Trustee is given, the District, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be incurred by the Trustee in connection therewith. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the District whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Indenture with all other Bonds issued under this Indenture.

Notwithstanding any other provision of this Section 2.08, in lieu of delivering a new Bond for which principal has become due for a Bond which has been mutilated, lost, destroyed or stolen, the Trustee may make payment of such Bond in accordance with its terms upon receipt of indemnity satisfactory to the Trustee.

ARTICLE III

ISSUE OF BONDS; PARITY DEBT

SECTION 3.01. *Issuance of Bonds*. Upon the execution and delivery of this Indenture, the District shall execute and deliver Bonds in the aggregate principal amount of $_____ to the Trustee and the Trustee shall authenticate and deliver the Bonds to the Original Purchaser upon receipt of a Request of the District therefor.

SECTION 3.02. *Deposit and Application of Proceeds; Transfer of Funds*. On the Closing Date, the Trustee shall apply the proceeds of the Bonds received from the Original Purchaser in the amount of $_____ (calculated based on the par amount of the bonds ($_____), plus [net] original issue premium of $_____, less an underwriter's discount of $_____) as follows:

(a) The Trustee shall deposit the amount of $_____ to the Costs of Issuance Fund.

(b) The Trustee shall transfer the amount of $_____, constituting the remainder of the Bond proceeds, to the Escrow Bank for the defeasance, payment and prepayment of the 2011 Certificates pursuant to the Escrow Agreement.

SECTION 3.03. *Costs of Issuance Fund*. There is hereby established a separate fund to be known as the "Costs of Issuance Fund", to be held by the Trustee in trust. The Trustee shall disburse moneys in the Costs of Issuance Fund from time to time to pay Costs of Issuance upon submission of a Request of the District stating (a) the person to whom payment is to be made, (b) the amounts to be paid, and (c) the purpose for which the obligation was incurred; in each case together with a statement or invoice for each amount requested thereunder. On the date that is 180 days after the Closing Date, the Trustee shall transfer any amounts remaining in the Costs of Issuance Fund to the Debt Service Fund to be applied to pay a portion of the interest next coming due and payable on the Bonds.

SECTION 3.04. *Issuance of Parity Debt*. The District may issue Parity Debt in such principal amount as it determines, subject to the following conditions precedent:

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

(b) The amount of Net Revenues, as shown by the books of the District for the most recent completed Fiscal Year for which audited financial statements of the District are available, or for any more recent consecutive 12-month period selected by the District, in either case verified by an Independent Accountant or a Financial Consultant or shown in the audited financial statements of the District, plus, at the option of the District any Additional Revenues, are at least equal to 125% of the maximum amount of Debt Service coming due and payable in the current or any future Fiscal Year with respect to (i) the Bonds and all Parity Debt then outstanding and (ii) the Parity Debt then proposed to be issued; and

(c) The District shall deliver to the Trustee a Certificate of the District certifying, that the conditions precedent to the issuance of such Parity Debt set forth in the foregoing subsections of this Section 3.04 have been satisfied.

For purposes of calculating Net Revenues to demonstrate compliance with paragraph (b) above, Revenues shall <u>not</u> include connection fees, transfers from the Rate Stabilization Fund, or interest income on the Wastewater Fund received during the period for which calculations of Net Revenues is being made.

SECTION 3.05. *State Loans*. The District may borrow money from the State and incur State Loans, in addition to the SRF Loan, to finance improvements to the Wastewater System. A State Loan may be treated as a Parity Debt for purposes of this

Indenture, so long as the District complies with Section 3.04 of this Indenture before incurring said State Loan.

SECTION 3.06. *Validity of Bonds*. The recital contained in the Bonds that they are issued under the Laws of the State of California is conclusive evidence of their validity and of the regularity of their issuance.

ARTICLE IV

REVENUES; FLOW OF FUNDS

SECTION 4.01. *Pledge of Net Revenues*. The Bonds and all Parity Debt are secured by a first pledge of and lien on all of the Net Revenues. In addition, the Bonds are secured by a pledge of all of the moneys in the Debt Service Fund, including all amounts derived from the investment of such moneys. The Bonds and any Parity Debt are equally secured by a pledge, charge and lien upon the Net Revenues, without priority for series, issue, number or date, and the payment of the interest on and principal of the Bonds and Parity Debt shall be and are secured by an exclusive pledge, charge and lien upon the Net Revenues. So long as any of the Bonds and Parity Debt are Outstanding, the Net Revenues and such moneys may not be used for any other purpose; except that out of the Net Revenues there may be apportioned such sums, for such purposes, as are expressly permitted by Section 4.02.

SECTION 4.02. *Receipt, Deposit and Application of Net Revenues*.

(a) Establishment and Maintenance of Wastewater Fund. The District has previously established the Wastewater Fund, which it will continue to hold and maintain for the purposes and uses set forth herein. The District shall deposit all Revenues in the Wastewater Fund promptly upon the receipt thereof, and shall apply amounts in the Wastewater Fund solely for the uses and purposes set forth herein and for the uses and purposes set forth in any Parity Debt Documents.

(b) Application of Amounts in Wastewater Fund. In addition to transfers which are required to be made for repayment of any Parity Debt, the District shall withdraw amounts on deposit in the Wastewater Fund and apply such amounts at the times and for the purposes, and in the priority, as follows:

(i) *Operation and Maintenance Costs*. The District shall apply amounts on deposit in the Wastewater Fund to pay all Operation and Maintenance Costs when due.

(ii) *Debt Service Fund*. On or before the 3rd Business Day preceding each Interest Payment Date, so long as any Bonds remain Outstanding hereunder, the District shall withdraw from the Wastewater Fund and pay to the Trustee for deposit into the Debt Service Fund (which the Trustee shall establish and hold in trust hereunder) an amount which, together with other available amounts then on deposit in the Debt Service Fund, is at least equal to the aggregate amount of principal of and interest coming due and payable on the Bonds on such Interest Payment Date.

The Trustee shall apply amounts in the Debt Service Fund solely for the purpose of (A) paying the interest on the Outstanding Bonds when due and payable (including accrued interest on any Bonds purchased or redeemed hereunder), and (B) paying the principal of the Bonds at the maturity thereof. Upon the payment of all Outstanding Bonds, the Trustee shall transfer any moneys remaining in the Debt Service Fund to the District for deposit into the Wastewater Fund.

(c) Other Uses of Wastewater Fund. The District shall manage, conserve and apply moneys in the Wastewater Fund in such a manner that all deposits required to be made under this Section and under any Parity Debt Documents will be made at the times and in the amounts so required.

So long as no Event of Default has occurred and is continuing, the District may at any time use and apply moneys in the Wastewater Fund for any one or more of the following purposes:

(i) the payment of any subordinate obligations or any unsecured obligations;

(ii) the acquisition and construction of extensions and improvements to the Wastewater System;

(iii) the payment or retirement of any of the Bonds or any other obligations of the District relating to the Wastewater System; or

(iv) any other lawful purpose of the District relating to the Wastewater System.

SECTION 4.03. *Establishment of Rate Stabilization Fund*. The District has established a fund to be held by it and administered in accordance with this Section 4.03, for the purpose of stabilizing the rates and charges imposed by the District with respect to the Wastewater System. From time to time the District may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secures the Bonds and any Parity Debt, as the District may determine.

The District may, but is not required to, withdraw from any amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Wastewater 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 Rate Stabilization Fund to the Wastewater Fund shall constitute Revenues for such Fiscal Year (except as otherwise provided herein), and shall be applied for the purposes of the Wastewater Fund. Amounts on deposit in the Rate Stabilization Fund shall not be pledged to or otherwise secure the Bonds or any Parity Debt. The District has the right at any time to withdraw any or all amounts on deposit in the Rate Stabilization Fund and apply such amounts for any lawful purposes of the District relating to the Wastewater System.

SECTION 4.04. *Investments*.

(a) Investment of Funds Held by District. All moneys in the Wastewater Fund and the Rate Stabilization Fund shall be invested by the District from time to time in any securities in which the District may legally invest funds subject to its control.

(b) Investment of Funds Held by Trustee. The Trustee shall invest moneys in the funds and accounts held by it hereunder in Permitted Investments specified in the Request of the District delivered to the Trustee at least two Business Days in advance of the making of such investments. The Trustee may rely conclusively upon the investment direction of the District as to the suitability and legality of the directed investments. In the absence of any such direction from the District, the Trustee shall invest any such moneys solely in Permitted Investments described in clause (e) of the definition thereof; provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a Request of the District specifying a specific money market fund that satisfies the requirements of said paragraph in which such investment is to be made and, if no such Request of the District is so received, the Trustee shall hold such moneys uninvested.

(c) General Investment Provisions. Obligations purchased as an investment of moneys in any fund or account shall be deemed to be part of such fund or account. Whenever in this Indenture the District is required to transfer any moneys to the Trustee, such transfer may be accomplished by transferring a like amount of Permitted Investments. All interest or gain derived from the investment of amounts in any of the funds or accounts held by the Trustee hereunder shall be retained in the respective fund or account from which such investment was made. For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it hereunder upon receipt by the Trustee of the Request of the District. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee has no liability for losses arising from any investments made under this Section.

The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the District periodic transaction statements which include detail for all investment transactions made by the Trustee hereunder.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee hereunder.

SECTION 4.05. *Valuation and Disposition of Investments*.

(a) Except as otherwise provided in subsection (b) of this Section, the District covenants that all investments of amounts deposited in any fund or account created by or under this Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of Section 148 of the Tax Code) shall be acquired, disposed of and valued (as of the date that valuation is required by this Indenture or the Tax Code) at Fair Market Value as such term is defined in subsection (d) below.

(b) Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Tax Code shall be valued at cost thereof (consisting of present value thereof within the meaning of Section 148 of the Tax Code); provided that the District must inform the Trustee which funds are subject to a yield restriction, and must provide the Trustee with any necessary valuation criteria or formulae.

(c) Except as provided in the proceeding subsection (b), for the purpose of determining the amount in any fund, the Trustee shall value Permitted Investments credited to such fund at least annually at the Fair Market Value thereof, on February 1 of each year. The Trustee shall have no duty in connection with the determination of Fair Market Value other than to follow: (i) its normal practices in the purchase, sale and determining the value of Permitted Investments; and (ii) the investment directions of the District. The Trustee may utilize and rely on computerized securities pricing services that may be available to it, including those available through its regular accounting system. If and as directed by the District in writing, the Trustee shall sell or present for redemption any Permitted Investment so purchased by the Trustee whenever it is necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee has no liability or responsibility for any loss resulting therefrom. In determining the market value of Authorized Investments, the Trustee may use and rely conclusively and without liability upon any generally recognized pricing information service (including brokers and dealers in securities) available to it.

(d) For purposes of this Section 4.05, the term “Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Tax Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, or (iii) the investment is a United States Treasury Security -- State and Local Government Series which is acquired in accordance with applicable regulations of the United States Bureau of Public Debt.

ARTICLE V

FINANCIAL COVENANTS

SECTION 5.01. *Punctual Payment; Compliance With Documents*. The District shall punctually pay or cause to be paid the interest and principal to become due with respect to all of the Bonds in strict conformity with the terms of the Bonds and of this Indenture, and will faithfully observe and perform all of the conditions, covenants and requirements of this Indenture and all Supplemental Indentures.

SECTION 5.02. *Discharge of Claims*. The District covenants that in order to fully preserve and protect the priority and security of the Bonds the District shall pay from the Net Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Wastewater System which, if unpaid, may become a lien or charge upon the Net Revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The District shall also pay, from the Net Revenues, all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Wastewater System or upon any part thereof or upon any of the Net Revenues therefrom.

SECTION 5.03. *Operation of Wastewater System in Efficient and Economical Manner*. The District covenants and agrees to operate the Wastewater System in an efficient and economical manner and to operate, maintain and preserve the Wastewater System in good repair and working order.

SECTION 5.04. *Sale or Eminent Domain of Wastewater System*. Except as provided herein, the District covenants that the Wastewater System will not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole, if such encumbrance, sale, lease, pledge, charge or other disposition would materially impair the ability of the District to pay the principal of or interest on the Bonds or any Parity Debt, or would materially adversely affect its ability to comply with the terms of this Indenture or any Parity Debt Documents. The District may not enter into any agreement which impairs the operation of the Wastewater System or any part of it necessary to secure adequate Net Revenues to pay the Bonds and any Parity Debt, or which otherwise would impair the rights of the Bond Owners with respect to the Net Revenues.

The Net Proceeds received as awards as a result of the taking of all or any part of the Wastewater System by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the District, shall either (a) be used for the acquisition or construction of improvements and extension of the Wastewater System, or (b) be applied on a pro rata basis to redeem the Bonds and any Parity Debt in accordance with this Indenture and the related Parity Debt Documents.

SECTION 5.05. *Insurance*. The District will at all times maintain with responsible insurers all such insurance on the Wastewater System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Wastewater System. The District shall also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the District, the Trustee and the

Owners of the Bonds. The Trustee has no liability to determine whether the District is in compliance with the provisions of this Section 5.05.

The Net Proceeds collected by the District from insurance against accident to or destruction of any portion of the Wastewater System shall be used to repair or rebuild such damaged or destroyed portion of the Wastewater System, and to the extent not so applied, shall be applied on a pro rata basis to redeem the Bonds and any Parity Debt in accordance with this Indenture and the related Parity Debt Documents.

SECTION 5.06. *Records and Accounts*. The District will keep proper books of record and accounts of the Wastewater System, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Wastewater System. Said books shall, upon reasonable request, be subject to the inspection of the Trustee and the Owners of not less than 10% of the Outstanding Bonds or their representatives authorized in writing.

The District shall cause the books and accounts of the Wastewater System to be audited annually by an Independent Accountant and will make available for inspection by the Bond Owners at the Office of the Trustee, upon reasonable request, a copy of the report of such Independent Accountant.

SECTION 5.07. *Rates and Charges*. The District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Revenues sufficient to pay the following amounts in the following order of priority:

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

(b) The principal of and interest on the Bonds and any Parity Debt as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such interest is payable from proceeds of Parity Debt deposited for such purpose;

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

In addition, the District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year which are sufficient to yield Net Revenues which are at least equal to 120% of the amount described in the preceding clause (b) for such Fiscal Year. For purposes of this paragraph, the amount of Net Revenues for a Fiscal Year will be computed on the basis that (a) any transfers from the Rate Stabilization Fund into the Wastewater Fund in such Fiscal Year are included in the calculation of Net Revenues, as provided in Section 4.03, (b) any transfers from the Wastewater Fund into the Rate Stabilization Fund in such Fiscal Year are deducted from the amount of Net Revenues to the extent such deposits are made from Revenues received by the District during that Fiscal Year, and

(c) Revenues shall not include connection fees or interest income expected to be received in such Fiscal Year.

SECTION 5.08. *Superior and Subordinate Obligations; Parity Obligations*. The District may not issue or incur any additional bonds or other obligations having any priority over the Bonds in the payment of principal or interest out of the Net Revenues. Nothing herein limits or affects the ability of the District to issue or incur obligations which are either unsecured or which are secured by an interest in the Net Revenues which is junior and subordinate to the pledge of and lien upon the Net Revenues established hereunder. Parity Debt may be issued or incurred only in accordance with Sections 3.04 and 3.05.

SECTION 5.09. *Tax Covenants Relating to Bonds*.

(a) The District shall not take any action or permit to be taken any action within its control which would cause or which, with the passage of time if not cured would cause, interest on the Bonds to become includable in gross income for federal income tax purposes.

(b) The District shall assure that the proceeds of the Bonds are not used in a manner which would cause the Bonds to become "private activity bonds" within the meaning of section 141(a) of the Tax Code or to meet the private loan financing test of Section 141(c) of the Tax Code.

(c) The District shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Tax Code.

(d) The District shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the Bond proceeds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date, would have caused the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Tax Code.

(e) The District shall calculate or cause to be calculated all amounts of excess investment earnings with respect to the Bonds which are required to be rebated to the United States of America under Section 148(f) of the Tax Code, at the times and in the manner required under the Tax Code. The District shall pay when due an amount equal to excess investment earnings to the United States of America in such amounts, at such times and in such manner as may be required under the Tax Code, such payments to be made from any source of legally available funds of the District. The District shall keep or cause to be kept, and retain or cause to be retained for a period of six years following the retirement of the Bonds, records of the determinations made under this subsection (e).

The Trustee has no duty to monitor the compliance by the District with any of the covenants contained in this Section 5.09.

SECTION 5.10. *Continuing Disclosure*. The District will comply with and carry out all of the provisions of the Continuing Disclosure Certificate which has been executed and delivered by the District on the Closing Date. Notwithstanding any other provision

hereof, failure of the District to comply with the Continuing Disclosure Certificate does not constitute an Event of Default hereunder; *provided, however*, that any Participating Underwriter (as such term is defined in the Continuing Disclosure Certificate) or any Owner or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the District to comply with its obligations under this Section 5.10.

SECTION 5.11. *Further Assurances*. The District will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture, and for the better assuring and confirming unto the Owners of the Bonds and the Trustee the rights and benefits provided in this Indenture.

ARTICLE VI

THE TRUSTEE

SECTION 6.01. *Duties, Immunities and Liabilities of Trustee*.

(a) Performance of Duties. The Trustee shall, prior to the occurrence of an Event of Default, and after the curing or waiving of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or duties will be read into this Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a reasonable corporate trustee would exercise or use.

(b) Removal of Trustee. The District may remove the Trustee upon 30 days prior written notice, and shall remove the Trustee (i) if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or (ii) if at any time the Trustee ceases to be eligible in accordance with subsection (e) of this Section 6.01, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property is appointed, or any public officer takes control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation. The District may accomplish such removal by giving 30 days' prior written notice to the Trustee, whereupon the District will appoint a successor Trustee by an instrument in writing.

(c) Resignation by Trustee. The Trustee may at any time resign by giving written notice of such resignation to the District, and by giving notice of such resignation by first class mail, postage prepaid, to the Bond Owners at their respective addresses shown on the Registration Books. Upon receiving such notice of resignation, the District will promptly appoint a successor Trustee by an instrument in writing.

(d) Appointment of Successor Trustee. Any removal or resignation of the Trustee and appointment of a successor Trustee becomes effective upon acceptance of appointment by the successor Trustee. If no successor Trustee has been appointed and accepted appointment within 45 days following giving notice of removal or notice of

resignation as aforesaid, the resigning Trustee, any Owner (on behalf of such Owner and all other Owners) may petition any federal or state court for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture shall signify its acceptance of such appointment by executing and delivering to the District and to its predecessor Trustee a written acceptance thereof, and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless, upon the receipt by the predecessor Trustee of the Request of the District or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the District will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the District shall mail or cause the successor Trustee to mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts hereunder to each rating agency which then maintains a rating on the Bonds, and to the Owners at the addresses shown on the Registration Books. If the District fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the District.

(e) Qualifications of Trustee. Any Trustee appointed under the provisions of this Section in succession to the Trustee must:

(i) be a company, national banking association or bank having trust powers,

(ii) have a corporate trust office in the State of California,

(iii) have (or be part of a bank holding company system whose bank holding company has) a combined capital and surplus of at least $75,000,000, and

(iv) be subject to supervision or examination by federal or state authority.

If such bank, national banking association or company publishes a report of condition at least annually, under law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank, national banking association or company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be

eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in subsection (c) of this Section.

The District will maintain a Trustee which is qualified under the provisions of the foregoing provisions of this subsection (e), so long as any Bonds are Outstanding.

SECTION 6.02. *Merger or Consolidation*. Any bank, national banking association or company into which the Trustee may be merged or converted or with which either of them may be consolidated or any bank, national banking association or company resulting from any merger, conversion or consolidation to which it shall be a party or any bank, national banking association or company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank, national banking association or company shall be eligible under subsection (e) of Section 6.01, shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

SECTION 6.03. *Rights and Liabilities of Trustee*.

(a) The recitals of facts herein and in the Bonds contained are taken as statements of the District, and the Trustee has no responsibility for the correctness of the same, nor does it have any liability whatsoever therefor, nor make any representations as to the validity or sufficiency of this Indenture or of the Bonds nor shall it incur any responsibility in respect thereof, other than as expressly stated herein. The Trustee is, however, responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee is not liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Trustee is not liable for the acts of any agents of the Trustee selected by it with due care. The Trustee may become the Owner of any Bonds with the same rights it would have if it were not Trustee and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of the Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding. The Trustee, either as principal or agent, may engage in or be entrusted in any financial or other transaction with the District.

(b) The Trustee has no liability with respect to any action taken or omitted to be taken by it in accordance with the direction of the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

(c) The Trustee has no liability for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture, except for actions arising from the negligence or willful misconduct of the Trustee. The permissive right of the Trustee to do things enumerated hereunder is not construed as a mandatory duty.

(d) The Trustee will not be deemed to have knowledge of any Event of Default hereunder unless and until a responsible officer of the Trustee has actual knowledge thereof, or unless and until a responsible officer of the Trustee has received written notice thereof at its Office. Except as otherwise expressly provided herein, the Trustee

is not bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default hereunder or thereunder. The Trustee is not responsible for the District's payment of principal and interest on the Bonds, the District's observance or performance of any other covenants, conditions or terms contained herein, or the validity or effectiveness of any collateral given to or held by it. Without limiting the generality of the foregoing, and notwithstanding anything herein to the contrary, the Trustee is not responsible for reviewing the contents of any financial statements furnished to the Trustee under Section 5.06 and may rely conclusively on a Certificate of the District (if any) to establish the District's compliance with its financial covenants hereunder, including, without limitation, its covenants regarding the deposit of Revenues into the Wastewater Fund and the investment and application of moneys on deposit in the Wastewater Fund (other than its covenants to transfer such moneys to the Trustee when due hereunder).

(e) No provision in this Indenture requires the Trustee to risk or expend its own funds or otherwise incur any financial liability hereunder. The Trustee is entitled to receive interest on any moneys advanced by it hereunder, at the maximum rate permitted by law.

(f) The Trustee may establish additional accounts or subaccounts of the funds established hereunder as the Trustee deems necessary or prudent in furtherance of its duties under this Indenture.

(g) The Trustee has no responsibility or liability whatsoever with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds, nor shall the Trustee have any obligation to review any such material, and any such review by the Trustee will not be deemed to create any obligation, duty or liability on the part of the Trustee.

(h) At any and all reasonable times the Trustee, and its duly authorized agents, attorneys, experts, engineers, accountants and representatives, have the right (but not the duty) fully to inspect the Wastewater System, including all books, papers and records of the District pertaining to the Wastewater System and the Bonds, and to take such memoranda from and with regard thereto as may be desired but which is not privileged by statute or by law.

(i) Before taking any action under Article VIII or this Article VI, the Trustee may require indemnity satisfactory to the Trustee be furnished to it to hold the Trustee harmless from any expenses whatsoever and to protect it against any liability it may incur hereunder.

(j) The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

(k) The permissive right of the Trustee to do things enumerated in this Indenture is not construed as a duty.

(l) The Trustee may execute any of the trusts or powers hereof and perform any of its duties through attorneys, agents and receivers and is not answerable for the conduct of the same if appointed by it with reasonable care.

(m) The Trustee shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

SECTION 6.04. *Right to Rely on Documents***.** The Trustee is protected in acting upon any notice, resolution, requisition, request, consent, order, certificate, report, opinion, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, including, without limitation, Bond Counsel or other counsel of or to the District, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by the Trustee hereunder in accordance therewith.

The Trustee is not bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and such person's title thereto is established to the satisfaction of the Trustee.

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the District, which shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of this Indenture in reliance upon such Certificate, but in its discretion the Trustee may (but has no duty to), in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable. The Trustee may conclusively rely on any certificate or report of any Independent Accountant appointed by the District.

The Trustee shall have the right to accept and act upon instructions, including funds transfer instructions ("Instructions") given pursuant to this Indenture and delivered using Electronic Means ("Electronic Means" means the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Trustee, or another method or system specified by the Trustee as available for use in connection with its services hereunder); provided, however, that the District shall provide to the Trustee an incumbency certificate listing officers with the authority to provide such Instructions ("Authorized Officers") and containing specimen signatures of such Authorized Officers, which incumbency certificate shall be amended by the District,

whenever a person is to be added or deleted from the listing. If the District elects to give the Trustee Instructions using Electronic Means and the Trustee in its discretion elects to act upon such Instructions, the Trustee's understanding of such Instructions shall be deemed controlling. The District understands and agrees that the Trustee cannot determine the identity of the actual sender of such Instructions and that the Trustee shall conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Officer. The District shall be responsible for ensuring that only Authorized Officers transmit such Instructions to the Trustee and that the District and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the District. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such Instructions notwithstanding such directions conflict or are inconsistent with a subsequent written instruction. The District agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the District; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedures.

The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions hereof.

SECTION 6.05. *Preservation and Inspection of Documents*. All documents received by the Trustee under the provisions of this Indenture shall be retained in its possession and shall be subject during normal business hours, and upon reasonable prior written notice, to the inspection of the District and any Owner, and their agents and representatives duly authorized in writing.

SECTION 6.06. *Compensation and Indemnification*. Absent any agreement to the contrary, the District shall pay to the Trustee from time to time compensation for all services rendered under this Indenture and also all expenses, charges, legal and consulting fees and other disbursements and those of its attorneys (including any allocated costs of internal counsel), agents and employees, incurred in and about the performance of its powers and duties under this Indenture. The Trustee has a first lien on the Net Revenues and all funds and accounts held by the Trustee hereunder to secure the payment to the Trustee of all fees, costs and expenses, including compensation to its experts, attorneys and counsel incurred in declaring such Event of Default and in exercising the rights and remedies set forth in Article VIII. Any such expenses incurred by the Trustee shall be deemed to constitute a substantial contribution to the trust estate which secures the Bonds.

The District further covenants and agrees to indemnify and save the Trustee and its officers, directors, agents and employees, harmless against any loss, expense,

including legal fees and expenses, and liabilities, whether or not litigated, suits, actions, judgments, which it may incur arising out of or in the exercise and performance of its powers and duties hereunder, including the costs and expenses of defending against any claim of liability and of enforcing any remedies hereunder and under any related documents, but excluding any and all losses, expenses and liabilities which are due to the negligence or willful misconduct of the Trustee, its officers, directors, agents or employees. The obligations of the District under this Section 6.06 shall survive resignation or removal of the Trustee under this Indenture and payment of the Bonds and discharge of this Indenture.

SECTION 6.07. *Accounting Records and Financial Statements*. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of the Bonds and all funds and accounts established and held by the Trustee under this Indenture. Such books of record and account shall be available for inspection by the District at reasonable hours, during regular business hours, with reasonable prior notice and under reasonable circumstances. The Trustee shall furnish to the District, at least semiannually, an accounting (which may be in the form of its customary statements) of all transactions relating to the proceeds of the Bonds and all funds and accounts held by the Trustee under this Indenture.

ARTICLE VII

MODIFICATION AND AMENDMENT OF THIS INDENTURE

SECTION 7.01. *Amendments Permitted*.

(a) Amendment With Bond Owner Consent. This Indenture and the rights and obligations of the District and of the Owners of the Bonds may be modified or amended by the District and the Trustee upon Request of the District at any time by the execution of a Supplemental Indenture, but only with the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding with respect to all Bonds then Outstanding, exclusive of Bonds disqualified as provided in Section 9.05. Any such Supplemental Indenture becomes effective upon the execution and delivery thereof by the parties thereto and upon consent of the requisite Bond Owners. No such modification or amendment may:

(i) extend the maturity of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the District to pay the principal thereof, or interest thereon, at the time and place and at the rate and in the currency provided therein, without the written consent of the Owner of such Bond, or

(ii) permit the creation by the District of any mortgage, pledge or lien upon the Revenues or Net Revenues superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as expressly permitted by this Indenture), or reduce the percentage of Bonds required for the affirmative vote or written consent to an amendment or modification, or

(iii) modify any of the rights or obligations of the Trustee without its written consent.

(b) Amendment Without Bond Owner Consent. This Indenture and the rights and obligations of the District and of the Owners of the Bonds may also be modified or amended at any time by a Supplemental Indenture, without the consent of any Owners of the Bonds, for any one or more of the following purposes:

(i) to add to the covenants and agreements of the District contained in this Indenture, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the District;

(ii) to cure any ambiguity, or to cure, correct or supplement any defective provision contained in this Indenture, or in any other respect whatsoever as the District deems necessary or desirable, provided under any circumstances that such modifications or amendments do not materially adversely affect the interests of the Owners in the opinion of Bond Counsel filed with the District and the Trustee;

(iii) to provide for the issuance of Parity Debt under Section 3.04, and to provide the terms and conditions under which such Parity Debt may be issued, including but not limited to the establishment of special funds and accounts relating thereto and any other provisions relating solely thereto, subject to and in accordance with the provisions of Section 3.04; and

(iv) to amend any provision hereof to assure the exclusion from gross income of interest on the Bonds for federal income tax purposes under the Tax Code, in the opinion of Bond Counsel filed with the District and the Trustee.

(c) Notice of Amendments. The District shall deliver or cause to be delivered a draft of any Supplemental Indenture to Moody's and/or S&P, if and only if such rating agency is then providing a rating on the Bonds, at least 10 days prior to the effective date of such Supplemental Indenture under this Section 7.01.

SECTION 7.02. *Effect of Supplemental Indenture*. From and after the time any Supplemental Indenture becomes effective under this Article VII, this Indenture shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties hereto or thereto and all Owners, as the case may be, shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 7.03. *Endorsement or Replacement of Bonds After Amendment*. After the effective date of any amendment or modification hereof under this Article VII, the District may determine that any or all of the Bonds shall bear a notation, by endorsement

in form approved by the District, as to such amendment or modification and in that case upon demand of the District the Owners of such Bonds shall present such Bonds for that purpose at the Office of the Trustee, and thereupon a suitable notation as to such action shall be made on such Bonds. In lieu of such notation, the District may determine that new Bonds shall be prepared and executed in exchange for any or all of the Bonds and in that case upon demand of the District the Owners of the Bonds shall present such Bonds for exchange at the Office of the Trustee without cost to such Owners.

SECTION 7.04. *Amendment by Mutual Consent*. The provisions of this Article VII shall not prevent any Owner from accepting any amendment as to the particular Bond held by such Owner.

SECTION 7.05. *Trustee's Reliance*. The Trustee may conclusively rely, and is protected in relying, upon a Certificate of the District and an opinion of counsel stating that all requirements of this Indenture relating to the amendment or modification hereof have been satisfied and that such amendments or modifications do not materially adversely affect the interests of the Owners.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS

SECTION 8.01. *Events of Default and Acceleration of Maturities*. Each of the following events constitutes an Event of Default hereunder:

(a) Failure to pay any installment of the principal of any Bonds when due, whether at maturity as therein expressed, by proceedings for acceleration, or otherwise.

(b) Failure to pay any installment of interest on the Bonds when due.

(c) Failure by the District to observe and perform any of the other covenants, agreements or conditions on its part contained in this Indenture or in the Bonds, if such failure has continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, has been given to the District by the Trustee; *provided, however*, if in the reasonable opinion of the District the failure stated in the notice can be corrected, but not within such 30-day period, such failure shall not constitute an Event of Default if the District institutes corrective action within such 30-day period and thereafter diligently and in good faith cures the failure within 60 days after the written notice of default thereof.

(d) The District commences a voluntary bankruptcy case under Title 11 of the United States Code or any substitute or successor statute.

If an Event of Default occurs and is continuing, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding the Trustee shall (a) for any default listed in Section 8.01(a), (b) or (d) only, declare the principal of the Bonds, together with the accrued interest thereon, to be

due and payable immediately, and upon any such declaration the same will become immediately due and payable, anything in this Indenture or in the Bonds to the contrary notwithstanding, and (b) subject to the provisions of Section 8.06, exercise any other remedies available to the Trustee and the Bond Owners in law or at equity to enforce the rights of the Bond Owners under this Indenture, including the right, by action brought pursuant to the California Code of Civil Procedure, or as otherwise provided by law, to obtain the issuance of a writ of mandamus enforcing the duty of the District to take all steps necessary for the payment of principal of and interest on the Bonds, and other amounts due hereunder.

Immediately upon becoming aware of the occurrence of an Event of Default, but in no event later than five Business Days following becoming aware of such occurrence, the Trustee shall give notice of such Event of Default to the District by telephone confirmed in writing. Such notice shall also state whether the principal of the Bonds has been declared to be or have immediately become due and payable. With respect to any Event of Default described in clauses (a) or (b) above the Trustee shall, and with respect to any Event of Default described in clause (c) above the Trustee in its sole discretion may, also give such notice to the Owners, which shall include the statement that interest on the Bonds shall cease to accrue from and after the date, if any, on which the Trustee declares the Bonds to become due and payable under the preceding paragraph (but only to the extent that principal and any accrued, but unpaid, interest on the Bonds is actually paid on such date).

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds has been so declared due and payable, and before any judgment or decree for the payment of the moneys due has been obtained or entered, the District shall deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal and interest at an interest rate of 10% per annum, and the reasonable fees and expenses of the Trustee, including fees and expenses of its attorneys, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) has been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the District and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

SECTION 8.02. *Application of Funds Upon Acceleration*. All amounts received by the Trustee under any right given or action taken by the Trustee under the provisions of this Indenture shall be applied by the Trustee as follows and in the following order:

(a) *First*, to the payment of any fees, costs and expenses incurred by the Trustee to protect the interests of the Owners of the Bonds; payment of the fees, costs and expenses of the Trustee (including fees and expenses of its counsel, including any allocated costs of internal counsel) incurred in and about the performance of its powers and duties under this Indenture and the payment of all fees,

costs and expenses owing to the Trustee under Section 6.06, together with interest on all such amounts advanced by the Trustee at the maximum rate permitted by law.

(b) *Second*, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on such overdue amounts at the respective rates of interest borne by those Bonds, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably to the aggregate of such interest, principal and interest on overdue amounts.

SECTION 8.03. *Power of Trustee to Control Proceedings*. If the Trustee, upon the happening of an Event of Default, takes any action, by judicial proceedings or otherwise, in the performance of its duties hereunder, whether upon its own discretion, upon the request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, it has full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action and the Trustee has been indemnified to its satisfaction. The Trustee may not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Bonds hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

SECTION 8.04. *Limitation on Owners' Right to Sue*. No Owner of any Bond has the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Indenture, unless:

(a) said Owner has previously given to the Trustee written notice of the occurrence of an Event of Default;

(b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding have requested the Trustee in writing to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name;

(c) said Owners have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and

(d) the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy hereunder; it being understood and intended that no one or more Owners has

any right in any manner whatever by his or their action to enforce any right under this Indenture, except in the manner herein provided, and that all proceedings at law or in equity to enforce any provision of this Indenture shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Owners of the Outstanding Bonds.

The right of any Owner of any Bond to receive payment of the principal of and the interest and premium, if any, on such Bond as herein provided, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of this Section or any other provision of this Indenture.

SECTION 8.05. *Non-waiver*. Nothing in this Article VIII or in any other provision of this Indenture or in the Bonds, affects or impairs the obligation of the District, which is absolute and unconditional, to pay from the Net Revenues and other amounts pledged hereunder, the principal of and interest on the Bonds to the Bond Owners when due and payable as herein provided, or affects or impairs the right of action, which is also absolute and unconditional, of the Bond Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds.

A waiver of any default by any Owner shall not affect any subsequent default or impair any rights or remedies on the subsequent default. No delay or omission of any Owner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Owners by the Bond Law or by this Article VIII may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners.

If a suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Owners, the District and the Owners will be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

SECTION 8.06. *Actions by Trustee as Attorney-in-Fact*. Any suit, action or proceeding which any Owner has the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Owners similarly situated and the Trustee is hereby appointed (and the successive respective Owners by taking and holding the Bonds shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact, subject to the provisions of Article VI. Notwithstanding the foregoing provisions of this Section 8.06, the Trustee has no duty to enforce any such right or remedy unless it has been indemnified to its satisfaction for any additional fees, charges and expenses of the Trustee related thereto, including without limitation, fees and charges of its attorneys and advisors.

SECTION 8.07. *Remedies Not Exclusive*. No remedy herein conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise, and

may be exercised without exhausting and without regard to any other remedy conferred by the Bond Law or any other law.

ARTICLE IX

MISCELLANEOUS

SECTION 9.01. *Limited Liability of the District*. Notwithstanding anything in this Indenture contained, the District is not required to advance any moneys derived from any source of income other than the Net Revenues for the payment of the principal of or interest on the Bonds, or for the performance of any covenants herein contained (except to the extent any such covenants are expressly payable hereunder from the Net Revenues). The District may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the District for such purpose without incurring indebtedness.

The Bonds are revenue bonds, payable exclusively from the Net Revenues and other funds as in this Indenture provided. The Wastewater Fund of the District is not liable, and the credit of the District is not pledged, for the payment of the interest on or principal of the Bonds. The Owners of the Bonds have no right to compel the forfeiture of any property of the District. The principal of and interest on the Bonds are not a debt of the District, or a legal or equitable pledge, charge, lien or encumbrance upon any property of the District or upon any of its income, receipts or revenues except the Net Revenues and other funds pledged to the payment thereof as provided in this Indenture.

SECTION 9.02. *Benefits of Indenture Limited to Parties*. Nothing in this Indenture, expressed or implied, gives to any person other than the District and the Owners of the Bonds, any right, remedy or claim under or by reason of this Indenture. Any covenants, stipulations, promises or agreements in this Indenture contained by and on behalf of the District shall be for the sole and exclusive benefit of the Trustee and the Owners of the Bonds.

SECTION 9.03. *Defeasance of Bonds*.

(i) If the District pays and discharges the entire indebtedness on any Bonds in any one or more of the following ways:

(a) by paying or causing to be paid the principal of and interest on such Bonds, as and when the same become due and payable;

(b) subject to the conditions set forth in subsection (ii) below, by irrevocably depositing with the Trustee or an escrow bank, in trust, at or before maturity, an amount of cash which, together with the available amounts then on deposit in the funds and accounts established under this Indenture, in the opinion or report of an Independent Accountant is fully sufficient to pay such Bonds, including all principal and interest;

(c) subject to the conditions set forth in subsection (ii) below, by irrevocably depositing with the Trustee or an escrow bank, Federal

Securities in such amount as an Independent Accountant determines will, together with the interest to accrue thereon and available moneys then on deposit in any of the funds and accounts established under this Indenture, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal and interest) at or before maturity; or

(d) by purchasing such Bonds prior to maturity and tendering such Bonds to the Trustee for cancellation;

then, at the election of the District, and notwithstanding that any such Bonds have not been surrendered for payment, the pledge of the Net Revenues and other funds provided for in this Indenture and all other obligations of the Trustee and the District under this Indenture with respect to such Bonds shall cease and terminate, except only: the obligations of the District under Section 5.09 (Tax Covenants), the obligation of the Trustee to transfer and exchange Bonds hereunder, the obligation of the District to pay or cause to be paid to the Owners of such Bonds, from the amounts so deposited with the Trustee, all sums due thereon, and the obligations of the District to compensate and indemnify the Trustee under Section 6.06.

The District must file notice of such election with the Trustee. The Trustee shall pay any funds thereafter held by it, which are not required for said purpose, to the District or to its order.

(ii) To accomplish defeasance pursuant to paragraphs (i) (b) or (i) (c) above, the District shall cause to be delivered (a) a report of an Independent Accountant verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity date ("Verification"), (b) an escrow agreement, and (c) an opinion of Bond Counsel to the effect that the Bonds are no longer "Outstanding" under this Indenture; each Verification and defeasance opinion to be acceptable in form and substance, and addressed, to the District and Trustee.

(iii) In the case of a defeasance or payment of all of the Bonds Outstanding in accordance with this Section 9.03, the Trustee shall pay all amounts held by it in any funds or accounts hereunder, which are not required for said purpose or for payment of amounts due the Trustee under Section 6.06, to the District.

(iv) Bonds shall be deemed "Outstanding" under this Indenture unless and until they are in fact paid and retired or the above criteria are met.

SECTION 9.04. *Execution of Documents and Proof of Ownership by Owners*. Any request, consent, declaration or other instrument which this Indenture may require or permit to be executed by any Owner may be in one or more instruments of similar tenor, and shall be executed by such Owner in person or by their attorneys appointed in writing. Except as otherwise herein expressly provided, the fact and date of the execution by any Owner or his attorney of such request, consent, declaration or other instrument, or of such writing appointing such attorney, may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state in which he purports to act, that the person signing such request, declaration or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or

other officer. The ownership of Bonds and the amount, maturity, number and date of ownership thereof are conclusively proved by the Registration Books. Any request, declaration or other instrument or writing of the Owner of any Bond binds all future Owners of such Bond in respect of anything done or suffered to be done by the District or the Trustee in good faith and in accordance therewith.

SECTION 9.05. *Disqualified Bonds*. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, Bonds which are owned or held by or for the account of the District (but excluding Bonds held in any employees' retirement fund) must be disregarded and deemed not to be Outstanding for the purpose of any such determination. The Trustee will not be deemed to have knowledge that any Bond is owned or held by the District unless the District is the Registered Owner or the Trustee has received written notice to that effect.

SECTION 9.06. *Waiver of Personal Liability*. No member, officer, agent or employee of the District shall be individually or personally liable for the payment of the principal of or interest or any premium on the Bonds; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

SECTION 9.07. *Destruction of Canceled Bonds*. Whenever in this Indenture provision is made for the surrender to the District of any Bonds which have been paid or canceled under the provisions of this Indenture, a certificate of destruction duly executed by the Trustee shall be deemed to be the equivalent of the surrender of such canceled Bonds and the District shall be entitled to rely upon any statement of fact contained in any certificate with respect to the destruction of any such Bonds therein referred to. The District shall pay all costs of any microfilming of Bonds to be destroyed.

SECTION 9.08. *Funds and Accounts*. Any fund or account required by this Indenture to be established and maintained by the District or the Trustee may be established and maintained in the accounting records of the District or the Trustee, as the case may be, either as a fund or an account, and may, for the purpose of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account. All such records with respect to all such funds and accounts held by the District shall at all times be maintained in accordance with generally accepted accounting principles and all such records with respect to all such funds and accounts held by the Trustee shall be at all times maintained in accordance with corporate trust industry practices; in each case with due regard for the protection of the security of the Bonds and the rights of every Owner thereof.

SECTION 9.09. *Notices*. All written notices to be given under this Indenture shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other party in writing from time to time. The District or the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the District: Novato Sanitary District
500 Davidson Street
Novato, California 94945
Fax: _____
Attention: General Manager-Chief Engineer/Secretary

If to the Trustee: The Bank of New York Mellon Trust Company, N.A.
100 Pine Street, Suite 3200
San Francisco, California 94111
Fax: _____
Attention: Corporate Trust

SECTION 9.10. *Unclaimed Moneys*. Anything contained herein to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or premium (if any) on or principal of the Bonds which remains unclaimed for one year after the date when the payments of such interest, premium and principal have become payable, if such money was held by the Trustee at such date, or for one year after the date of deposit of such money if deposited with the Trustee after the date when the interest and premium (if any) on and principal of such Bonds have become payable, shall be repaid by the Trustee to the District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of the principal of and interest on such Bonds.

SECTION 9.11. *Execution in Several Counterparts*. This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the District and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

SECTION 9.12. *Governing Law*. This Indenture shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the Novato Sanitary District has caused this Indenture to be signed in its name by the President of the Board of Directors and attested by the Secretary, and The Bank of New York Mellon Trust Company, N.A., in token of its acceptance of the trust created hereunder, has caused this Indenture to be signed in its corporate name by its officer identified below, all as of the day and year first above written.

NOVATO SANITARY DISTRICT

By _____
President, Board of Directors

Attest:

_____
Secretary

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By _____
Authorized Officer

APPENDIX A

DEFINITIONS

"Additional Revenues" means, with respect to the issuance of any Parity Debt, any or all of the following amounts:

(i) An allowance for Net Revenues from any additions or improvements to or extensions of the Wastewater System to be made from the proceeds of such Parity Debt in an amount equal to 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 by the certificate or opinion of a Financial Consultant.

(ii) An allowance for Net Revenues arising from any increase in the charges made for service from the Wastewater System which has been duly approved by the Board of Directors of the District prior to the incurring of such Parity Debt, but which, during all or any part of the most recent completed Fiscal Year for which audited financial statements of the District are available, or for any more recent consecutive 12-month period selected by the District under Section 3.04(b), was not in effect, in an amount equal to the total 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 12-month period, all as shown by the certificate or opinion of a Financial Consultant.

"Bond Counsel" means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the District of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

"Bond Law" means the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code, as in effect on the Closing Date or as thereafter amended in accordance with its terms.

"Bonds" means the Novato Sanitary District 2017 Wastewater Revenue Refunding Bonds issued and at any time Outstanding hereunder.

"Business Day" means a day (other than a Saturday or a Sunday) on which banks are not required or authorized to remain closed in the state in which the Office of the Trustee is located, and on which the Federal Reserve Bank system is not closed.

"Certificate of the District" means a certificate in writing signed by the President of the Board of Directors of the District, the General Manager-Chief Engineer/Secretary of the District, or any other officer of the District duly authorized by the Board of Directors for that purpose.

"Closing Date" means _____, 2017, being the date of delivery of the Bonds to the Original Purchaser.

"Continuing Disclosure Certificate" means the Continuing Disclosure Certificate described in Section 5.10.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the District relating to the authorization, issuance, sale and delivery of the Bonds and the refunding of the 2011 Certificates, including but not limited to printing expenses, rating agency fees, filing and recording fees, initial fees, expenses and charges of the Trustee and its counsel, fees, charges and disbursements of attorneys, financial advisor, placement agent, accounting firms, consultants and other professionals, and any other cost, charge or fee in connection with the original issuance of the Bonds and the refunding of the 2011 Certificates.

"Costs of Issuance Fund" means the fund by that name established and held by the Trustee under Section 3.03.

"Debt Service" means, with respect to any Fiscal Year, the sum obtained by totaling the following amounts for such Fiscal Year:

(a) the aggregate amount of principal of and interest on the Outstanding Bonds coming due and payable in such Fiscal Year;

(b) the principal amount of all outstanding Parity Debt, if any, coming due and payable by their terms in such Fiscal Year; and

(c) the amount of interest which would be due during such Fiscal Year on the aggregate principal amount of all outstanding Parity Debt, if any, which would be outstanding in such Fiscal Year if such Parity Debt are retired as scheduled; *provided, however,* that with respect to any Parity Debt which bears interest at an adjustable rate, such interest shall be calculated at an assumed rate equal to the average rate of interest per annum for each of the five previous whole calendar years as shown by the J. J. Kinney Index (or, if and to the extent such index is not maintained for all or any portion of such period, any similar index of variable rate interest for tax-exempt obligations selected by the District in its sole discretion).

"Debt Service Fund" means the fund by that name established and held by the Trustee under Section 4.02(b)(ii).

"Depository" means (a) initially, DTC, and (b) any other Securities Depository acting as Depository under Section 2.04.

"Depository System Participant" means any participant in the Depository's book-entry system.

"District" means the Novato Sanitary District, a sanitary district duly organized and existing under the Constitution and laws of the State of California, and any successor thereto.

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"Escrow Agreement" means the Escrow Agreement, dated as of November 1, 2017, between the District and the Escrow Bank, related to the 2011 Certificates.

"Escrow Bank" means The Bank of New York Mellon Trust Company, as escrow bank.

"Event of Default" means any of the events described in Section 8.01.

"Federal Securities" means: (a) non-callable direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America; (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America; (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America.

"Financial Consultant" means any consultant or firm of such consultants appointed by the District and who, or each of whom: (a) is judged by the District to have experience in matters relating to the financing of wastewater systems; (b) is in fact independent and not under domination of the District; (c) does not have any substantial interest, direct or indirect, with the District; and (d) is not connected with the District as an officer or employee of the District, but who may be regularly retained to make reports to the District.

"Fiscal Year" means the period commencing on July 1 of each year and terminating on the next succeeding June 30, or such other period as may be established by the District as its official fiscal year period (written notice of which shall be given by the District to the Trustee).

"Indenture" means this Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture under the provisions hereof.

"Independent Accountant" means any accountant or firm of such accountants appointed and paid by the District, and who, or each of whom (a) is in fact independent and not under domination of the District; (b) does not have any substantial interest, direct or indirect, with the District; and (c) is not connected with the District as an officer or employee of the District, but who may be regularly retained to make annual or other audits of the books of or reports to the District.

"Interest Payment Date" means February 1 and August 1 in each year, commencing February 1, 2018, and continuing so long as any Bonds remain Outstanding.

"Moody's" means Moody's Investors Services, and its successors and assigns.

"Net Proceeds" means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys' fees) incurred in the collection of such proceeds.

"Net Revenues" means, for any Fiscal Year, an amount equal to all of the Revenues for such Fiscal Year, less the Operations and Maintenance Costs for such Fiscal Year.

"Nominee" means (a) initially, Cede & Co. as nominee of DTC, and (b) any other nominee of the Depository designated under Section 2.04(a).

"Office" means, with respect to the Trustee, the corporate trust office of the Trustee at the address set forth in Section 9.09, or at such other or additional offices as may be specified by the Trustee in writing to the District; except that with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term means the office or agency of the Trustee at which, at any particular time, its corporate trust agency business is conducted.

"Operation and Maintenance Costs" means the reasonable and necessary costs paid or incurred by the District for maintaining and operating the Wastewater System, determined in accordance with generally accepted accounting principles, including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and including all reasonable and necessary administrative costs of the District that are charged directly or apportioned to the operation of the Wastewater System, such as salaries and wages of employees, overhead, taxes (if any), the cost of permits, licenses and charges to operate the Wastewater System and insurance premiums; but excluding, in all cases, depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

"Original Purchaser" means _____, as the original purchaser of the Bonds upon their delivery by the Trustee on the Closing Date.

"Outstanding", when used as of any particular time with reference to Bonds, means all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under this Indenture except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the District has been discharged in accordance with Section 9.03; (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee under this Indenture; and (d) Bonds which are required to be disregarded and not deemed Outstanding under Section 9.05.

"Owner", when used with respect to any Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

"Parity Debt" means the SRF Loan, and all other bonds, notes, loan agreements, installment sale agreements, leases or other obligations of the District payable from and

secured by a pledge of and lien on any of the Net Revenues issued or incurred on a parity with the Bonds under Section 3.04 or 3.05.

"Parity Debt Documents" means, with respect to any issue of Parity Debt, the agreement, indenture of trust, resolution or other instrument authorizing the issuance of such Parity Debt.

"Permitted Investments" means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

(a) Federal Securities;

(b) obligations of any federal agency which either (a) represent full faith and credit of the United States of America, or (b) are rated "AA" or better by S&P and "Aa" by Moody's;

(c) Bank deposit products, trust funds, trust accounts, certificates of deposit (including those placed by a third party pursuant to an agreement between the District and the Trustee), overnight bank deposits, interest bearing deposits, interest bearing money market accounts, U.S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks, which may include the Trustee, its parent holding company, if any, and their affiliates, which (i) have a rating on their short term certificates of deposit on the date of purchase of "A" or better by S&P and Moody's, maturing no more than 360 days after the date of purchase, provided that ratings on holding companies are not considered as the rating of the bank or (ii) are fully insured by the Federal Deposit Insurance Corporation;

(d) commercial paper which is rated at the time of purchase in the single highest classification, "A" or better by S&P and Moody's, and which matures not more than 270 calendar days after the date of purchase;

(e) investments in a money market fund, including those of an affiliate of the Trustee, rated in the highest short-term rating category by S&P and Moody's, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee or such holding company receives and retains a fee for services provided to the fund, whether as a custodian, transfer agent, investment advisor or otherwise;

(f) investment agreements with financial institutions whose long-term general credit rating is "AA–" or better from S&P, by the terms of which the Trustee may withdraw funds if such rating falls below "AA–"; and

(g) the Local Agency Investment Fund of the State of California, created under Section 16429.1 of the California Government Code,

to the extent the Trustee is authorized to register such investment in its name.

"Rate Stabilization Fund" means the fund by that name established and held by the District under Section 4.03.

"Record Date" means, with respect to any Interest Payment Date, the 15th calendar day of the month preceding such Interest Payment Date.

"Registration Books" means the books maintained by the Trustee under Section 2.07 for the registration and transfer of ownership of the Bonds.

"Request of the District" means a request in writing signed by the President of the Board of Directors of the District, the General Manager-Chief Engineer/Secretary of the District, or any other officer of the District duly authorized by the Board of Directors for that purpose.

"Revenues" means, for each Fiscal Year, all gross income and revenue received or receivable by the District from the ownership or operation of the Wastewater System, determined in accordance with generally accepted accounting principles, including all rates, fees and charges (including connection fees and charges) as received by the District for the services of the Wastewater System, and all other income and revenue howsoever derived by the District from the ownership or operation of the Wastewater System or arising from the Wastewater System, and also including all income from the deposit or investment of any money in the Wastewater Fund or any rate stabilization fund, and any refundable deposits made to establish credit, and advances or contributions in aid of construction.

For clarity, "Revenues" does not include (i) customers' deposits or any other deposits subject to refund until such deposits have become the property of the District, (ii) the proceeds of any *ad valorem* property taxes levied to pay general obligation bond indebtedness of the District with respect to the Wastewater System, (iii) special assessments or special taxes levied for the purpose of paying special assessment bonds or special tax obligations of the District relating to the Wastewater System, and (iv) amounts in the Rate Stabilization Fund unless and until such amounts are deposited to the Wastewater Fund.

"Securities Depositories" means DTC; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the District may designate in a Request of the District delivered by the District to the Trustee.

"S&P" means S&P Global Ratings, a division of Standard & Poor's Financial Services LLC, and its successors and assigns.

"SRF Loan" means the Interagency Sales Agreement (Installment Sale Agreement No. C-06-4903-110; Agreement No. 07-824-550-0) between the District and the State Water Resources Control Board made in 2008, in the maximum principal amount of $81,329,083.

"State Loans" means loans secured by a pledge of Net Revenues of the Wastewater System and incurred by the District to finance improvements to the Wastewater System pursuant to Section 3.05.

"Supplemental Indenture" means any indenture, agreement, resolution or other instrument hereafter duly adopted or executed in accordance with Section 7.01.

"Tax Code" means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the Closing Date, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under said Code.

"Trustee" means The Bank of New York Mellon Trust Company, N.A., as Trustee hereunder, or any successor thereto appointed as Trustee under Article VI.

"2011 Certificates" means the $21,750,000 original principal amount of Wastewater Revenue Certificates of Participation, Series 2011.

"2011 Installment Sale Agreement" means the Installment Sale Agreement, dated as of October 1, 2011, by and between the District, as purchaser, and Public Property Financing Corporation of California, as seller.

"2011 Trust Agreement" means the Indenture of Trust, dated as of October 1, 2011, by and among the District, Public Property Financing Corporation of California, and The Bank of New York Mellon Trust Company, N.A., as trustee, pursuant to which the 2011 Certificates were issued.

"Wastewater Fund" means the fund established and held by the District with respect to the Wastewater System for the deposit of Revenues.

"Wastewater System" means all wastewater collection, transport, treatment, storage and disposal facilities, including land and easements thereof, owned by the District, and all other properties, structures or works hereafter acquired and constructed by the District and determined to be a part of the Wastewater System, together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof hereafter acquired and constructed.

APPENDIX B

FORM OF BOND

No. R-__ $_____

NOVATO SANITARY DISTRICT
2017 WASTEWATER REVENUE REFUNDING BOND

INTEREST RATE:	MATURITY DATE:	ISSUE DATE:	CUSIP:
_____%	February 1, ____	_____, 2017	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: _____ DOLLARS

The Novato Sanitary District, a sanitary district duly organized and existing under the Constitution and laws of the State of California (the "District"), for value received, hereby promises to pay (but only out of the Net Revenues and other assets pledged therefor as hereinafter mentioned) to the Registered Owner stated above, or registered assigns, on the Maturity Date stated above, the Principal Amount stated above, in lawful money of the United States of America; and to pay interest thereon in like lawful money from the Interest Payment Date next preceding the date of authentication of this Bond (unless this Bond is authenticated as of a day during the period commencing after the fifteenth day of the month preceding an Interest Payment Date and ending on or before such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless this Bond is authenticated on or before January 15, 2018, in which event it shall bear interest from the Issue Date stated above) until payment of such principal sum shall be discharged as provided in the Indenture hereinafter mentioned, at the Interest Rate per annum stated above, payable semiannually on each February 1 and August 1, commencing February 1, 2018 (each, an "Interest Payment Date").

The principal hereof is payable by check at the Office (as defined in the Indenture referred to below) of The Bank of New York Mellon Trust Company, N.A. (together with any successor trustee under the Indenture, the "Trustee"). Interest hereon is payable by check of the Trustee mailed on each Interest Payment Date to the Registered Owner as of the 15th day of the month preceding each Interest Payment Date (except with respect to payment of defaulted interest as provided in the Indenture hereinafter referred to) at the address shown on the registration books maintained by the Trustee. Payment of interest will be made by wire transfer in immediately available funds to an account in the

United States of America to any Owner of Bonds in the aggregate principal amount of $1,000,000 or more who shall furnish written wire instructions to the Trustee before the 15th day of the month preceding the applicable Interest Payment Date.

This Bond is one of a duly authorized issue of bonds of the District designated as its "Novato Sanitary District 2017 Wastewater Revenue Refunding Bonds" (the "Bonds"), in the aggregate principal amount of $_____ authorized under Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code (the "Bond Law"), and issued under an Indenture of Trust, dated as of November 1, 2017 (the "Indenture"), between the District and the Trustee. The Bonds have been issued for the purpose of refinancing certain obligations of the District previously incurred to finance capital improvements to its wastewater collection, treatment and disposal system (as defined in the Indenture, the "Wastewater System").

Reference is hereby made to the Indenture (a copy of which is on file at said Office of the Trustee) and all indentures supplemental thereto and to the Bond Law for a description of the rights thereunder of the owners of the Bonds, of the nature and extent of the security, of the rights, duties and immunities of the Trustee and of the rights and obligations of the District thereunder. The Registered Owner of this Bond, by acceptance hereof, assents and agrees to all the provisions of the Indenture.

The Bonds and the interest thereon are payable from Net Revenues (as such term is defined in the Indenture) of the Wastewater System, and are secured by a pledge and assignment of said Net Revenues and amounts held in certain funds and accounts established under the Indenture, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The District has the right under the Indenture to issue additional obligations on a parity with the Bonds, subject to the specific conditions set forth in the Indenture. The Bonds are special obligations of the District and are not a lien or charge upon the funds or property of the District, except to the extent of the aforesaid pledge and assignment.

The Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, in whole or in part, on any date on or after February 1, 2028, at a redemption price equal to the principal amount to be redeemed, plus accrued interest to the date fixed for redemption, without premium.

The Bonds maturing on February 1, 20__ are subject to mandatory sinking fund redemption in part, by lot, on February 1 of each year in accordance with the schedule set forth below. The Bonds so called for mandatory sinking fund redemption will be redeemed at the principal amount to be redeemed, plus accrued but unpaid interest, without premium.

Redemption Date (February 1)	**Sinking Fund Amount**
20__	$
20__	
20__ (maturity)	

The Bonds are subject to extraordinary redemption prior to their respective stated maturities, as a whole or in part on any date, as determined by the District, from Net Proceeds, upon the terms and conditions of, and as provided for in the Indenture, at a redemption price equal to the principal amount of the Bonds to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption.

Unless waived by any Owner of Bonds to be redeemed, notice of any redemption of Bonds shall be given, at the expense of the District, 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 shall affect the sufficiency of the proceedings for the redemption of the Bonds.

If this Bond is called for redemption and payment is duly provided therefor as specified in the Indenture, interest shall cease to accrue hereon from and after the date fixed for redemption.

The Bonds are issuable as fully registered Bonds in denominations of $5,000 and any integral multiple thereof. Subject to the limitations provided in the Indenture, Bonds may be exchanged, at said Office of the Trustee, for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity.

This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at said office of the Trustee, but only in the manner, subject to the limitations provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such transfer, a new Bond or Bonds, of authorized denomination or denominations, of the same maturity and for the same aggregate principal amount, will be issued to the transferee in exchange herefor. The District and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the District and the Trustee shall not be affected by any notice to the contrary.

The Indenture and the rights and obligations of the District and of the owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time in the manner, to the extent, and upon the terms provided in the Indenture; provided that no such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the District to pay the principal or interest at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee, all as more fully set forth in the Indenture.

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York Corporation ("DTC"), to the Trustee for registration or transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC

(and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

It is hereby certified and recited that any and all things, conditions and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by the Bond Law, and by the constitution and laws of the State of California, and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any limit prescribed by the Bond Law and is not in excess of the amount of Bonds permitted to be issued under the Indenture.

This Bond is not entitled to any benefit under the Indenture, or is not valid or obligatory for any purpose, until the certificate of authentication hereon endorsed has been signed by the Trustee.

IN WITNESS WHEREOF, Novato Sanitary District has caused this Bond to be executed in its name and on its behalf by the facsimile signature of the President of the Board of Directors of the District and attested to by the facsimile signature of the Secretary of the District, all as of the Issue Date stated above.

NOVATO SANITARY DISTRICT

By _____
President, Board of Directors

Attest:

_____
Secretary

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the within-mentioned Indenture.

Dated: _____

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
as Trustee

By _____
Authorized Signatory

ASSIGNMENT

For value received the undersigned hereby sells, assigns and transfers unto _____ whose address and social security or other tax identifying number is _____, the within-mentioned Bond and hereby irrevocably constitute(s) and appoint(s) _____ attorney, to transfer the same on the registration books of the Trustee with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

_____

Note: Signature(s) must be guaranteed by an eligible guarantor institution.

_____

Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

Novato Sanitary District

Debt Management Policy

Approved by a Resolution adopted by the Board of Directors on
_____, 2017

This Debt Management Policy (the "Debt Policy") of the Novato Sanitary District (the "District") was approved by the Board of Directors to be effective as of the date first set forth above. The Debt Policy may be utilized by staff with the discretion to deviate as deemed appropriate by the General Manager-Chief Engineer, and may be amended by the District Board as it deems appropriate from time to time in the prudent management of the debt and capital financing needs of the District.

1. Findings

This Debt Policy is intended to comply with Government Code Section 8855(i), effective on January 1, 2017, and shall govern all debt undertaken by the District.

The District hereby recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the District's sound financial position.
- Ensure the District has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the District's credit-worthiness.
- Ensure that all debt is structured in order to protect both current and future constituents of the District.
- Ensure that the District's debt is consistent with the District's planning goals and objectives and capital improvement program or budget, as applicable.

2. Policies

A. Purposes For Which Debt May Be Issued

(i) Long-Term Debt. Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and/or operated by the District.

(a) Long-term debt financings are appropriate when the following conditions exist:

- When the project to be financed is necessary to provide basic services.
- When the project to be financed will provide benefit to constituents over multiple years.
- When total debt does not constitute an unreasonable burden to the District and its constituents.
- When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.

(b) Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses.

(c) The District may use long-term debt financings subject to the following conditions:

- The project to be financed must be approved by the District Board.
- The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed by more than 20%.
- The District estimates that sufficient revenues will be available to service the debt through its maturity.
- The District determines that the issuance of the debt will comply with the applicable state and federal law.

(ii) Short-Term Debt. Short-term debt may be issued to provide financing for the District's operational cash flows in order to maintain a steady and even cash flow balance. Short-term debt may also be used to finance short-lived capital projects; for example, the District may undertake lease-purchase financing for equipment.

(iii) Financings on Behalf of Other Entities. The District may also find it beneficial to issue debt on behalf of other governmental agencies or private third parties in order to further the public purposes of District. In such cases, the District shall take reasonable steps to confirm the financial feasibility of the project to be financed and the financial solvency of any borrower and that the issuance of such debt is consistent with the policies set forth herein.

B. Types of Debt

The following types of debt are allowable under this Debt Policy:

- General obligation bonds (GO Bonds)
- Bond or grant anticipation notes (BANs)
- Lease revenue bonds, certificates of participation (COPs) and lease-purchase transactions
- Other revenue bonds and COPs
- Tax and revenue anticipation notes (TRANs)
- Land-secured financings, such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, and limited obligation bonds issued under applicable assessment statutes
- Tax increment financing to the extent permitted under State law
- Refunding bonds, notes and other obligations
- State Revolving Loan Funds

- Lines of Credit

The District Board may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy.

Debt shall be issued as fixed rate debt unless the District makes a specific determination as to why a variable rate issue would be beneficial to the District in a specific circumstance.

C. Relationship of Debt to Capital Improvement Program and Budget

The District is committed to long-term capital planning. The District intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the District's capital budget and the capital improvement plan.

The District shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues. The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

The District shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the District's public purposes.

The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

The District shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

D. Policy Goals Related to Planning Goals and Objectives

The District is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The District intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the District's annual operations budget.

It is a policy goal of the District to protect its constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

The District will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

When refinancing debt, it shall be the policy goal of the District to realize, whenever possible, and subject to any overriding non-financial policy considerations, minimum net present value debt service savings equal to at least 3.0% of the refunded principal amount.

E. Internal Control Procedures

When issuing debt, in addition to complying with the terms of this Debt Policy, the District shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

Without limiting the foregoing, the District will periodically review the requirements of and will remain in compliance with the following:

- Any continuing disclosure undertakings entered into by the District in accordance with SEC Rule 15c2-12.

- Any federal tax compliance requirements, including, without limitation, arbitrage and rebate compliance.

- The District's investment policies as they relate to the use and investment of bond proceeds.

Proceeds of debt will be held either (a) by a third-party trustee or fiscal agent, which will disburse such proceeds to or upon the order of the District upon the submission of one or more written requisitions by the Board Treasurer (or his or her written designee), or (b) by the District, to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by the District.

END OF DEBT MANAGEMENT POLICY

NOVATO SANITARY DISTRICT
BOARD AGENDA ITEM SUMMARY

TITLE: Wastewater Operations Report, September 2017.	**MEETING DATE: October 9, 2017** **AGENDA ITEM NO.: 8.a.**

RECOMMENDED ACTION: Receive Wastewater Operations Reports for September 2017:

- Collection Systems
- Treatment Facilities Operations
- Reclamation Facilities

SUMMARY AND DISCUSSION:

The September 2017 Wastewater Operations Report incorporating operations reports for collections systems, wastewater treatment operations, and the reclamation facilities is attached.

District and Veolia staff will be present at the meeting to provide overviews of the reports for their operational areas, and be available to discuss the reports or respond to any questions.

ATTACHMENTS: 1. Wastewater Operations Reports for the month of September 2017.

STRATEGIC PLAN INFORMATION: This item addresses Goal 1 (Operational Excellence) and Goal 2 (Reliable and Efficient Facilities) of the latest Strategic Plan Update.

DEPT. MGR.: JB (Veolia), SRK, DD, EB	**GENERAL MANAGER:** SSK

Novato Sanitary District
Wastewater Operations - Collection System Operations Report
September 2017

1.0 General:

The equivalent of about seven (7) full time employees (FTE) worked in the Collection System Department during the month. The breakdown of staff time for the month in terms of equivalent full-time employee hours utilized, works out approximately as follows:

- 1.2 FTE field workers for Sewer Maintenance (main line cleaning)
- 1.0 FTE field workers for Pump Station Maintenance
- 0.0 FTE field workers for Closed Circuit Television (CCTV) work
- 1.6 FTE field workers for time spent on data input, training, service calls, overflow response, or any other activity that does not directly relate to main line cleaning, CCTV work, or pump station maintenance, or special activities (for e.g. smoke testing of mainlines), and
- An equivalent of 3.2 FTE field workers for vacation, holiday or sick leave.

2.0 Collection System Maintenance:

Performance metrics for the department are presented in the attached graphs showing the length of line cleaned/month, footage cleaned/hour worked, overflows/month, and the CCTV footage achieved. A brief discussion is also provided below.

Line Cleaning Performance

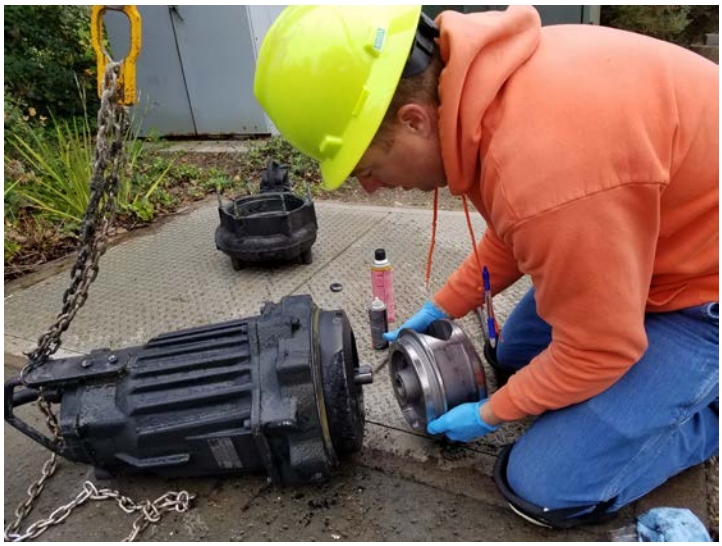
The sewer system ICOM3 Computerized Maintenance Management System (CMMS) generated 389 work orders for the month. Collections staff completed 299 work orders, leaving 90 work orders outstanding. The 299 maintenance work orders completed resulted in 51,011 feet of sewer pipelines cleaned by staff. The remaining 90 work orders will be completed in October.

CCTV Performance:

The District's CCTV van was not in the field in September. Staff conducted 20 sewer main inspections, totaling 3,521 feet, using the push camera.

CCTV Findings:

- Infrastructure related: CCTV work did not identify any areas that require spot repairs.
- O&M related: CCTV work did not identify any area that would require a change in sewer line maintenance operations.



Submersible Pump Impeller Replacement

3.0 Pump Station Maintenance:

The Collection System Department conducted 213 lift station inspections this month. 93 of the inspection visits were generated through the District's JobsCal Plus CMMS system. There are zero (0) outstanding work orders for the month. A Collection Systems (Pump Stations) Work Order Statistics summary is attached.

4.0 Air Relief/Vacuum Valves (ARVs):

Staff completed maintenance inspections on nine (9) air relief/vacuum valves.

5.0 Safety and Training:

General:

Collection System staff attended five (5) safety tailgate meetings in September.

Specialized training:

Two Collections Department staff members attended CCTV Inspection/Data Collection training conducted by the CWEA San Francisco Bay Section Collection System Committee.

One District staff member attended workshops sponsored by Sonoma/Marin Employment Relations Consortium, "Workplace Bullying: A Growing Concern", and "Maximizing Performance through Evaluation, Documentation and Discipline".

District staff participated in Audiometric (Hearing) Testing conducted by Examinetics.

Safety performance:

There were no lost time accidents this month for a total of 2,393 accident free days since the last lost time accident.

Audiometric (Hearing) Testing

6.0 Miscellaneous Projects:

Collections Department staff performed locating and marking of District sewer lines in the vicinity of planned excavations (Underground Service Alert or USA marking).

7.0 Sanitary Sewer Overflows (SSOs):

There were zero (0) sanitary sewer overflows in September.

****

Novato Sanitary District

Collection System Monthly Report For September 2017 (as of September 30, 2017)

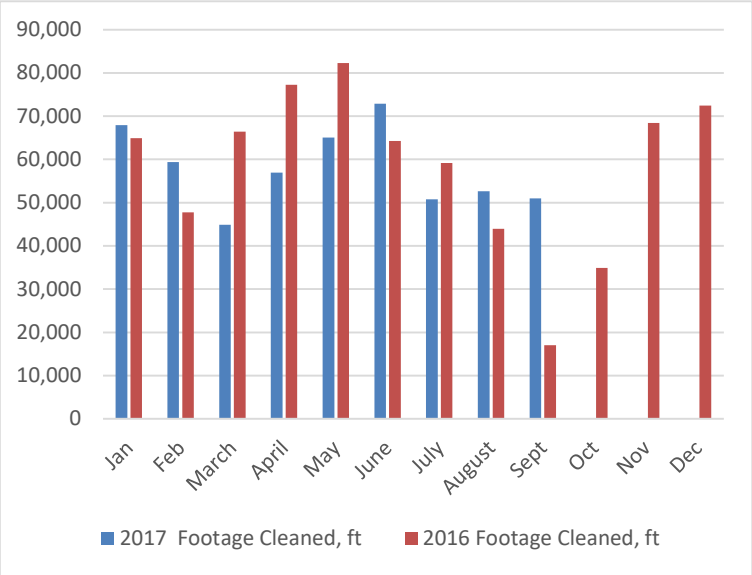
	Jan	Feb	March	April	May	June	July	August	Sept	Oct	Nov	Dec	Total Year to Date	Average Year to Date
A. Employee Hours Worked														
Number of FTEs (main line cleaning), hrs.	1.9	1.8	1.4	1.5	1.8	1.9	1.3	1.5	1.2	0.0	0.0	0.0	NA	1.2
Number of FTEs (other)	2.0	1.7	2.0	1.5	2.2	1.9	1.8	1.6	1.6	0.0	0.0	0.0	NA	1.4
Number of FTEs (CCTV)	0.0	0.4	1.0	0.5	0.3	0.2	0.3	0.1	0.0	0.0	0.0	0.0	NA	0.2
Total, FTEs	3.9	3.9	4.3	3.5	4.3	4.0	3.4	3.2	2.9	0.0	0.0	0.0	NA	2.8
Regular Time Worked, (main line cleaning), hrs	337	295	247	237	331	320	221	284	205					
Regular Time Worked on Other, hrs (1)	360	270	362	247	415	331	301	297	271					
Regular Time Worked on CCTV (2)	2	57	182	75	58	41	46	4	2					
Total Regular time, worked, hrs	699	622	791	559	804	692	568	585	478	0	0	0	5,797	483
Total Vacation/Sick Leave/Holiday, hrs	359	295	254	391	300	310	442	511	522				3,384	376
Vacation/Sick Leave/Holiday, FTEs	2.0	1.8	1.4	2.4	1.6	1.8	2.4	2.7	3.2	0.0	0.0	0.0	19.4	1.6
Overtime Worked on Coll. Sys., hrs	0	0	0	0	0	0	0	0	0				0	0
Overtime Worked on Other, hrs (1)	74	11	4	4	20	20	30	19	17				199	22
Overtime Worked on CCTV (2)	0	5	0	0	0	0	0	0	0				5	1
Total Overtime , hrs	74	16	4	4	20	20	30	19	17	NA	NA	NA	204	23
B. Productivity														
1. Line Cleaning														
Rodder Work Orders generated	39	28	6	15	66	34	22	63	31				304	34
Rodder 3208 ft. cleaned	8,884	5,385	1,145	3,310	11,176	6,466	4,356	10,492	6,034				57,248	6,361
Rodder - outside services, ft cleaned	0	0	0	0	0	0	0	0	0				0	0
Flusher Work Orders generated	277	278	214	266	280	346	243	240	358				2,502	278
Truck 3205V ft. cleaned	8,395	12,037	512	776	4,349	7,096	1,304	2,340	25,672				62,481	6,942
Truck 3206V ft. cleaned	50,644	41,951	43,188	52,869	49,549	59,020	45,128	39,821	19,305				401,475	44,608
Flusher - outside services, ft. cleaned	0	0	0	0	0	284	0	0	0				284	
Total Footage cleaned(3)	67,923	59,373	44,845	56,955	65,074	72,866	50,788	52,653	51,011	NA	NA	NA	521,488	57,943
Work Orders completed	316	306	220	281	346	380	265	303	299				2,716	302
Work Orders backlog	0	0	0	0	0	0	0	0	90	0	0	0	90	45
2. Closed Circuit Television (CCTV)														
Camera Work Orders generated	0	0	0	0	0	0	0	0	0				0	
CCTV Truck 3126T, ft. videoed	0	7,055	27,927	8,727	9,682	5,414	6,808	541	0				66,154	7,350
CCTV (hand cam), ft. videoed	612	757	0	749	0	822	2,320	5,123	3,521				13,904	
CCTV Inspection - outside services, ft. videoed	0	0	0	0	0	250	0	0	0				250	
Total CCTV footage(3)	612	7,812	27,927	9,476	9,682	6,486	9,128	5,664	3,521	NA	NA	NA	80,308	
C. Sanitary Sewer Overflows (SSOs)	1	0	0	0	0	0	2	0	0				3	NA
Minor (Category III)	1	0	0	0	0	0	1	0	0				2	NA
Major (Category II)	0	0	0	0	0	0	0	0	0				0	NA
Major (Category I)	0	0	0	0	0	0	1	0	0				1	NA
Overflow Gallons	90	0	0	0	0	0	4,826	0	0				4,916	NA
Volume Recovered	0	0	0	0	0	0	600	0	0				600	NA
Percent Recovered	0%	NA	NA	NA	NA	NA	12%	NA	NA	NA	NA	NA	12%	NA
D. Service Calls (non-SSO related)														
Service calls, normal hours, #	9	9	`6	3	2	3	6	1	2				35	4
Normal hours S.C. response time, mins (avg.)	10	12	18	15	23	10	25	40	29				182	20
Service Callouts, after hours, #	0	1	0	0	0	0	1	0	0				2	0
After Hours S.C. response time, mins (avg.)	NA	30	NA	NA	NA	NA	30	NA	NA				60	30
E. Benchmarks														
Average Ft. Cleaned/Hour Worked	202	201	182	240	197	228	230	185	249	NA	NA	NA	NA	213
Total Stoppages/100 Miles	0.4	0.0	0.0	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	1.3	NA
Average spill response time (mins)	0	NA	NA	NA	NA	NA	15	NA	NA				NA	8
Callouts/100 Miles	0.0	0.4	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.9	0.1
Overtime hours/100 Miles	0	0	0	0	0	0	0	0	0	0	0	0	0.00	0
Overflow Gallons/100 Miles	39	0	0	0	0	0	2,098	0	0	0	0	-	2,137	178

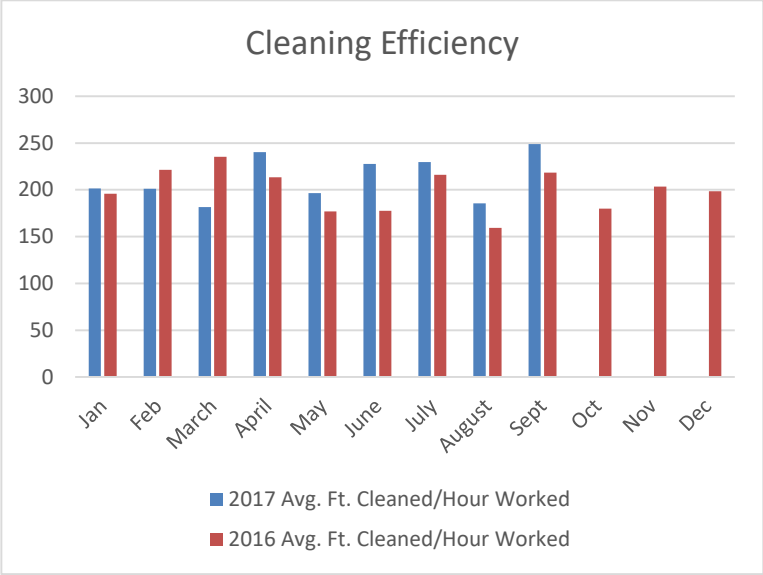
(1)This category includes time spent on: Data input, Training, Service Calls, Overflow Response, as well as any other activity that does not directly relate to main line cleaning or CCTV work.

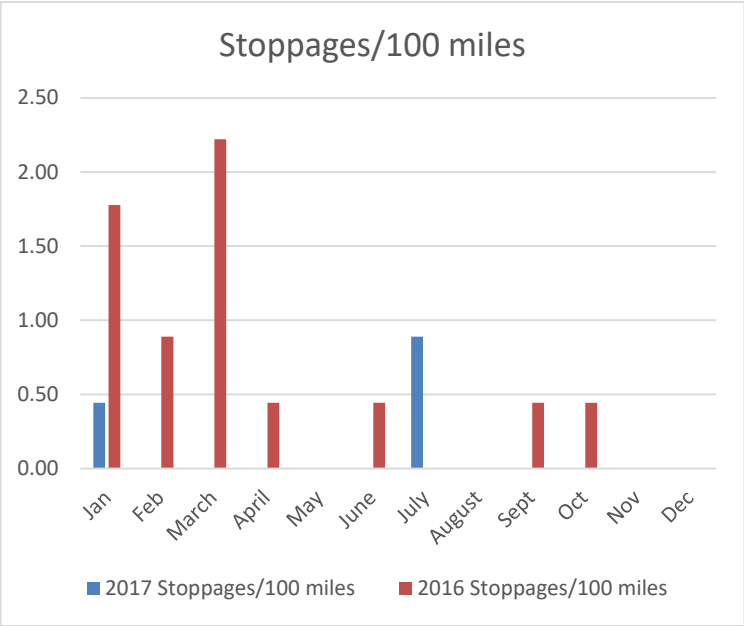
(2)This category separates time spent on CCTV from other Collection System maintenance activities.

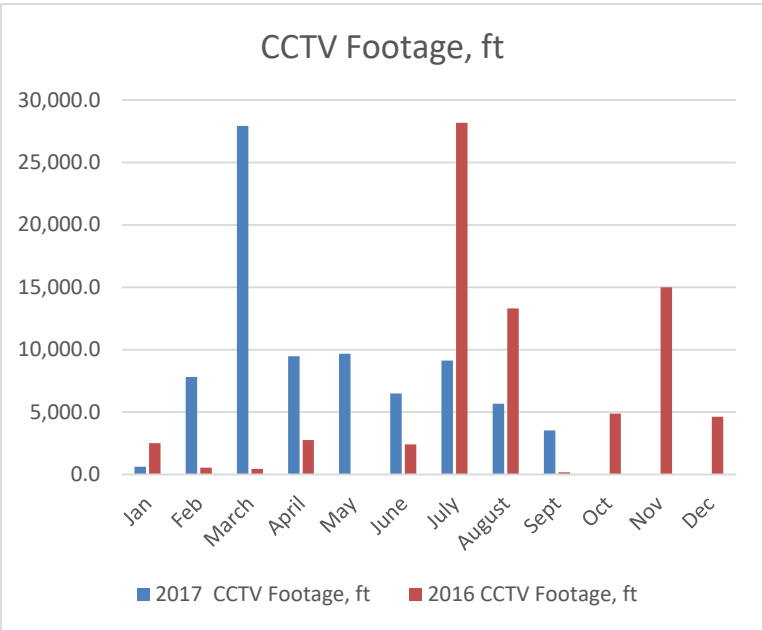
(3) Does not include outside services (tracked separately)

Collection System: 2017 & 2016 Graphs









Novato Sanitary District

Pump Station Monthly Report For September 2017 (as of September 30, 2017)

	Jan	Feb	March	April	May	June	July	August	Sept	Oct	Nov	Dec	Total Year to Date	Average Year to Date
Employee Hours Worked	218	239	276	205	246	239	212	251	185	0	0	0	2,071	
Number of Employees (FTEs)	1.2	1.3	1.3	1.1	1.1	1.2	1.0	1.1	1.0	0.0	0.0	0.0		0.9
Regular Time Worked on Pump Sta	190	203	235	172	206	205	174	211	157				1,753	
Overtime Worked on Pump Sta	28	36	41	33	40	34	38	40	28				318	
After Hours Callouts	3	3	6	4	5	2	4	4	1				32	
Average Callout response time (mins)	23	28	30	13	24	17	26	24	28				213	24
Work Orders														
Number generated in month	99	95	87	91	117	98	106	90	93				876	97
Number closed in month	99	95	87	91	115	98	106	90	93				874	97
Backlog	0	0	0	0	2	0	0	0	0	0	0	0	2	0

PUMP STATIONS
WORK ORDER STATISTICS
September 1, 2017-September 30, 2017

	Open Work Orders Due Prior to 9/1/2017	Open Work Orders 9/1/2017-9/30/2017	Total Open Work Orders
Preventive	0	93	93
Corrective	0	0	0
Total	0	93	93

	Closed Work Orders 9/1/2017 - 9/30/2017
Preventive	93
Corrective	0
Total	93

Total Outstanding Work Orders as of 9/30/2017	**0**

VEOLIA

October 5, 2017

Mr. Sandeep Karkal
General Manager – Chief Engineer
Novato Sanitary District
500 Davidson Street
Novato, CA 94545

Subject: Veolia Water Operations Report – September 2017

Dear Mr. Karkal:

I am pleased to provide the Monthly Operations report for September 2017.

As always, please give me a call at 707-208-4491 should you have any questions.

Best regards,

John Bailey
Project Manager, Veolia

VEOLIA

MONTHLY OPERATIONS REPORT
September 2017

Prepared for

NOVATO SANITARY DISTRICT (NSD)
WASTEWATER TREATMENT PLANT
500 Davidson Street
Novato, CA 94945

Prepared by

Veolia Water West Operating Services, Inc. (VWWOS)

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ATTACHMENTS
1) Photos
2) Laboratory Data
3) Recycled Water Report
4) Annual Performance Graphs
5) Process Control Data / Graphs
6) Neighborhood Contacts (Odor / Noise)
7) Jerome Meter Readings and Locations

A: TREATMENT PLANT PERFORMANCE SUMMARY: September 2017:

Parameter	Value		Limit	
	Ave	Max	#1	#2
Flow, MGD (monthly ave/max)	3.70	4.10	N/A	N/A
Influent				
*BOD_5, lb/day (month ave/max)	11,138	15,387	N/A	N/A
TSS, lb/day (monthly ave/max)	8,196	10,433	N/A	N/A
Effluent				
*BOD_5, mg/L (monthly ave/max weekly ave)	<5	5	15	30
TSS, mg/L (monthly ave/max weekly ave)	4	5	10	20
*BOD_5 - % Removal, Average	99	N/A	85	N/A
TSS - % Removal, Average	98	N/A	85	N/A
Ammonia, mg/L – (monthly ave/daily max)	1.10	1.10	5.9	21
pH, su (min / max)	6.8	7.1	6.0	9.0
Enterococcus, MPN/100 ml (30 day geo mean)	2.9	13.4	35	N/A
Fecal Coliform, MPN/100 ml (monthly median)	13.0	N/A	140	N/A
Fecal Coliform, MPN/100 ml (90th %ile)	13.0	N/A	430	N/A
Total Permit Exceedances (NPDES)	0			

*BOD values are preliminary based on outstanding samples (one influent / one effluent)

Title 22 - Recycled Water Production and Quality

Description	Units	Value	Limit
Volume Produced	Million Gallons	13.101	N/A
Average Turbidity	NTU	0.9	2.0
Turbidity > 5 NTU (in 24 hour)	Minutes	0	72
Minimum CT (disinfection)	mg-min/L	>450	450 minimum
Minimum Dissolved Oxygen (DO)	mg/L	6.6	2 mg/L minimum
Maximum Total Coliform	MPN/100 ml	<1	240
Maximum Total Coliform 2 Samples 30 d	MPN/100 ml	<1	23
Total Coliform 7 Sample Median	MPN/100 ml	<1	2.2

Discussion of Violations / Excursions

- Bay Discharge (NPDES Limits) – None
- Recycled Water – None

VEOLIA

B: SAFETY AND TRAINING:

- Monthly plant safety inspections for Novato WWTP and Ignacio Transfer Pump Station completed
- Five Minute Tailgate training is held daily with all staff.
- No safety incidents for the month of September
- Accident Free: 6/1/10 – 9/30/17: 2,685 days
- International Health & Safety Week – Reviewed Veolia IH&SW Daily Topics
- West Region Monthly Health and Safety Webinar
- Monthly Safety Topics and Training:
    - Respiratory Protection

C: OPERATIONS & MAINTENANCE STATUS / REVIEW:

Key events for the period:

Novato

- Routine rounds, readings and maintenance
- Start-up Digester #2
- Performed annual service on all Emergency Generators (4) and Wet Weather Pumps (2)
- Replaced stator in Sludge/Scum Pump #1 – Primary Clarifier #1
- Replaced Tee on suction side of Sludge/Scum Pump #1
- Replaced control board on actuator for Digester #2 Feed Valve
- Topped off all odor beds with fresh wood chips
- Cleaned and coated Secondary Clarifier #2 rake arm

Equipment Out of Service – Due to Planned Servicing, Maintenance, or Replacement

- Aeration basin #1 & #3 (standby)
- Primary clarifier #1 (standby)

Ignacio Transfer Pump Station

- Routine rounds, readings and maintenance
- Performed annual service on Emergency Generator

Equipment Out of Service – Due to Planned Servicing, Maintenance, or Replacement

- None

Recycled Water Plant (RWP)

- Routine rounds, readings and maintenance

Equipment Out of Service – Due to Planned Servicing, Maintenance, or Replacement

- None

Sludge Lagoons (and Reclamation Area)

- Performed routine rounds and inspection
- Assisted District with dewatering dedicated land disposal (DLD)
- Cleaned and prepped pump and piping for return to Rain for Rent – pumping project DLD

D: LABORATORY ACTIVITIES SUMMARY:

Discharge to the Bay (NPDES)

Wildlife Pond and Reclamation Activities

Wildlife Pond

Samples and weekly/monthly observations at the Wildlife pond were taken according to the WDR (Order No. 92-065).

Irrigation Wetwell Sampling

Monthly sampling of the irrigation wetwell in September occurred (started in June) and will continue as long as irrigation is occurring. The data collected will be compiled and reported in the 2018 triennial Irrigated Pasture Report.

Total Coliforms

When effluent is discharged to the Bay, there is no requirement for Total Coliform.

Enterococcus

When effluent is discharged to the Reclamation, the bacteriological requirement is for *Enterococcus.* Three samples were analyzed each week in September and all were well under the regulatory limits.

Fecal Coliforms

Fecal Coliform sampling is required once per quarter during Bay discharge. A quarterly sample was analyzed in September for the September through November Quarter, with the results well below the regulatory limit.

PCBs

The effluent was analyzed for PCBs congeners in September for the July through September quarter as required in the PCB and Mercury Watershed Permit (R2-2012-0096).

Sludge Sampling

Sludge sampling was completed in September. A total of four sampling events is required. The information is used for pretreatment analysis and reporting and also for the required EPA Annual Biosolids Report.

Interagency Training
Liz Falejczyk and Erik Brown attended the Marin County Environmental Health Monthly staff meeting to discuss restaurant grease removal device care and maintenance and also how we can work together as a team. As requested, we also took the opportunity to demonstrate the dispersability of toilet paper, flushable wipes and tissues and brought along (cleaned and sanitized) clogs from pumps showing dental floss and strings binding everything together.

Training
Liz Falejczyk attended the BACWA Permits Committee Meeting, the BACWA Laboratory Committee Meeting and the BACWA Toxicity Workshop.

Pretreatment

Permits

- Issued one Temporary Discharge Permit
- Received one permit renewal application

Inspections and Sampling

- Inspected 3 food service establishments (FSE)
- Received support documentation confirming compliance from 4 FSE
- Inspected one SIU

E: ADMINISTRATION:

- August Electronic Self-Monitoring Report (SMR) submitted on September 20, 2017
- August Electronic Discharge Monitoring Report (DMT) submitted on September 20, 2017

F: ODORS & LANDSCAPING:

- Three Odor Contacts
- Jerome meter (H2S) readings performed in neighborhood and within treatment plant.
- All readings in neighborhood were at the minimum detection threshold of the Jerome meter.

G: MISCELLANEOUS

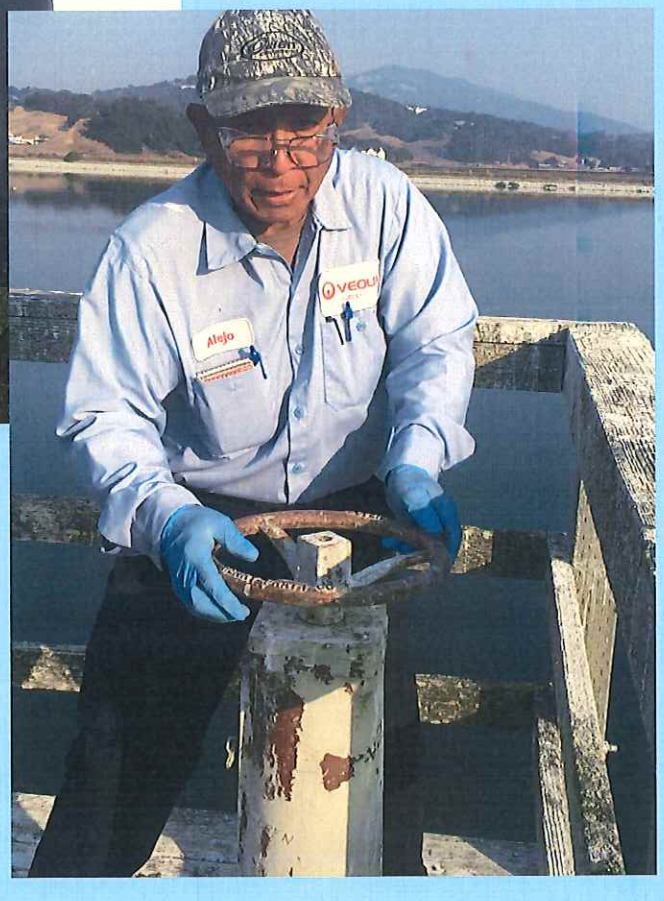
- Process Control Management Plan (PCMP) meetings held weekly.

Veolia Support Staff On/Off Site (Various Times)

John O'Hare (Veolia Corporate)	Technical Support, Pretreatment & Laboratory

PHOTOS

TRANSITION FROM RECLAMATION STORAGE TO BAY DISCHARGE
SEPTEMBER 1, 2017



Top- Jeff Hendricks Opens Discharge Gate to Bay.
Bottom – Alejo Cuntapay Closes Discharge Gate to Storage Pond.

CLEANING SECONDARY CLARIFIER #2
SEPTEMBER 2017

Top Left – Manny Arias Monitors Workspace
Top Right & Bottom Left – Jeff Hendricks Cleans and Preps Metal for Cold Galvanized Coating
Bottom Left – Surface Rust on Intake Box Prior to Cleaning and Coating

MAINTENANCE
SEPTEMBER 2017

Top Left & Bottom Right – Jeff Hendricks and Alejo Cuntapay Replace Stator on Primary Clarifier #1 Sludge and Scum Pump #4.

BIOFILTER (ODOR CONTROL) TOP OFF
SEPTEMBER 23, 2017

Odor Control Biofilters Topped Off with 115 Cubic Yards of Fresh Wood Chips

LABORATORY DATA

Novato Sanitary District
BOD/TSS Report

VEOLIA WATER

September, 2017

Date	Flow MGD	Influent BOD mg/l	Influent BOD lb/d	Influent TSS mg/l	Influent TSS lb/d	Effluent BOD mg/l	Effluent BOD lb/d	Effluent TSS mg/l	Effluent TSS lb/d	BOD % Removal PERCENT	TSS % Removal PERCENT
09/01/17	3.45										
09/02/17	3.78										
09/03/17	3.59										
09/04/17	4.02										
09/05/17	3.83	310	9,902	268	8,561	<5	<141	4	113	98.4	98.5
09/06/17	3.55					<5	<132	3	79		
09/07/17	4.10										
09/08/17	3.61										
09/09/17	4.05										
09/10/17	3.91										
09/11/17	3.64										
09/12/17	3.48	280	8,126	176	5,108	<5	<121	5	121	98.2	97.2
09/13/17	4.06										
09/14/17	3.68										
09/15/17	3.74										
09/16/17	3.74										
09/17/17	3.70										
09/18/17	3.93										
09/19/17	3.43										
09/20/17	3.69	500	15,387	339	10,433	<5	<112	3	67	99.0	99.1
09/21/17	3.41										
09/22/17	3.85										
09/23/17	3.41										
09/24/17	3.67										
09/25/17	3.60										
09/26/17	4.04										
09/27/17	3.55										
09/28/17	3.47			300	8,682			4	94		98.7
09/29/17	3.47										
09/30/17	3.67										
Weekly Averages											
09/02/17	Week 1	310	10,445	283	9,535	5	142	3	85		
09/09/17	Week 2	310	9,902	268	8,561	5	137	4	96		
09/16/17	Week 3	280	8,126	176	5,108	5	121	5	121		
09/23/17	Week 4	500	15,387	339	10,433	5	112	3	67		
09/30/17	Week 5			300	8,682			4	94		
Monthly											
Minimum	3.41	280	8,126	176	5,108	<5	<112	3	67	98	97
Maximum	4.10	500	15,387	339	10,433	<5	<141	5	121	99	99
Total	111.12										
Average	3.70	363	11,138	271	8,196	<5	<126	4	95	99	98

Novato Sanitary District
Conventional Pollutants Report

VEOLIA WATER

September, 2017

Date	INFLUENT - A001			Effluent - E002							
	Flow	pH	Ammonia	Coliform / Bacteria			pH	Ammonia	Oil & Grease	Temp	Rainfall
	Total			Fecal	Entero	Total					
	MGD	su	mg/L	MPN/100 mL			su	mg/L	mg/L	Deg C	Inches
09/01/17	3.45				1.0		7.0			26.3	
09/02/17	3.78				1.0						
09/03/17	3.59										
09/04/17	4.02						7.0			25.3	
09/05/17	3.83			13.0	4.1		7.0			24.5	
09/06/17	3.55				4.1		7.0	1.10	<1.4	25.4	
09/07/17	4.10				2.0		6.9			24.6	0.01
09/08/17	3.61						7.0			25.0	
09/09/17	4.05										0.01
09/10/17	3.91										
09/11/17	3.64						7.0			25.1	0.02
09/12/17	3.48				2.0		7.0			25.4	0.01
09/13/17	4.06				3.0		7.0			24.6	0.03
09/14/17	3.68	7.2			2.0		6.9			24.5	0.05
09/15/17	3.74						6.9			24.5	
09/16/17	3.74										
09/17/17	3.70										0.02
09/18/17	3.93				1.0		7.0			24.6	
09/19/17	3.43				3.0		7.1			24.0	
09/20/17	3.69				6.3		7.0			24.3	
09/21/17	3.41						7.0			24.2	
09/22/17	3.85	7.2					6.9			23.9	
09/23/17	3.41										
09/24/17	3.67										
09/25/17	3.60						6.8			23.8	
09/26/17	4.04				13.4		6.8			24.5	
09/27/17	3.55				8.6		6.9			24.7	
09/28/17	3.47				4.1		6.8			25.1	
09/29/17	3.47	7.2					6.9			24.4	
09/30/17	3.67										
Monthly											
Minimum	3.41	7.2		13.0	1.0		6.8	1.10		23.8	0.01
Maximum	4.10	7.2		13.0	13.4		7.1	1.10	<1.4	26.3	0.05
Total	111.12										0.15
Average	3.70	7.2					6.9	1.10	<1.4	24.7	0.02

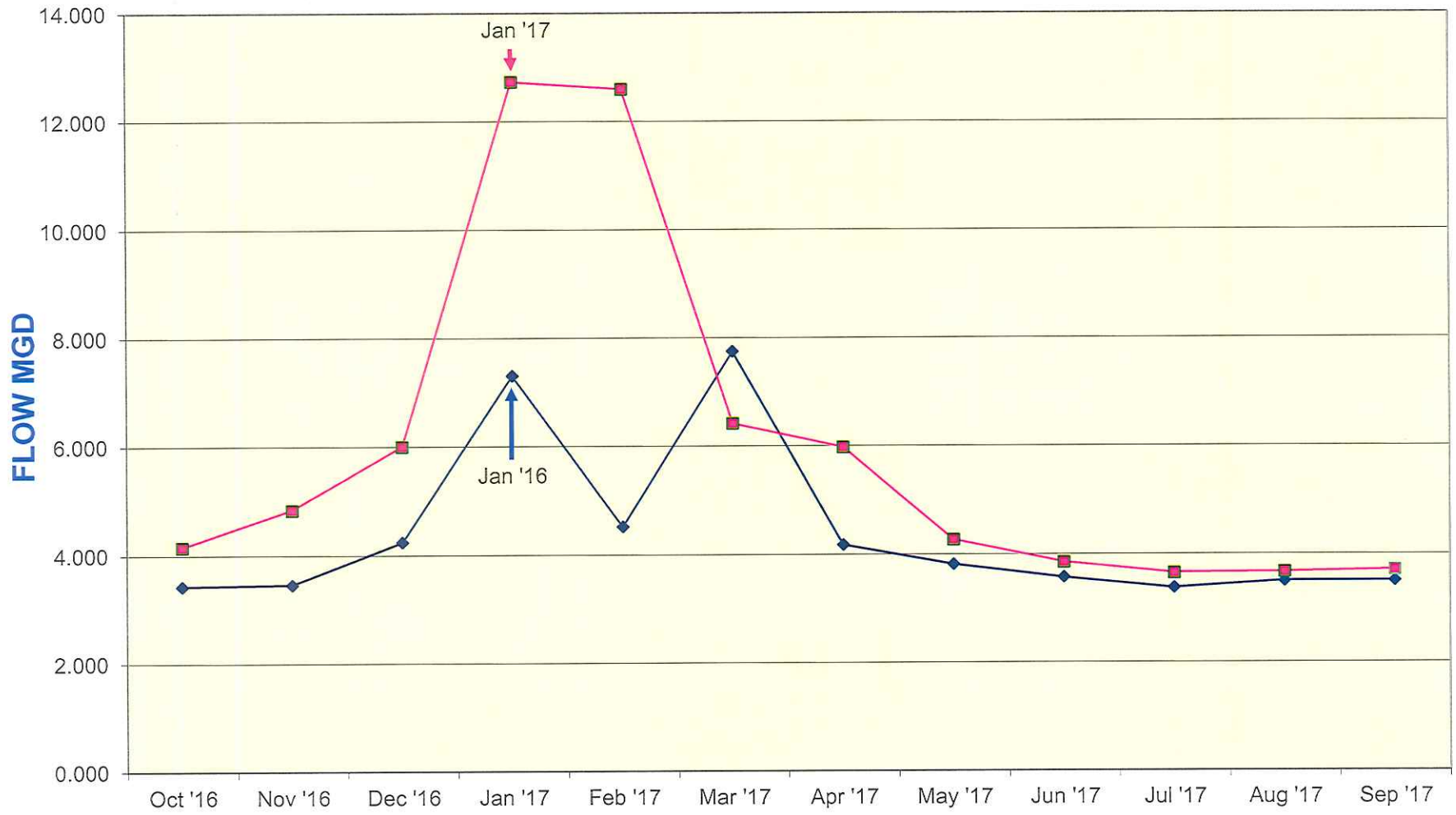
RECYCLED WATER REPORT

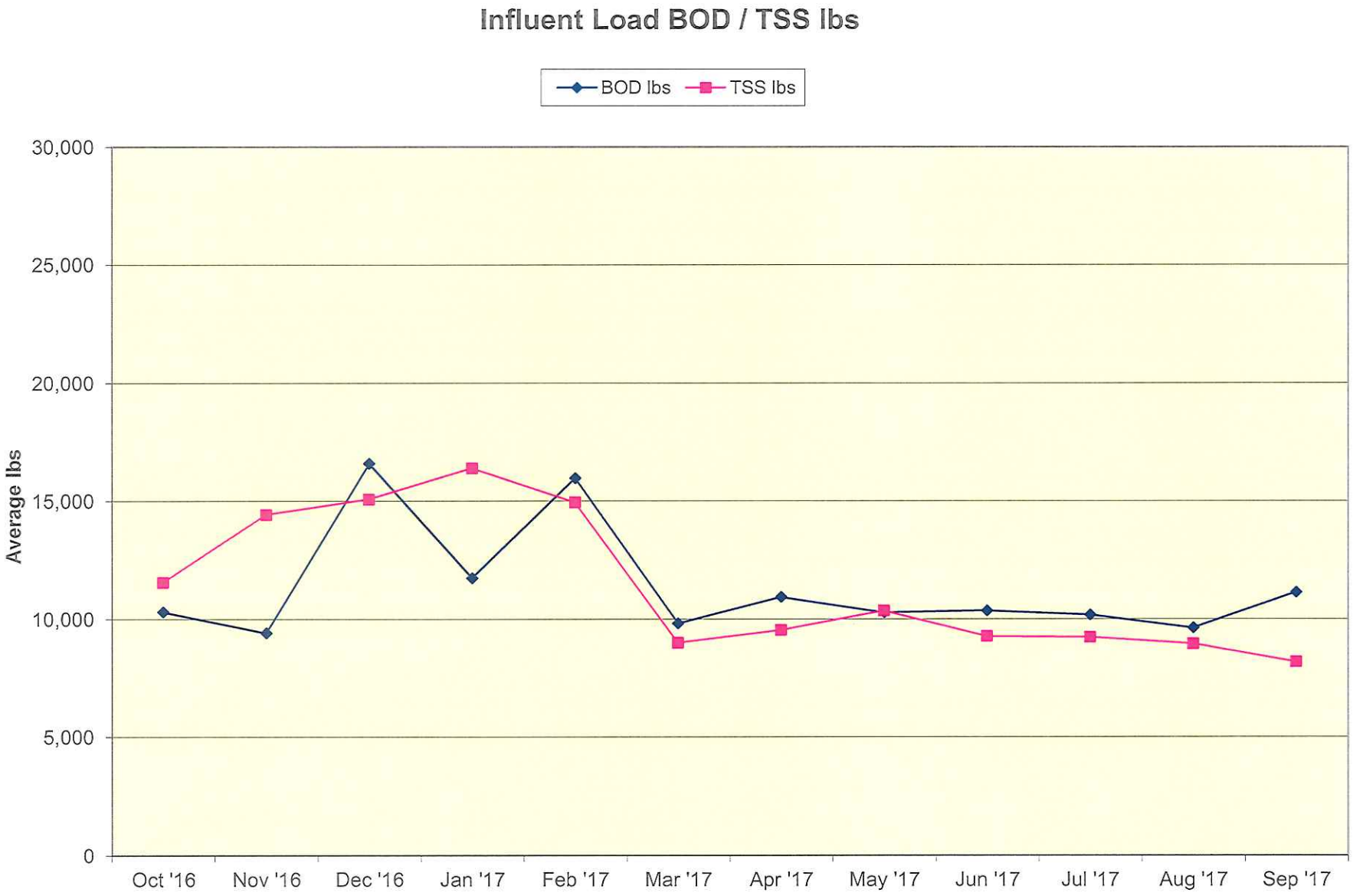
NOVATO SANITARY DISTRICT
RECYCLED WATER
COMPLIANCE SUMMARY REPORT

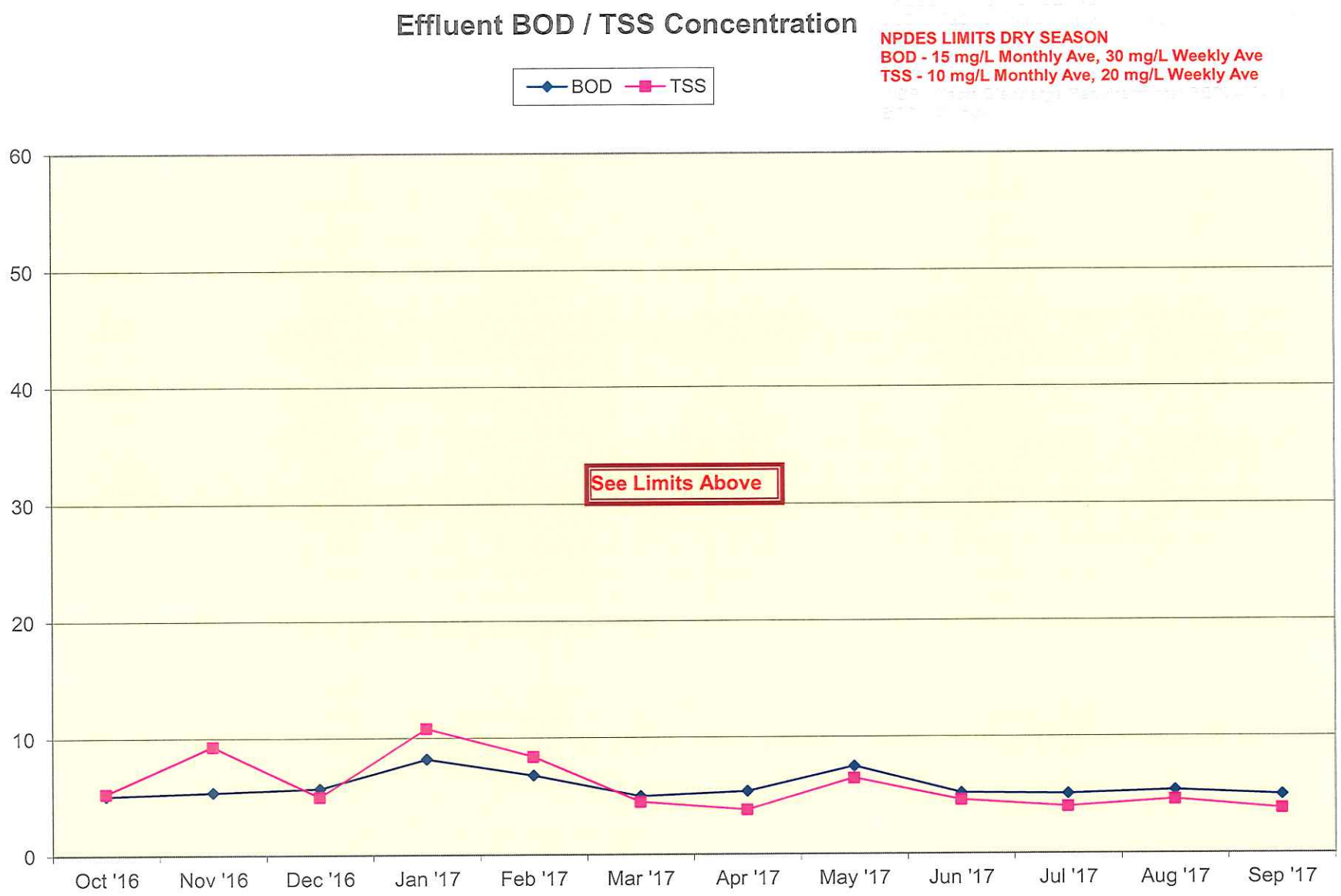
Date	Filter Influent Flow MGD	Recycled Water Flow to Plum St. MGD	Recycled Water Banked	Banked Water To Plum Street Tank MG	Potable Water To Plum St Tank MGD	Recycled Water Influent Turbidity Max NTU	Recycled Water Influent Turbidity Ave. NTU	Minutes Over 5 NTU Turbidity (m)	Filter Effluent 24 Hr AverageTurbidity NTU	Recycled Water Inf Chlorine Dose (mg/l)	Filter Effluent Dissolved Oxygen (mg/l)	Filter Effluent Total Coliform MPN/100m	Chlorint Contact Time Minutes
9/1/2017	0.630	0.265					2.0	0	0.8			<1	>450.000
9/2/2017	0.650	0.217					1.8	0	0.8			<1	>450.000
9/3/2017	0.640	0.243					1.5	0	0.8		6.9	<1	>450.000
9/4/2017	0.660	0.176					2.0	0	1.0		7.0	<1	>450.000
9/5/2017	0.180	0.450					3.2	0	1.2		6.6	<1	>450.000
9/6/2017	0.650	0.378					2.7	0	1.2			<1	>450.000
9/7/2017	0.640	0.169					2.8	0	1.1			<1	>450.000
9/8/2017	0.670	0.291					2.3	0	0.8			<1	>450.000
9/9/2017	0.580	0.118					2.7	0	0.9			<1	>450.000
9/10/2017	0.710	0.311					1.3	0	0.8			<1	>450.000
9/11/2017	0.660	0.478					1.2	0	0.7		6.9	<1	>450.000
9/12/2017	0.950	0.590					1.4	0	0.9		7.3	<1	>450.000
9/13/2017	0.620	0.331					2.0	0	0.8		7.6	<1	>450.000
9/14/2017	0.590	0.287					1.6	0	0.7			<1	>450.000
9/15/2017	0.560	0.290					1.6	0	0.7			<1	>450.000
9/16/2017	0.580	0.357					1.3	0	0.7			<1	>450.000
9/17/2017	0.570	0.332					1.8	0	0.8		7.0	<1	>450.000
9/18/2017	0.590	0.260					1.4	0	0.6		7.0	<1	>450.000
9/19/2017	0.590	0.470					1.2	0	0.6		7.1	<1	>450.000
9/20/2017	1.170	1.007					1.0	0	0.9			<1	>450.000
9/21/2017	1.040	0.791					1.0	0	1.2			<1	>450.000
9/22/2017	0.930	0.709					1.0	0	0.9			<1	>450.000
9/23/2017	0.810	0.708					1.0	0	0.7			<1	>450.000
9/24/2017	0.890	0.708					0.8	0	0.8		7.0	<1	>450.000
9/25/2017	0.860	0.353					0.8	0	0.8		6.9	<1	>450.000
9/26/2017	0.770	0.339					0.8	0	1.1		6.6	<1	>450.000
9/27/2017	0.790	0.561					2.6	0	1.1			<1	>450.000
9/28/2017	0.730	0.642					2.4	0	0.7			<1	>450.000
9/29/2017	0.790	0.653					3.2	0	0.8			<1	>450.000
9/30/2017	0.840	0.617					3.5	0	0.8			<1	>450.000
Total	21.340	13.101											
Minimum	0.180	0.118					0.8	0	0.6		6.6	<1	>450.0
Maximum	1.170	1.007					3.5	0	1.2		7.6	<1	>450.0
Average	0.711	0.437					1.8	0	0.9		7.0	<1	>450.0

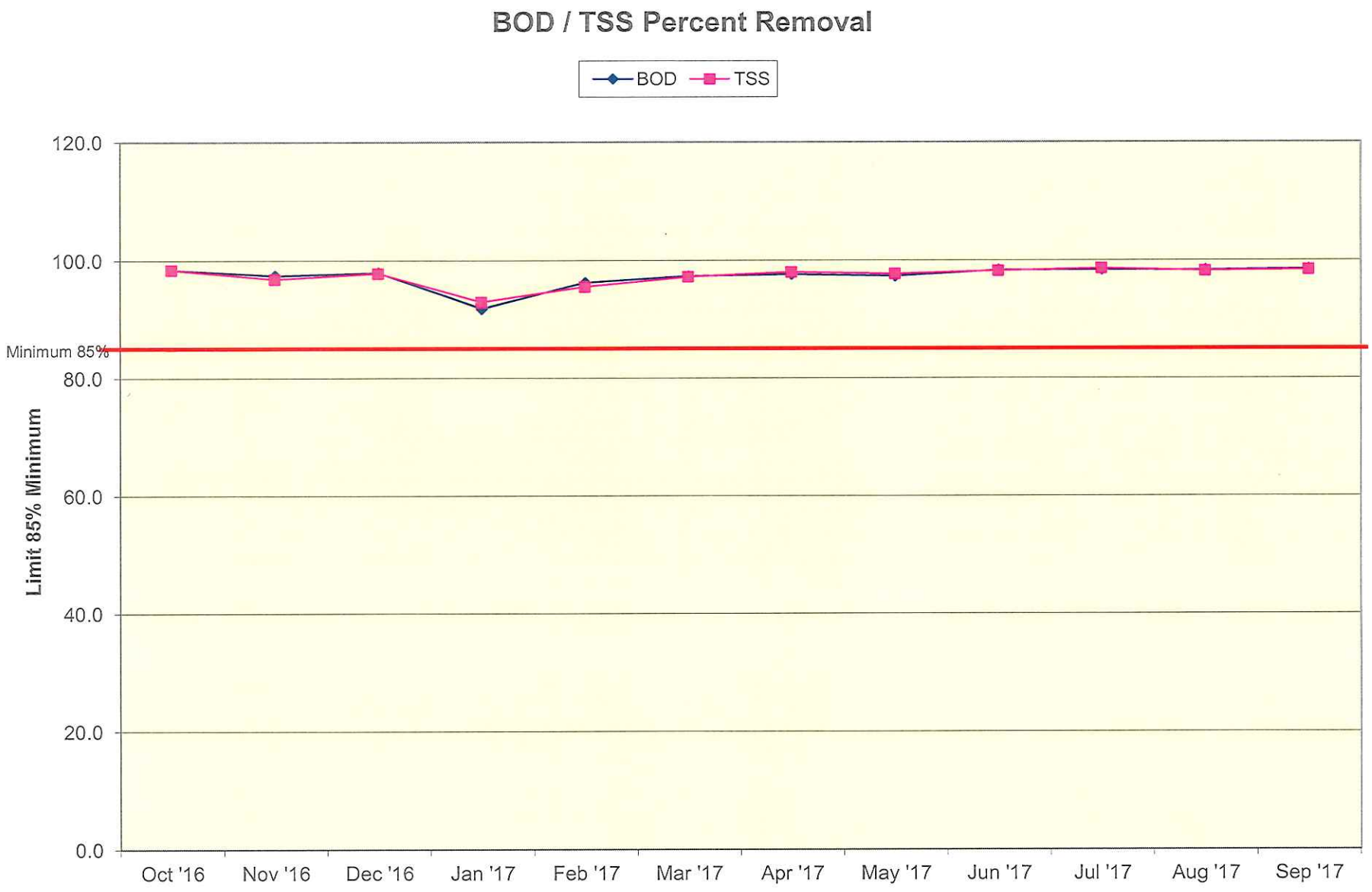
ANNUAL COMPLIANCE SUMMARY – GRAPHS

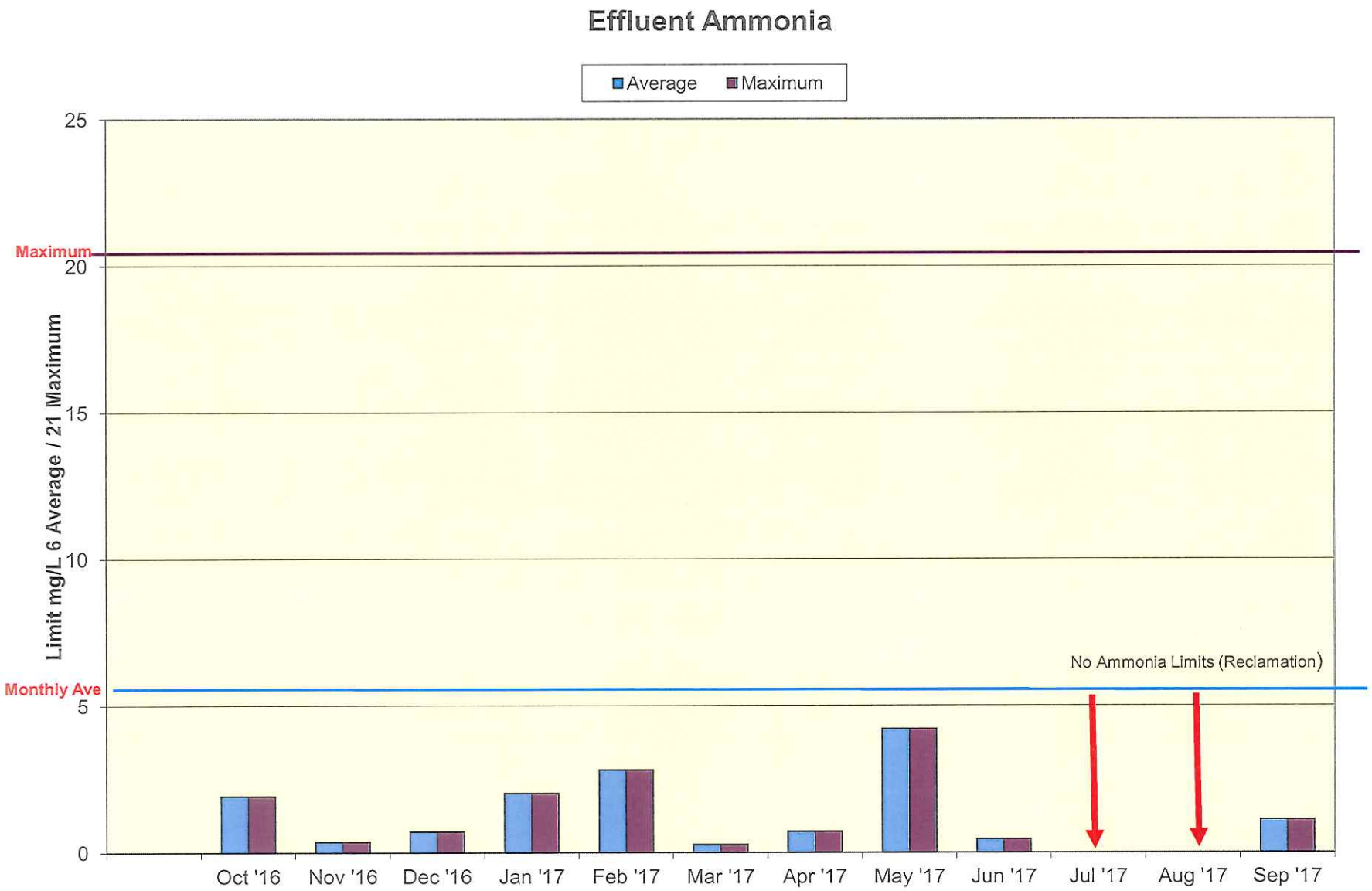
WASTEWATER INFLUENT FLOW COMPARISON

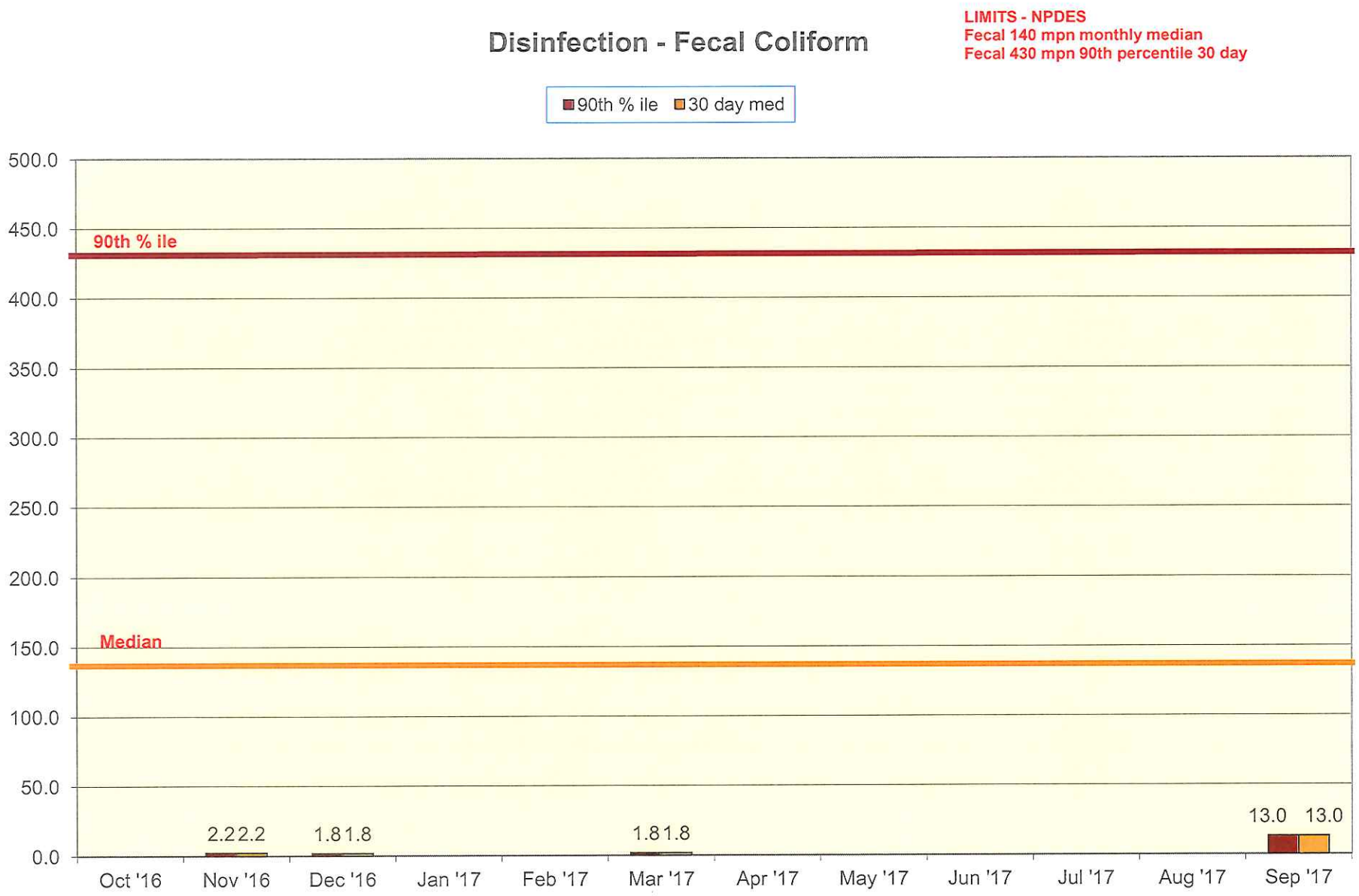


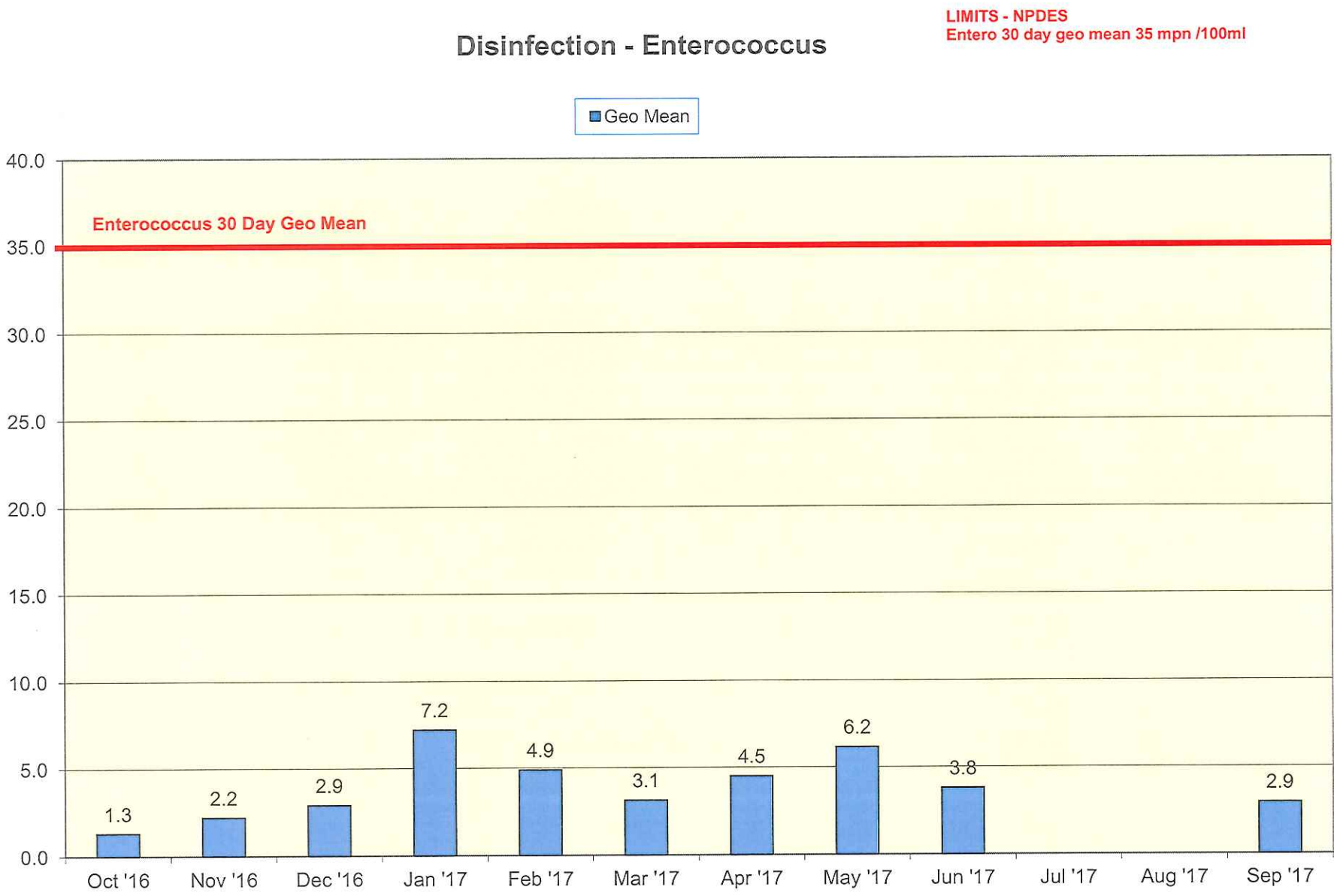

Influent Load BOD / TSS lbs
BOD lbs
TSS lbs
Average lbs
30,000
25,000
20,000
15,000
10,000
5,000
0
Oct '16
Nov '16
Dec '16
Jan '17
Feb '17
Mar '17
Apr '17
May '17
Jun '17
Jul '17
Aug '17
Sep '17

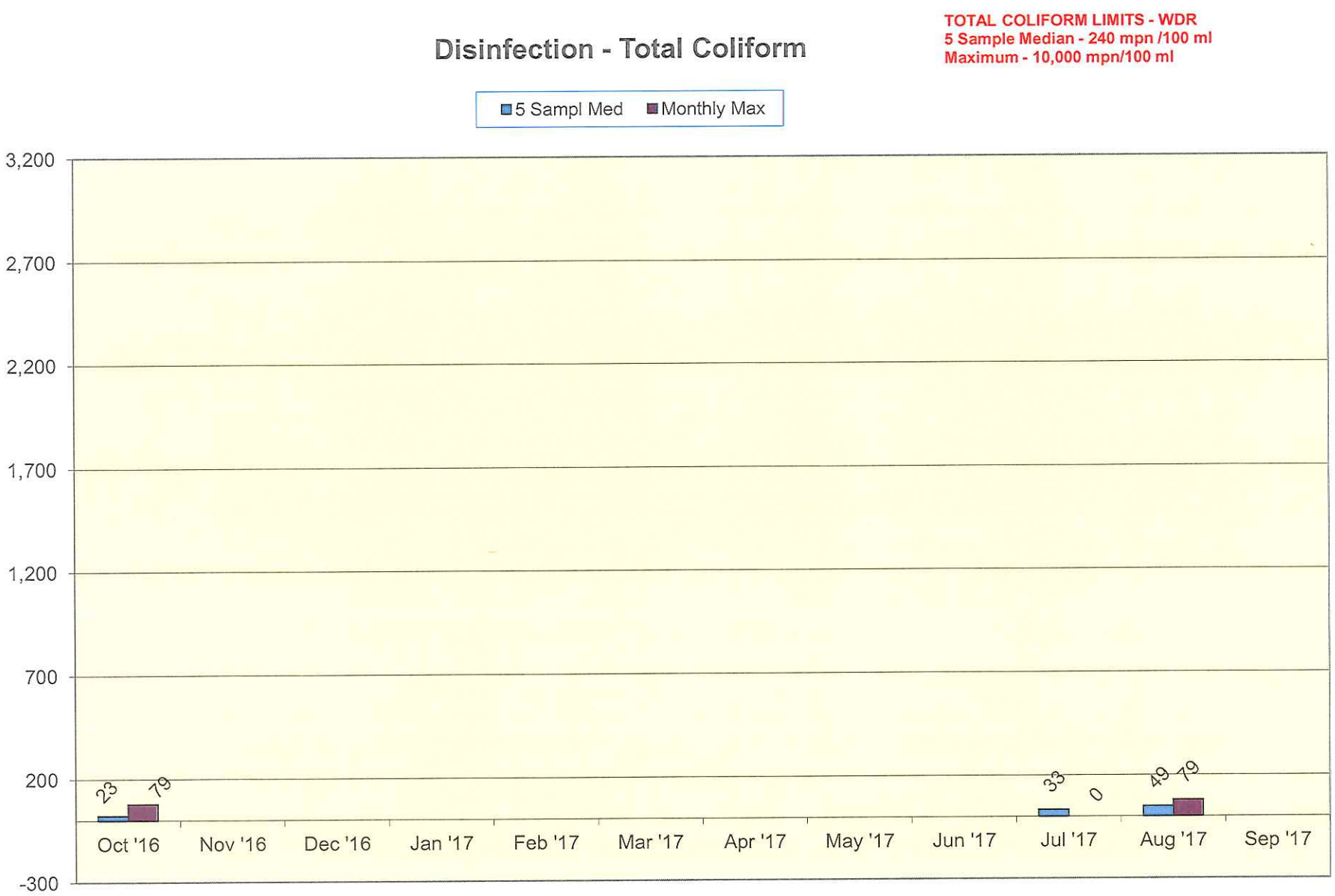

Effluent BOD / TSS Concentration
NPDES LIMITS DRY SEASON
BOD - 15 mg/L Monthly Ave, 30 mg/L Weekly Ave
TSS - 10 mg/L Monthly Ave, 20 mg/L Weekly Ave
BOD
TSS
See Limits Above
60
50
40
30
20
10
0
Oct '16
Nov '16
Dec '16
Jan '17
Feb '17
Mar '17
Apr '17
May '17
Jun '17
Jul '17
Aug '17
Sep '17

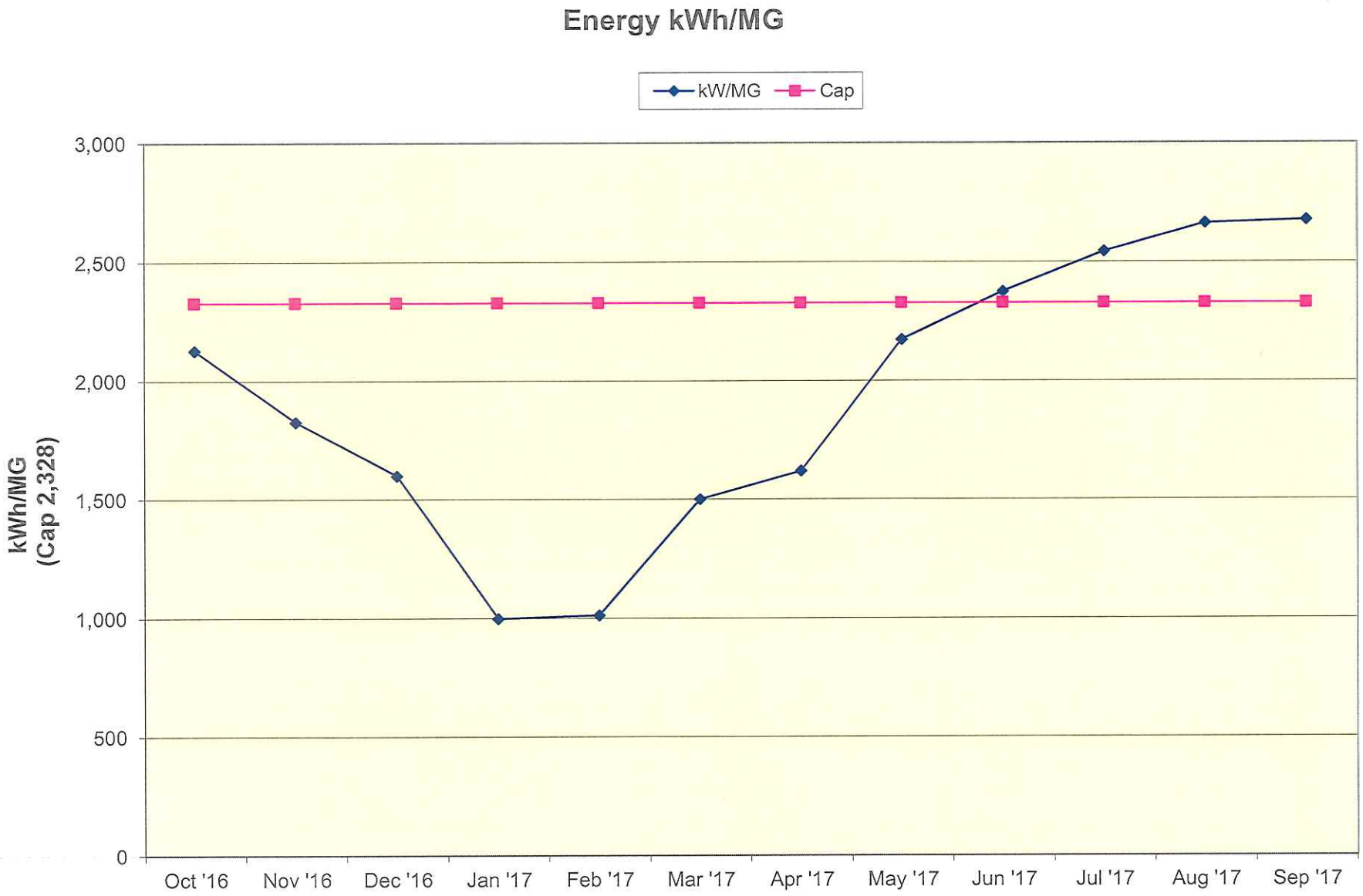

BOD / TSS Percent Removal
BOD
TSS
120.0
100.0
Minimum 85%
80.0
60.0
40.0
20.0
0.0
Limit 85% Minimum
Oct '16
Nov '16
Dec '16
Jan '17
Feb '17
Mar '17
Apr '17
May '17
Jun '17
Jul '17
Aug '17
Sep '17

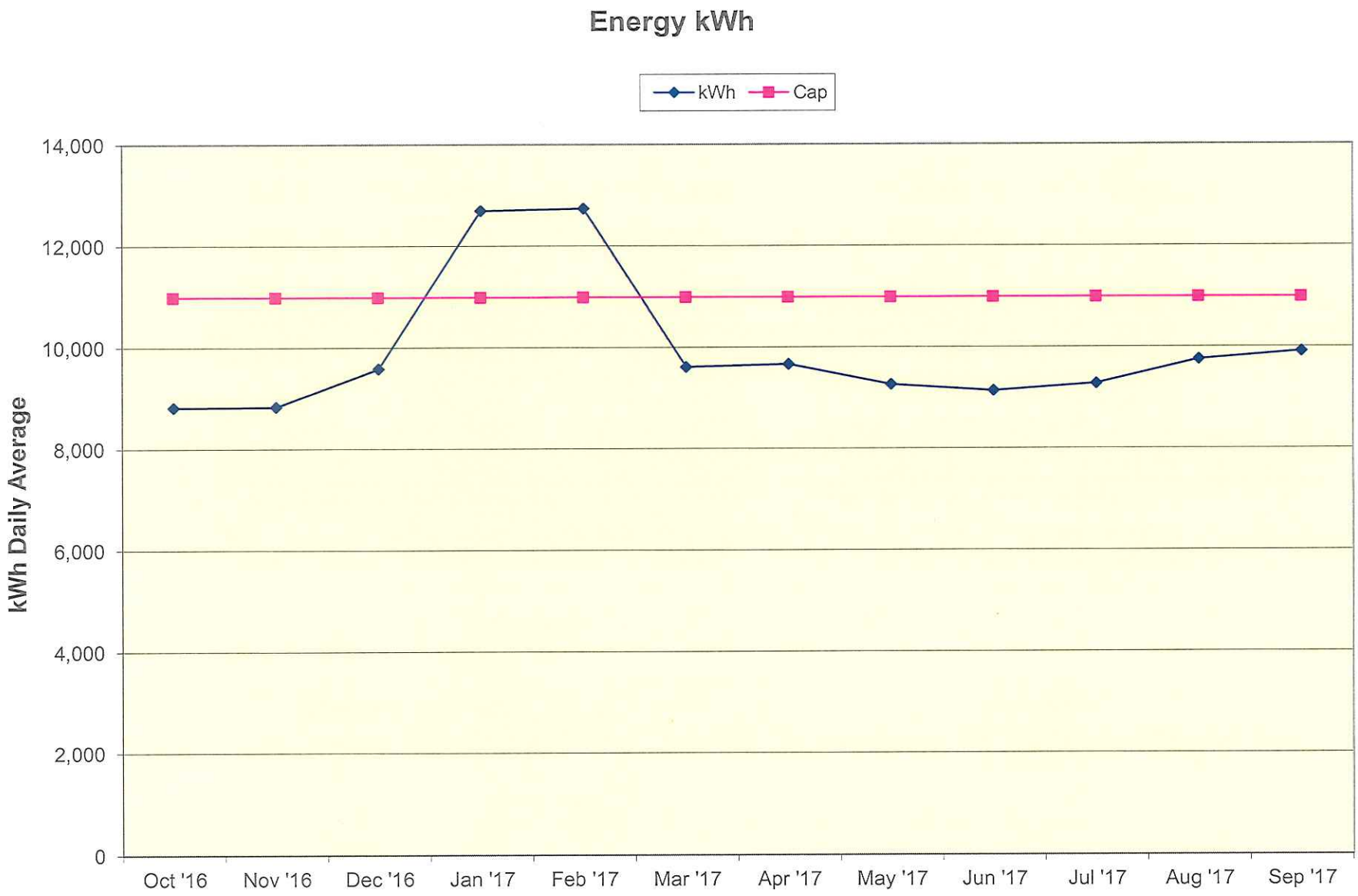

Effluent Ammonia
Average
Maximum
25
20
15
10
5
0
Maximum
Monthly Ave
Limit mg/L 6 Average / 21 Maximum
No Ammonia Limits (Reclamation)
Oct '16
Nov '16
Dec '16
Jan '17
Feb '17
Mar '17
Apr '17
May '17
Jun '17
Jul '17
Aug '17
Sep '17

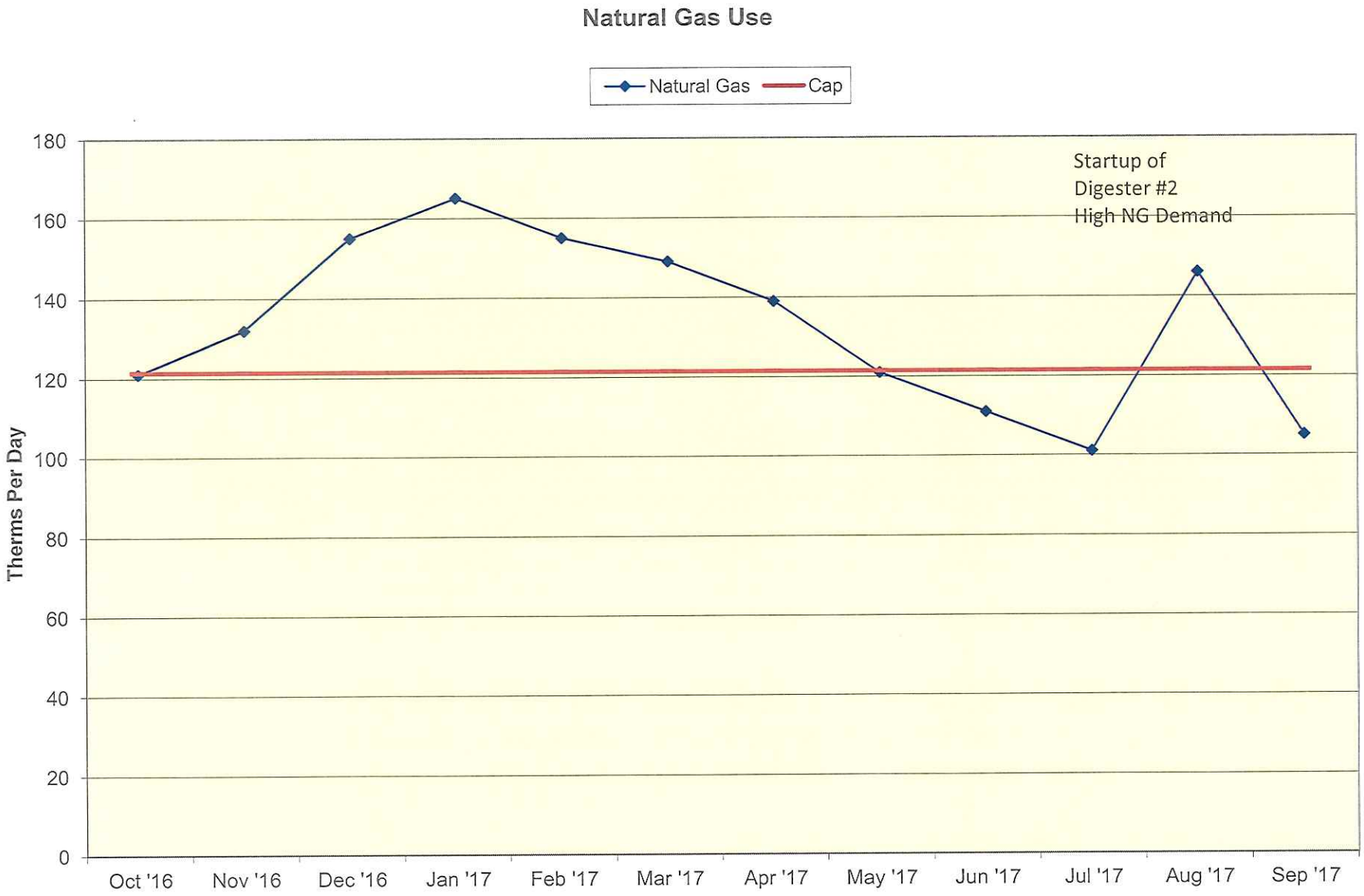

Disinfection - Fecal Coliform
LIMITS - NPDES
Fecal 140 mpn monthly median
Fecal 430 mpn 90th percentile 30 day
90th % ile
30 day med
500.0
450.0
400.0
350.0
300.0
250.0
200.0
150.0
100.0
50.0
0.0
90th % ile
Median
2.2 2.2
1.8 1.8
1.8 1.8
13.0 13.0
Oct '16
Nov '16
Dec '16
Jan '17
Feb '17
Mar '17
Apr '17
May '17
Jun '17
Jul '17
Aug '17
Sep '17


LIMITS - NPDES
Entero 30 day geo mean 35 mpn /100ml
Disinfection - Enterococcus
Geo Mean
Enterococcus 30 Day Geo Mean
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
1.3
2.2
2.9
7.2
4.9
3.1
4.5
6.2
3.8
2.9
Oct '16
Nov '16
Dec '16
Jan '17
Feb '17
Mar '17
Apr '17
May '17
Jun '17
Jul '17
Aug '17
Sep '17

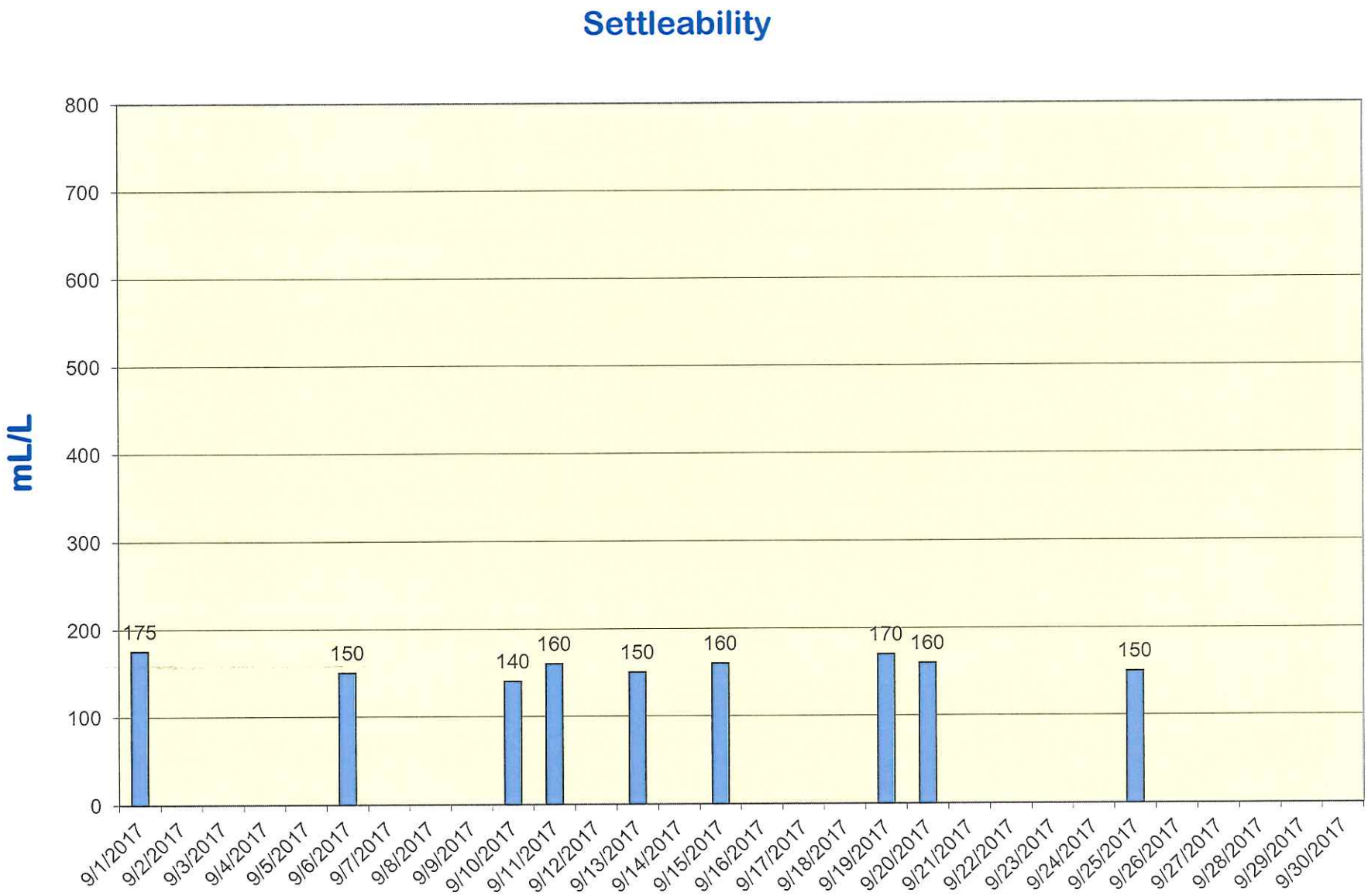

Disinfection - Total Coliform
TOTAL COLIFORM LIMITS - WDR
5 Sample Median - 240 mpn /100 ml
Maximum - 10,000 mpn/100 ml
5 Sampl Med
Monthly Max
3,200
2,700
2,200
1,700
1,200
700
200
-300
23
79
33
0
49
79
Oct '16
Nov '16
Dec '16
Jan '17
Feb '17
Mar '17
Apr '17
May '17
Jun '17
Jul '17
Aug '17
Sep '17


Energy kWh/MG
kW/MG
Cap
kWh/MG
(Cap 2,328)
3,000
2,500
2,000
1,500
1,000
500
0
Oct '16
Nov '16
Dec '16
Jan '17
Feb '17
Mar '17
Apr '17
May '17
Jun '17
Jul '17
Aug '17
Sep '17

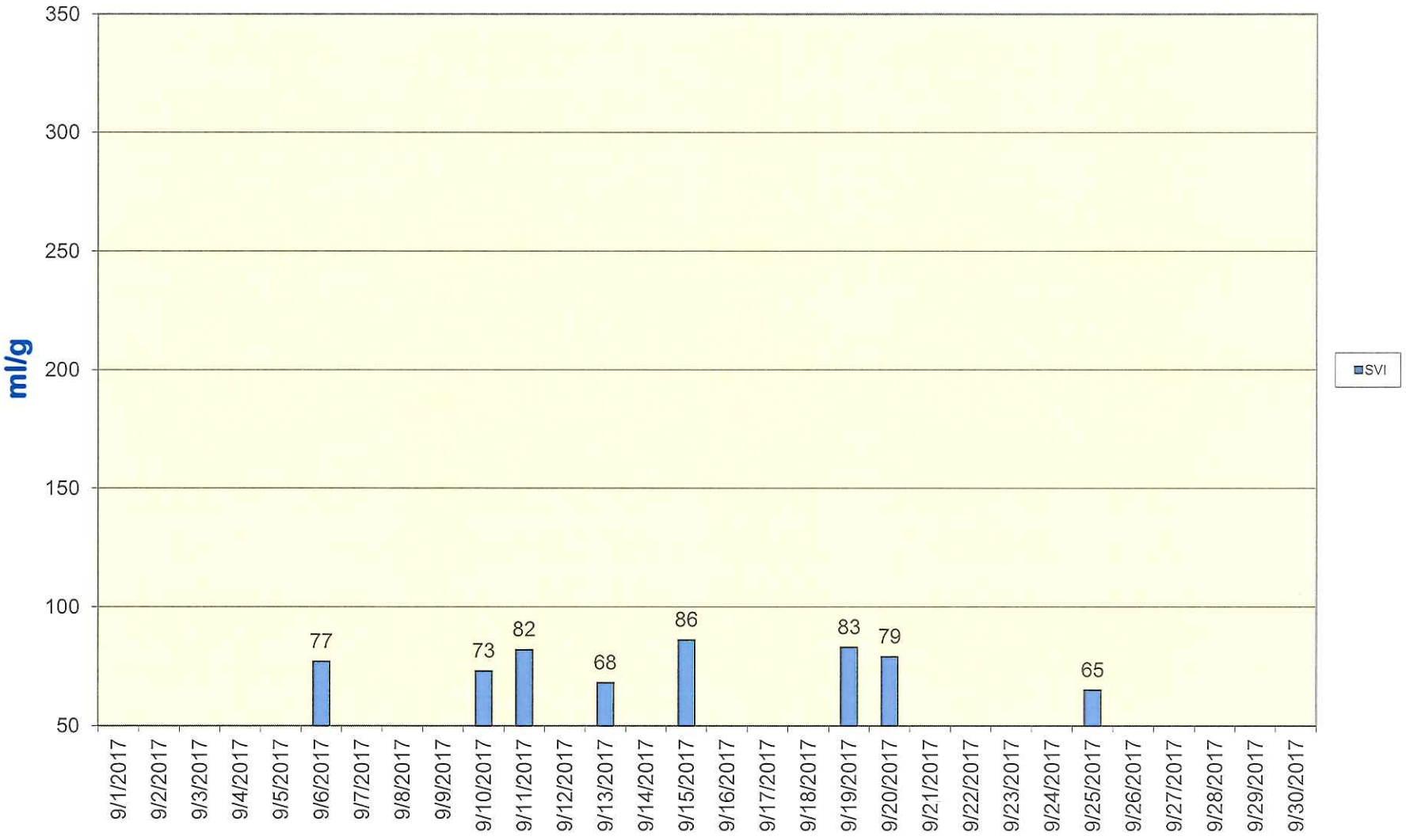

Energy kWh
kWh
Cap
kWh Daily Average
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
Oct '16
Nov '16
Dec '16
Jan '17
Feb '17
Mar '17
Apr '17
May '17
Jun '17
Jul '17
Aug '17
Sep '17

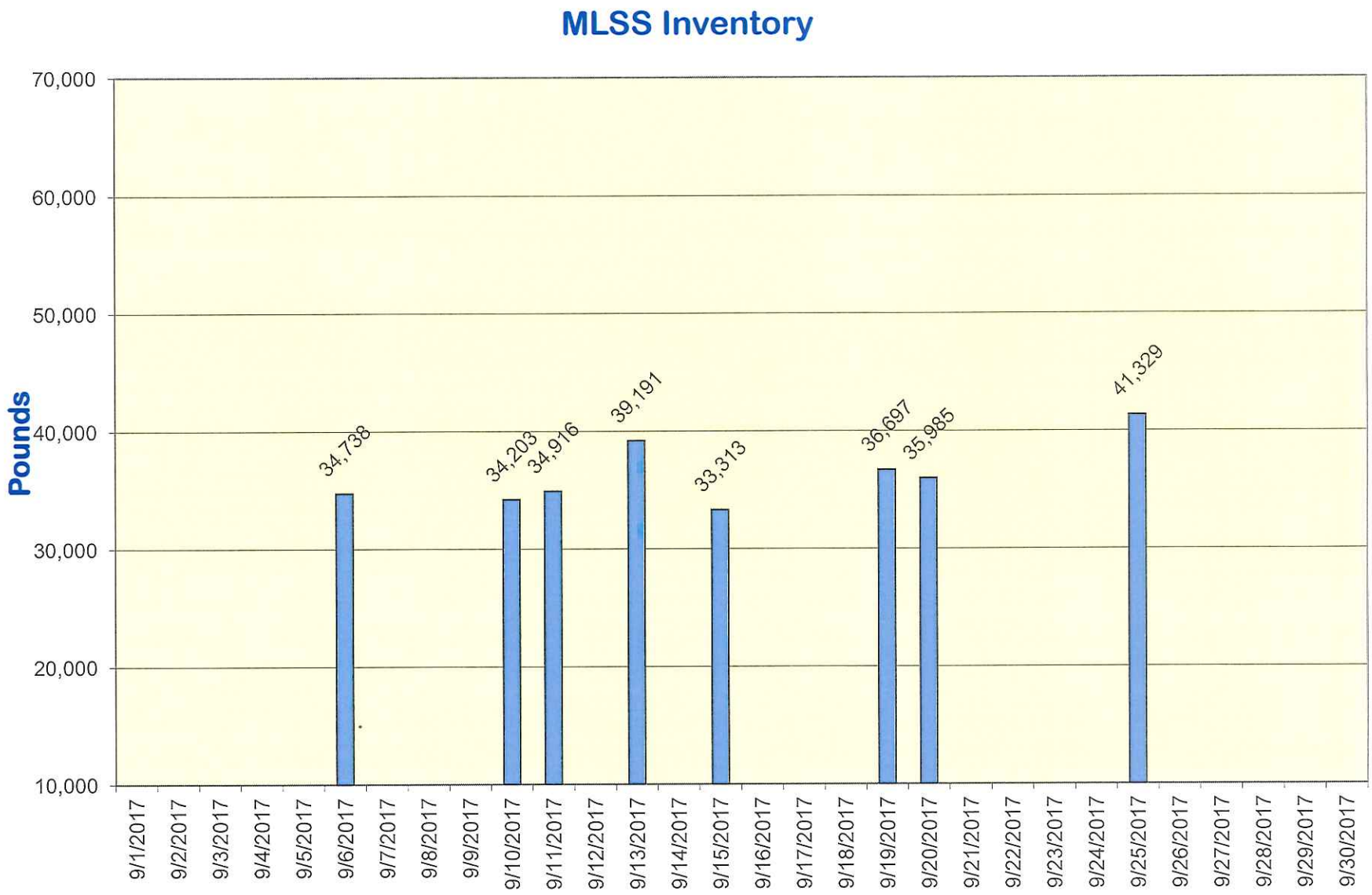

Natural Gas Use
Natural Gas
Cap
Startup of
Digester #2
High NG Demand
Therms Per Day
180
160
140
120
100
80
60
40
20
0
Oct '16
Nov '16
Dec '16
Jan '17
Feb '17
Mar '17
Apr '17
May '17
Jun '17
Jul '17
Aug '17
Sep '17

PROCESS CONTROL DATA / GRAPHS

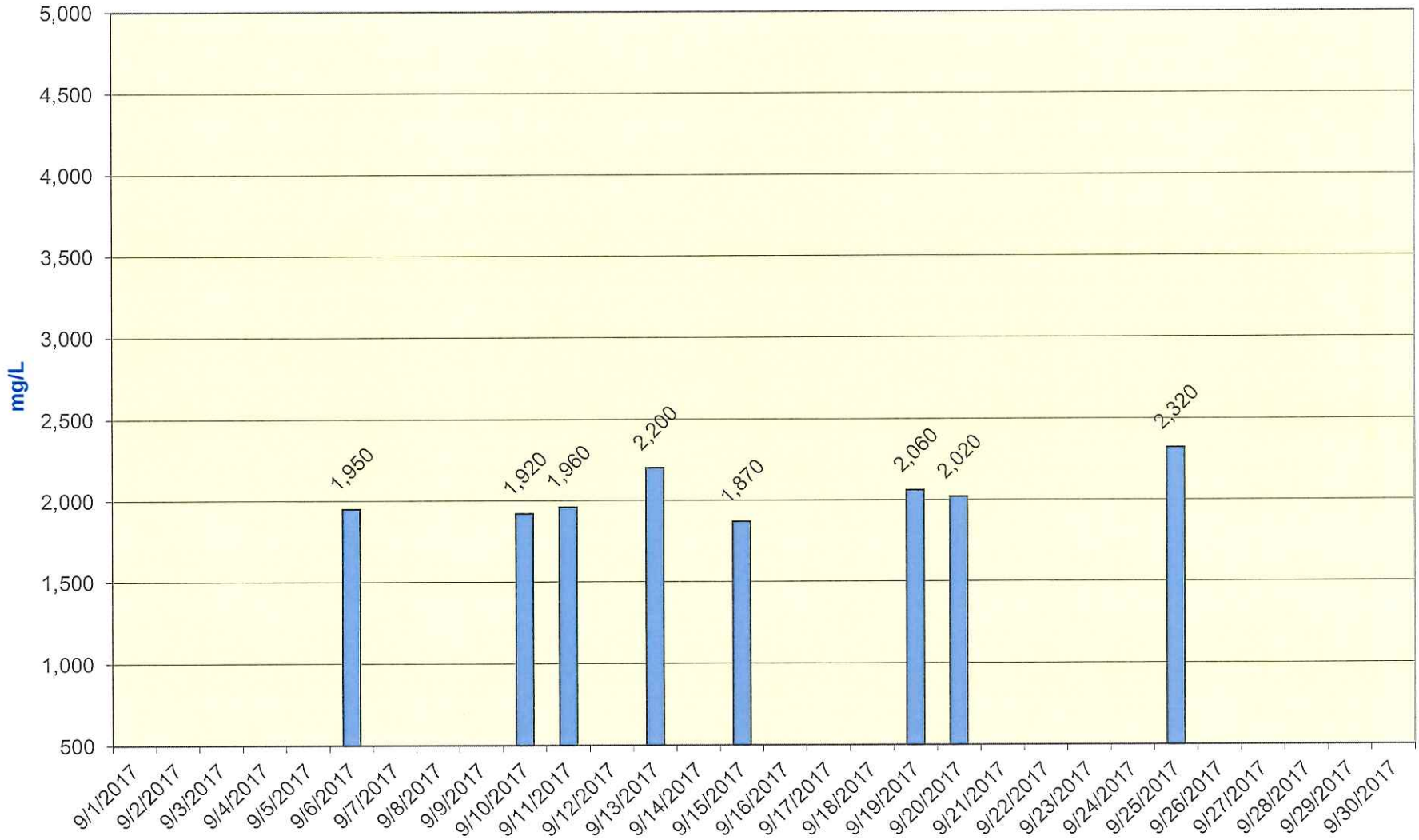

Settleability
mL/L
800
700
600
500
400
300
200
100
0
175
150
140
160
150
160
170
160
150
9/1/2017
9/2/2017
9/3/2017
9/4/2017
9/5/2017
9/6/2017
9/7/2017
9/8/2017
9/9/2017
9/10/2017
9/11/2017
9/12/2017
9/13/2017
9/14/2017
9/15/2017
9/16/2017
9/17/2017
9/18/2017
9/19/2017
9/20/2017
9/21/2017
9/22/2017
9/23/2017
9/24/2017
9/25/2017
9/26/2017
9/27/2017
9/28/2017
9/29/2017
9/30/2017

Sludge Volume Index




MLSS Inventory
Pounds
70,000
60,000
50,000
40,000
30,000
20,000
10,000
34,738
34,203
34,916
39,191
33,313
36,697
35,985
41,329
9/1/2017
9/2/2017
9/3/2017
9/4/2017
9/5/2017
9/6/2017
9/7/2017
9/8/2017
9/9/2017
9/10/2017
9/11/2017
9/12/2017
9/13/2017
9/14/2017
9/15/2017
9/16/2017
9/17/2017
9/18/2017
9/19/2017
9/20/2017
9/21/2017
9/22/2017
9/23/2017
9/24/2017
9/25/2017
9/26/2017
9/27/2017
9/28/2017
9/29/2017
9/30/2017

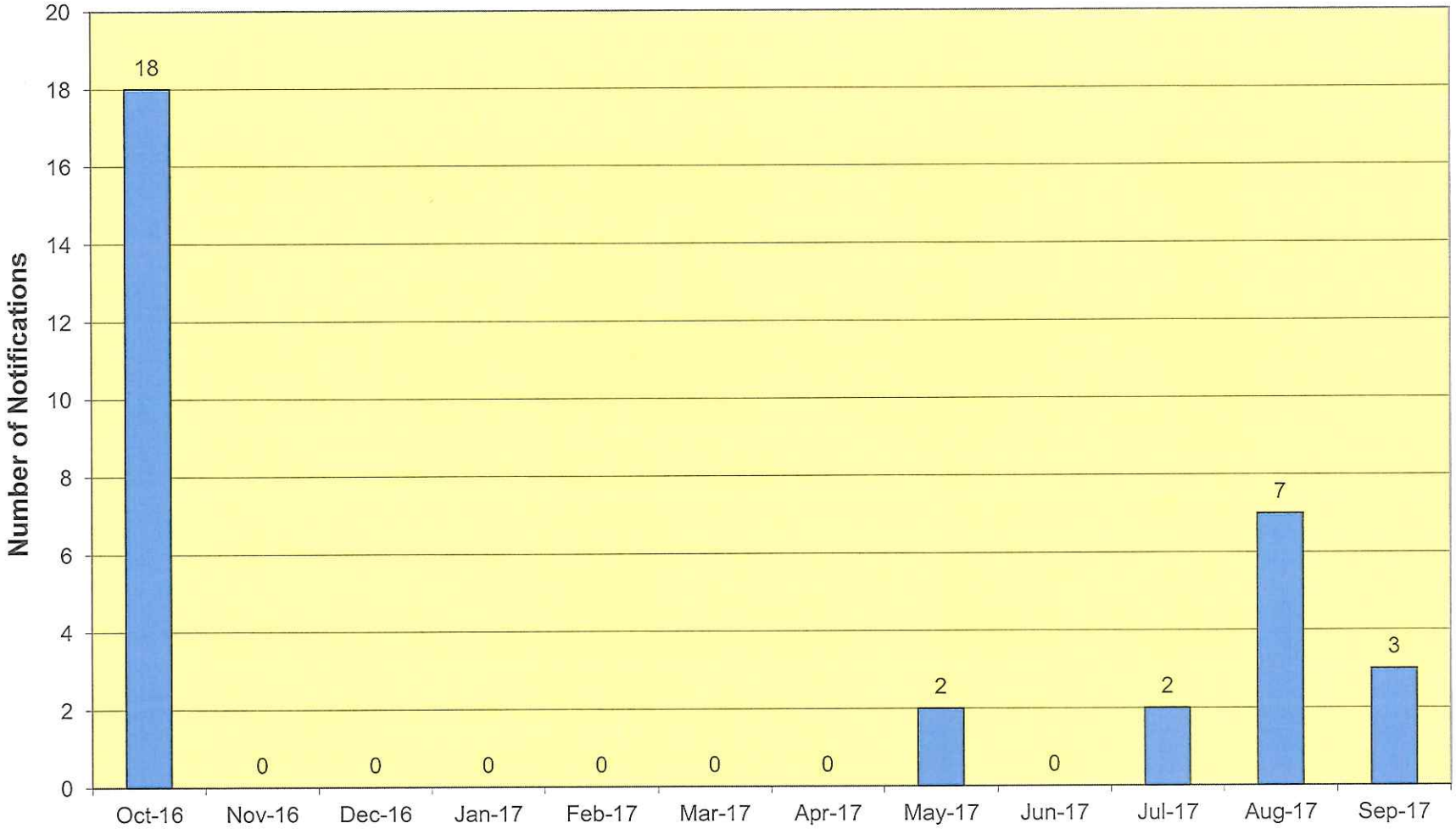
MLSS Concentration



Process Control Data					
	Influent Flow	Settleability	MLSS Concentration	MLSS Inventory	SVI
9/1/2017	3.45	175			
9/2/2017	3.78				
9/3/2017	3.59				
9/4/2017	4.02				
9/5/2017	3.83				
9/6/2017	3.55	150	1,950	34,738	77
9/7/2017	4.10				
9/8/2017	3.61				
9/9/2017	4.05				
9/10/2017	3.91	140	1,920	34,203	73
9/11/2017	3.64	160	1,960	34,916	82
9/12/2017	3.48				
9/13/2017	4.06	150	2,200	39,191	68
9/14/2017	3.68				
9/15/2017	3.74	160	1,870	33,313	86
9/16/2017	3.74				
9/17/2017	3.70				
9/18/2017	3.93				
9/19/2017	3.43	170	2,060	36,697	83
9/20/2017	3.69	160	2,020	35,985	79
9/21/2017	3.41				
9/22/2017	3.85				
9/23/2017	3.41				
9/24/2017	3.67				
9/25/2017	3.60	150	2,320	41,329	65
9/26/2017	4.04				
9/27/2017	3.55				
9/28/2017	3.47				
9/29/2017	3.47				
9/30/2017	3.67				
Minimum	3.41	140	1,870	33,313	65
Maximum	4.10	175	2,320	41,329	86
Total	111.12				
Average	3.70	157	2,038	36,297	77

NEIGHBORHOOD CONTACTS

Neighborhood Contacts Received



WEEKLY NEIGHBOR CONTACT LOG

September 4, 2017

September 4, 2017 - September 10, 2017

NEIGHBOR	Mon 4-Sep		Time	Tue 5-Sep		Time	Wed 6-Sep		Time	Thu 7-Sep		Time	Fri 8-Sep		Time	Sat 9-Sep		Time	Sun 10-Sep		Time	Notes
Neighbor #1																						
Neighbor #2																						
Neighbor #3	6	8	AM				6	8	AM													
Neighbor #4																						
Total																						

Legend

Description	
Aeration Basins	1
Raw Sewage	2
H2S	3
Aeration + Sewage	4
Aeration, Sewage, H2S	5
Sewage + H2S	6
Other (see notes)	7
Not Specified / Unknown	8

Intensity	
Mild Intermittent	1
Mild Persistent	2
Moderate Intermittent	3
Moderate Persistent	4
Strong Intermittent	5
Strong Persistent	6
Other (see notes)	7
Not Specified / Unknown	8

9/4 - While performing Jerome meter testing, neighbor reported (to Operator - Larry) odors earlier in the morning. Larry reported no odors or readings at the time.
9/6 - Neighbor reported biofilter and headworks odors

0

WEEKLY NEIGHBOR CONTACT LOG

September 11, 2017 — September 11, 2017 - September 17, 2017

NEIGHBOR	Mon 11-Sep		Time	Tue 12-Sep		Time	Wed 13-Sep		Time	Thu 14-Sep		Time	Fri 15-Sep		Time	Sat 16-Sep		Time	Sun 17-Sep		Time	Notes
Neighbor #1																						
Neighbor #2																						
Neighbor #3	6	6	9:56																			Neighbor Reported Very Strong Headworks & Biofilter Odors
Neighbor #4																						
Total																						

Legend

Description	
Aeration Basins	1
Raw Sewage	2
H2S	3
Aeration + Sewage	4
Aeration, Sewage, H2S	5
Sewage + H2S	6
Other (see notes)	7
Not Specified / Unknown	8

Intensity	
Mild Intermittent	1
Mild Persistent	2
Moderate Intermittent	3
Moderate Persistent	4
Strong Intermittent	5
Strong Persistent	6
Other (see notes)	7
Not Specified / Unknown	8

Informed neighbor that we will top off the biofilters ASAP. NOTE - Topped off on September 23rd.

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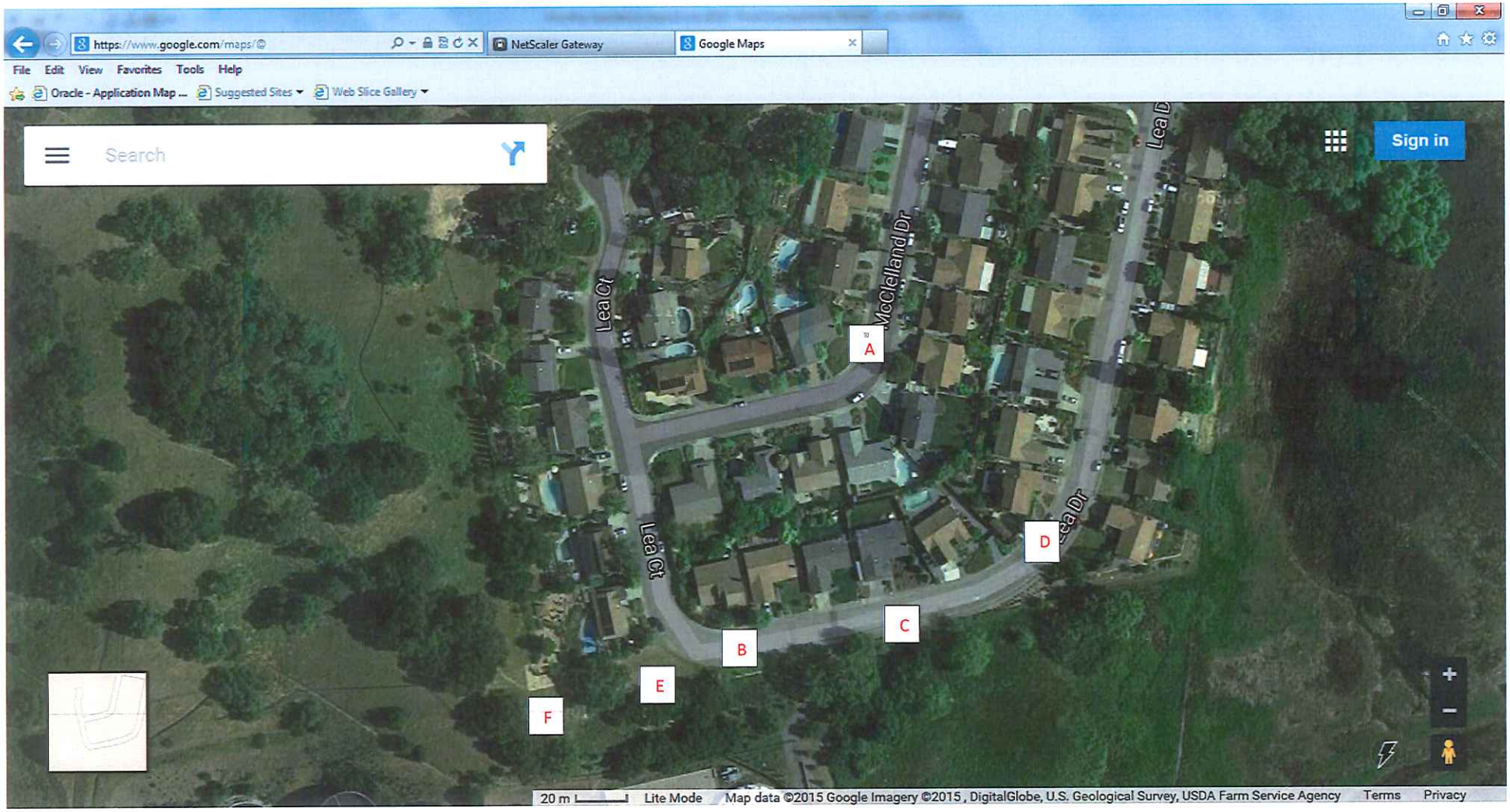
JEROME METER READINGS & LOCATIONS

NEIGHBORHOOD JEROME METER LOCATIONS – LEA AND McCLELLAND



JEROME METER READINGS - SEPTEMBER 2017				
Sample Location	Min	Max	Ave	NOTES / COMMENTS
A: McLelland	0.000	0.001	0.0003	Neighborhood
B: Lea 1	0.000	0.001	0.0003	Neighborhood
C: Lea 2	0.000	0.001	0.0003	Neighborhood
D: Lea 3	0.000	0.001	0.0003	Neighborhood
E: Lea 4	0.000	0.001	0.0002	Neighborhood
F: Lea 5	0.000	0.001	0.0003	Neighborhood

NOVATO SANITARY DISTRICT
Wastewater Operations - Reclamation Facilities Report
September 2017

1.0 Summary:

The Contractor began work to remove the fallen Eucalyptus trees on Site 2. The District resumed bay discharge and the storage ponds were drawn down to a minimal level. The driving range being constructed on Site 7 by the Stone Tree Golf Course was nearly complete. The Wildlife Pond was returned to normal levels. Sludge disposal operations began this month.

2.0 Ranch Operations:

Fahy Tree Service of San Rafael began work to cut up and remove/chip up the fallen eucalyptus trees on Site 2. By the end of the month the contractor had about 95% of the trees and associated debris placed in piles for chipping. The contractor reported that he will begin chipping up the piles during the first weeks of October.

Contractor cutting and gathering up the fallen Eucalyptus trees and placing them in piles for chipping.

3.0 Irrigation Parcels:

The District resumed bay discharge of treated wastewater at the beginning of the month. Irrigation continued until the pond levels were dropped to a minimal level. 37.23 MG of irrigation water was applied to the pastures in September.

Work to construct a driving range for the Stone Tree Golf Course that began in Parcel 4 on Site 7 in August was nearly complete. During the course of the project it was determined that fencing around the driving range was not required at the east end of the driving range. When the cattle return next spring to graze in the remaining Parcel they can stray on to the range. Staff reported this issue to the golf course Superintendent.

4.0 Irrigation Pump Station:

The level of the Wildlife Pond was returned to its normal level of 4 feet this month. At the end of the month staff discovered the Wildlife Pond Feed Pump that recirculates water through the pond was not running even though it was called to run. The cause was identified as a failed motor starter. A repair is scheduled for mid-October.

The Irrigation Storage Ponds were holding 45 MG of stored irrigation water at the end of the month. 39 MG of water was recirculated through the Wildlife Pond.

5.0 Sludge Handling & Disposal:

Custom Tractor Service (CTS) of Petaluma moved sludge handling equipment on site to empty the sludge lagoons. Sludge in Lagoon No. 5 was pumped to the Dedicated Land Disposal (DLD) area and then cleaned out with an excavator. Sludge from the Plant will be placed in Lagoon 5 while CTS cleans out the remaining lagoons in October.

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NOVATO SANITARY DISTRICT

Reclamation Facility - Monthly Statistics for Calendar Year 2017, as of August 2017

	January	February	March	April	May	June	July	August	September	October	November	December	Total Year to Date	Annualized Monthly Average
Irrigation Pump Station														
Plant flow to ponds (MG)	0	0	0	0	0	0	93.41	96.18	0				189.6	15.80
Irrigation (MG)	0	0	0.0	0	0	88.62	31.45	83.42	37.23				240.7	20.06
Irrigation Pump 1 Hours						131.2	46.6	123.7	70.1				371.6	30.97
Irrigation Pump 2 Hours						124.9	54.7	133.6	76.6				389.8	32.48
Irrigation Pump 3 Hours						122.2	44.3	119.1	78.6				364.2	30.35
Washdown Water Pump Hours													-	0.00
Wildlife Feed Pump Hours	0	0	0	0	734	601.1	746.1	720.2	613.1				3,414.5	284.54
Water Circulated through Wildlife Pond (MG)	0	0	0	0	46	38	47	45	38.63	0	0	0	215.1	17.93
Strainer No. 1 Hours						46.7	18.1	46.2	27.4				138.4	11.53
Strainer No. 2 Hours						47.5	18.2	46.6	27.7				140.0	11.67
Pond 1 Gauge @ Beginning of Month	8.1	9.5	9.4	9	9	8.6	3.2	7.6	4.8					
Pond 1 Gauge @ End of Month	9.5	9.4	9	9	8.6	3.2	7.6	4.8	3					
Pond 1 Gallons Stored @ End of Month(MG)	74	73	70	70	65	21.6	57.8	34.4	20					
Pond 2 Gauge @ Beginning of Month	8.1	9.5	9.4	9	9	8.6	3.2	3.6	4.9					
Pond 2 Gauge @ End of Month	9.5	9.4	9	9	8.6	3.2	3.6	4.9	3					
Pond 2 Gallons Stored @ End of Month(MG)	95	94	90	90	85	27.4	32	45.9	25					
Total Irrigation Water Stored	169	167	160	160	150	49	89.8	80.3	45	0	0	0		
Drainage Pump Station No. 3														
Drainage Pump No. 1 Hours	427.9	315.2	312.9	0	0.1	0	0	0	0					
Drainage Pump No. 2 Hours	69.3	123.5	0	0	9.8	0	0	0	12.6					
Drainage Pump No. 3 Hours	226.5	0	70.8	192.7	0	0	0	0	2.2					
Total Gallons Stormwater Pumped (MG)	217.11	131.61	115.11	57.81	2.97	0	0	0	4.44	0	0	0	529.05	44.09
Drainage Pump Station No. 7														
Drainage Pump No. 1 Hours	50.6	230.1	117.8	0	0	0	0	0	0					
Drainage Pump No. 2 Hours	380.8	532.8	0	0	17.7	0	0	0	1.2					
Drainage Pump No. 3 Hours	345.9	0	0	143.3	0.1	0	0	0	2.8					
Total Gallons Stormwater Pumped (MG)	349.79	343	53	64.49	8.01	0	0	0	1.8	0	0	0	820.40	68.37

NOVATO SANITARY DISTRICT
BOARD AGENDA ITEM SUMMARY

TITLE: Water Professional Appreciation Week (WPAW), October 7 to 15, 2017.	**MEETING DATE: October 9, 2017** **AGENDA ITEM NO.: 10.a.**
RECOMMENDED ACTION: Information only.	

SUMMARY AND DISCUSSION:

California Senate Concurrent Resolution 80 (SCR 80), sponsored by Senator Bill Dodd (D-Napa) established Water Professionals Appreciation Week. A copy of SCR 80 is attached.

The measure was sponsored by a coalition led by the Association of California Water Agencies (ACWA) and including: WateReuse California, California Municipal Utilities Association, California Association of Sanitation Agencies, and the California Water Association. The California Water Environment Association is also a partner in the effort. Under SCR 80, the annually designated week begins on the first Saturday of October and ends on the Sunday of the following weekend.

This year WPAW runs from October 7 to 15, 2017.

ATTACHMENTS: 1. Senate Concurrent Resolution 80.

STRATEGIC PLAN INFORMATION: This item addresses Goal 3 (District, Community Alignment and Communications of the latest Strategic Plan Update.

DEPT. MGR.: ssk	**GENERAL MANAGER:** SSK

Senate Concurrent Resolution No. 80

Introduced by Senator Dodd

August 23, 2017

Senate Concurrent Resolution No. 80—Relative to water professionals.

LEGISLATIVE COUNSEL'S DIGEST

SCR 80, as introduced, Dodd. Water Professionals Appreciation Week.

This measure would proclaim the first week of October, beginning on the first Saturday of the month and ending on the Sunday of the following weekend, Water Professionals Appreciation Week, and would encourage public water and wastewater agencies to offer tours, open houses, and other events during that time to educate Californians on the important functions of those agencies.

Fiscal committee: no.

WHEREAS, Water is the lifeblood of California, without safe and reliable water, no community and no sector of the economy—from agriculture to high tech to manufacturing—can thrive or expand; and

WHEREAS, Thanks to technological advances by water professionals and the dedication of thousands of water industry professionals in the state, California drinking water and treated wastewater meet some of the most stringent water quality standards in the nation; and

WHEREAS, Depending on where you live in California, your water may come from a nearby well or river, or it may travel hundreds of miles through canals or pipelines to reach your tap; and

WHEREAS, Regardless of where it originates, your drinking water is filtered, cleaned, tested, and distributed in a process carefully managed by water professionals; and

WHEREAS, Public water systems actively serve Californians, delivering six billion gallons of safe drinking water each day through an extensive network of pipelines and distribution systems; and

WHEREAS, Roughly four billion gallons of wastewater is managed each day through 100,000 miles of sanitary sewers and more than 900 wastewater treatment plants in California, protecting communities and reducing toxic chemicals and nutrient buildup in California's surface waters and the entire west coast of the state; and

WHEREAS, California is steadily expanding the reuse of treated wastewater and pioneering the use of advanced purified recycled water to replenish aquifers, prevent seawater intrusion, and improve local water supply resiliency; and

WHEREAS, Water professionals at local public water and wastewater agencies work 24 hours a day, seven days a week to plan for the future, maintain and upgrade their systems, and improve the safety and resiliency of local water supplies; and

WHEREAS, According to the Public Policy Institute of California, local public water and wastewater agencies invest more than $25 billion a year on programs and projects that protect the public health and the environment, improve local water supply reliability, replenish and clean up groundwater basins, provide water for fire protection, and protect against floods; and

WHEREAS, Thousands of water, wastewater, and recycled water industry professionals in the state dedicate their careers to keeping drinking water, recycled water, and treated wastewater safe and reliable for use by Californians; and

WHEREAS, The Association of California Water Agencies, WateReuse California, California Municipal Utilities Association, and California Association of Sanitation Agencies acknowledge and celebrate the work of the professionals employed by their agency members; now, therefore, be it

Resolved by the Senate of the State of California, the Assembly thereof concurring, That the Legislature designates Water Professionals Appreciation Week during the month of October each year, beginning on the first Saturday of the month and ending

on the Sunday of the following weekend, and encourages public water agencies and wastewater agencies to offer tours, open houses, and other events during that time to educate Californians on the important functions of those agencies; and be it further

Resolved, That the Legislature encourages residents to learn about the water and wastewater industries in California and consider careers in this important field; and be it further

Resolved, That the Secretary of the Senate transmit copies of this resolution to the author for appropriate distribution.

O