

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Counsel, subject, however to certain qualifications described herein, under existing law, the portion of the Installment Payments designated as and comprising interest and received by the owners of the Certificates 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, although, in the case of tax years beginning prior to January 1, 2018, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest earned by a corporation prior to the end of its tax year in 2018 is taken into account in determining certain income and earnings. The 2018 Installment Sale Agreement is a “qualified tax-exempt obligation” with the meaning of section 265(b)(3) of the Internal Revenue Code of 1986, as amended. In the further opinion of Special Counsel, such interest is exempt from California personal income taxes. See “TAX MATTERS.”

\$ _____*

**2018 WATER AND WASTEWATER REVENUE
CERTIFICATES OF PARTICIPATION**
**Evidencing the Direct, Undivided Fractional Interest of the
Owners Thereof in Installment Payments to be Made by
THE CITY OF CALISTOGA
(Bank Qualified)**

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

Certificates. The Certificates of Participation captioned above (the “Certificates”) evidence and represent proportionate interests of the Owners thereof in installment payments (the “Installment Payments”), which include principal and interest components, to be made by the City of Calistoga (the “City”) under an installment sale agreement, dated as of _____, 2018 (the “2018 Installment Sale Agreement”), by and between the City and the Calistoga Public Facilities Corporation (the “Corporation”). The Certificates are being executed and delivered under a Trust Agreement, dated as of _____, 2018 (the “Trust Agreement”), by and between the City, the Corporation, and MUFJ Union Bank, N.A., as trustee (the “Trustee”) to provide funds to (i) refinance certain of the City’s installment payment obligations with respect to its Wastewater System (all as further described and defined herein), (ii) refinance certain of the City’s installment payment obligations with respect to its Water System (all as further described and defined herein), and (iii) pay costs of issuing the Certificates, including premiums for a municipal bond insurance policy and a reserve fund insurance policy. See “THE REFUNDING PLAN.”

Payment Terms. The Certificates will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”). Purchasers of the Certificates will not receive certificates representing their interests in the Certificates. Payments of the principal of and interest on the Certificates will be made to DTC, which is obligated in turn to remit such principal and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Certificates. Interest on the Certificates is payable on April 1 and October 1, commencing [October 1, 2018] (each, an “Interest Payment Date”). See “THE CERTIFICATES– General Provisions.”

Prepayment Prior to Maturity. The Certificates are subject to prepayment prior to their maturity as more fully described in this Official Statement. See “THE CERTIFICATES– Prepayment.”

Security for the Certificates. The Certificates are payable solely from the Installment Payments which are, in turn, payable solely the “Net Revenues” derived from the City’s ownership and operation of its “Water System” and “Wastewater System,” in each case up to each system’s “Allocable Share” (all as defined in the 2018 Installment Sale Agreement and described herein) and from amounts on deposit in certain funds and accounts established by the 2018 Installment Sale Agreement and Trust Agreement. The obligation of the City to pay the Installment Payments is a special obligation of the City payable solely from Net Revenues of the Water System, the Net Revenues of the Wastewater System, and certain funds established under the 2018 Installment Sale Agreement and Trust Agreement as and to the extent set forth therein. *The Net Revenues of the Water System and the Net Revenues of the Wastewater System are only pledged to payment of the Installment Payments in the amount of each system’s Allocable Share; there is no cross-collateralization to the extent the Water System or Wastewater System is unable to satisfy its Allocable Share of the Installment Payments.* See “SECURITY FOR THE CERTIFICATES.”

Bond Insurance. The scheduled payment of principal and interest on the Certificates when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Certificates by _____.

[Insert Insurer Logo]

Existing Parity Debt; Future Parity Debt. The City previously incurred a State Revolving Fund loan obligation that will remain outstanding and payable from Net Revenues of the Wastewater System on a parity basis with the Installment Payments. The 2018 Installment Sale Agreement permits the City to incur additional obligations payable from Net Revenues on a parity basis with the Installment Payments, subject to conditions. See “SECURITY FOR THE CERTIFICATES– Issuance of Parity Debt.”

THE CERTIFICATES DO NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OR LIMITATION AS TO INDEBTEDNESS. THE CERTIFICATES DO NOT HAVE A CLAIM FOR PAYMENT FROM ANY TAXES OF THE CITY. THE CERTIFICATES ARE NOT SECURED BY A LIEN ON OR A SECURITY INTEREST IN THE WATER SYSTEM OR THE WASTEWATER SYSTEM. THE TRUSTEE SHALL NOT BE OBLIGATED TO PAY THE CERTIFICATES EXCEPT FROM THE INSTALLMENT PAYMENTS AND CERTAIN FUNDS ESTABLISHED UNDER THE TRUST AGREEMENT THAT ARE PLEDGED TO THEIR PAYMENT. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OF THE STATE OF CALIFORNIA IS PLEDGED TO THE PAYMENT OF THE CERTIFICATES.

MATURITY SCHEDULE
(see inside cover)

THIS COVER PAGE CONTAINS INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT A SUMMARY OF THE SECURITY OR TERMS OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE SECTION ENTITLED “CERTAIN RISK FACTORS,” FOR A DISCUSSION OF CERTAIN FACTORS WHICH SHOULD BE CONSIDERED, IN ADDITION TO THE OTHER MATTERS SET FORTH IN THIS OFFICIAL STATEMENT, IN CONSIDERING THE INVESTMENT QUALITY OF THE CERTIFICATES. CAPITALIZED TERMS USED ON THIS COVER PAGE AND NOT OTHERWISE DEFINED SHALL HAVE THE MEANINGS SET FORTH IN THE TRUST AGREEMENT AND/OR 2018 INSTALLMENT SALE AGREEMENT.

The Certificates will be offered when, as and if issued and accepted by the Underwriter, subject to approval as to legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, and subject to certain other conditions. Jones Hall is also serving as Disclosure Counsel to the City. The City Attorney will render an opinion on behalf of the City and Norton Rose Fulbright US LLP, Los Angeles, California, will render an opinion on behalf of the Underwriter. It is anticipated that the Certificates, in book entry only form, will be available for delivery through the facilities of DTC on or about _____, 2018.

[Hilltop logo]

The date of this Official Statement is _____, 2018

*Preliminary; subject to change.

MATURITY SCHEDULE*

Base CUSIP†:

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP†</u>
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\$ _____ % Term Certificates Due October 1, ____ Price: _____ %;
CUSIP: _____

* Preliminary; subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services (CGS) which is managed on behalf of the American Bankers Association by S&P Capital IQ. CUSIP® data is not intended to create a database and does not serve in any way as a substitute for the CUSIP® Service Bureau. CUSIP® numbers are provided for convenience of reference only. Neither the City nor the Underwriter assumes any responsibility for the accuracy of the CUSIP data.

**CITY OF CALISTOGA
(Napa County, California)**

CITY COUNCIL

Chris Canning, *Mayor*
Michael Dunsford, *Vice Mayor*
James Barnes, *Council Member*
Gary Kraus, *Council Member*
Irais Lopez-Ortega, *Council Member*

CITY ADMINISTRATION

Dylan Feik, *City Manager*
Gloria Leon, *City Treasurer & Administrative Services Director*
Mike Kirn, *P.E.*, *Public Works Director*
Ben Zacharia, *Utility Systems Superintendent*
Michelle M. Kenyon, *Esq.*, *City Attorney*
Kathy Flamson, *City Clerk*

SPECIAL COUNSEL and DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

MUNICIPAL ADVISOR

Urban Futures, Inc.
Orange, California

TRUSTEE

MUFG Union Bank, N.A.
San Francisco, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract between any Owner and the City or the Underwriter. The preliminary Official Statement was “deemed final” as of its date by the Authority pursuant to Rule 15c2-12 of the Securities and Exchange Commission. The Authority has also undertaken to provide continuing disclosure on certain matters including annual financial information and specific enumerated events, as more fully described herein under “CONTINUING DISCLOSURE.”

No Offering Except by This Official Statement. No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the City or the Underwriter.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the Certificates by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Information in Official Statement. The information set forth in this Official Statement has been furnished by the City and other sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

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

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

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

Document Summaries. All summaries of the Trust Agreement or other documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

No Securities Laws Registration. The Certificates have not been registered under the Securities Act of 1933, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The Certificates have not been registered or qualified under the securities laws of any state.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Certificates will, under any circumstances, give rise to any implication that there has been no change in the affairs of the City or the other parties described in this Official Statement, or the condition of the property within the City since the date of this Official Statement.

Website. The City maintains a website. However, the information presented on the website is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Certificates.

Bond insurance. _____ (the “2018 Insurer”) makes no representation regarding the Certificates or the advisability of investing in the Certificates. In addition, the 2018 Insurer has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the 2018 Insurer, supplied by the 2018 Insurer and presented under the caption “BOND INSURANCE” and APPENDIX G —“SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

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OFFICIAL STATEMENT

\$ _____ *

**2018 WATER AND WASTEWATER REVENUE
CERTIFICATES OF PARTICIPATION**
**Evidencing the Direct, Undivided Fractional Interest of the
Owners Thereof in Installment Payments to be Made by
THE CITY OF CALISTOGA
(Bank Qualified)**

INTRODUCTION

This Introduction is not a summary of this Official Statement. It is only a brief description of, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Certificates to potential investors is made only by means of the entire Official Statement.

General. This Official Statement, including the cover page, inside cover page and all appendices, provides certain information concerning the sale and delivery of the above-captioned certificates (the “**Certificates**”). All descriptions and summaries of various documents set forth in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements in this Official Statement are qualified in their entirety by reference to each document. Certain capitalized terms used in this Official Statement and not defined in this Official Statement shall have the meaning given such terms in Appendix C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

The City. The City is located about 75 miles north of San Francisco in the northern part of Napa County (the “**County**”) and has a population of approximately 5,238. The City covers approximately 2.6 square miles. The City was founded as a tourist health resort as a result of the natural geothermal water in the area, and its primary economic base is still tourism, with a focus on spa resorts and wineries and its location in the Napa Valley. See “THE CITY” and APPENDIX A.

The Water System. The City’s Water System (defined herein) consists of over 50 miles of water mains, various pumping stations, and a conventional surface water treatment facility located four miles northwest of the City. The service area of the Water System is generally coterminous with the City’s boundaries, and also includes certain parcels outside the City. See “THE WATER SYSTEM.”

* Preliminary; subject to change.

The Wastewater System. The Wastewater System (defined herein) consists of 18 miles of sewer mains, 330 manholes, various pump stations, a wastewater treatment facility, and 5.5 miles of recycled water mains. The service area of the Wastewater System is generally coterminous with the City's boundaries, and also includes certain parcels outside the City. See "THE WASTEWATER SYSTEM."

Limited Obligation. The City is not required to advance any moneys derived from any source of income other than the Net Revenues of the Water System and the Net Revenues of the Wastewater System for the payment of Installment Payments, which, in turn, secure the payment of the principal of and interest on the Certificates. See "SECURITY FOR THE CERTIFICATES— Limited Liability."

The Certificates. The Certificates evidence and represent proportionate interests of the Owners thereof in installment payments (the "**Installment Payments**"), which include principal and interest components, to be made by the City of Calistoga (the "**City**") under an installment sale agreement, dated as of _____ 1, 2018 (the "**2018 Installment Sale Agreement**"), by and between the City and the Calistoga Public Facilities Corporation (the "**Corporation**"). The Certificates are being executed and delivered under a Trust Agreement, dated as of _____ 1, 2018 (the "**Trust Agreement**"), by and between the City, the Corporation, and MUFG Union Bank, N.A., as trustee (the "**Trustee**") to provide funds to (i) refinance certain of the City's installment payment obligations with respect to its Wastewater System (all as further described and defined herein), (ii) refinance certain of the City's installment payment obligations with respect to its Water System (all as further described and defined herein), and (iii) pay costs of issuing the Certificates, including premiums for a municipal bond insurance policy and a reserve fund insurance policy. See "THE REFUNDING PLAN."

Security for the Certificates. The Certificates are payable solely from the Installment Payments and certain amounts held by the Trustee under the Trust Agreement. The Installment Payments, in turn, are payable solely from the Net Revenues of City's water supply, water storage and water distribution system (as further described herein, the "**Water System**") and the Net Revenues of the City's system for the collection, treatment and disposal of wastewater (as further described herein, the "**Wastewater System**"). "**Net Revenues**" means, with respect to the Water System or the Wastewater System for any period, all of the "**Gross Revenues**" received from the respective Enterprise during such period minus the amount required to pay all "**Operation and Maintenance Costs**" of the respective Enterprise which are payable during such period, all as described herein. See "SECURITY FOR THE CERTIFICATES" for the definitions of Gross Revenues, Operation and Maintenance Costs, and a more detailed definition of the Water System and the Wastewater System.

*The Certificates are not secured by a lien on or a security interest in the Water System or the Wastewater System. The Net Revenues of the Water System and the Net Revenues of the Wastewater System are only pledged to payment of the Installment Payments in the amount of each system's Allocable Share; there is no cross-collateralization to the extent the Water System or Wastewater System is unable to satisfy its Allocable Share of the Installment Payments. Neither the full faith and credit nor the taxing power of the City, the State of California (the "**State**") or any political subdivision of the State is pledged to the payment of the Certificates.*

Reserve Fund. The Trustee will establish and maintain a separate fund to be known as the "**Reserve Fund**," which will be administered as provided in the Trust Agreement. The City will deposit with the Trustee the 2018 Reserve Policy in satisfaction of the Reserve Requirement

(as defined herein) for the Certificates. See “SECURITY FOR THE CERTIFICATES– Reserve Fund.”

Existing and Future Parity Debt. With respect to the Water System, the Allocable Share of the Installment Payments will be secured on parity with an obligation of the City under an installment purchase agreement between the City and the Corporation entered into in 2011 (the “**2011 Water Installment Purchase Agreement**”), wherein the City agreed to make installment payments in the aggregate principal amount of \$3,750,000 (the “**2011 Water Installment Payments**”) for the purpose of financing and refinancing certain improvements to the Water System, and in connection therewith the Corporation caused to be executed and delivered the 2011 Certificates of Participation (the “**2011 Certificates**”). The 2011 Certificates are currently outstanding in the principal amount of \$2,848,852, with a final payment due in 2051.

With respect to the Wastewater System, the Allocable Share of the Installment Payments will be secured on parity with an obligation of the City under a State Revolving Fund Program Loan Contract between the City and the State Water Resources Control Board entered into in 1999, relating to a loan in the original aggregate principal amount of \$5,609,999 (the “**1999 SRF Loan**”) to finance construction of the City’s wastewater treatment plant, currently outstanding in the amount of \$1,996,501, with a final payment due in 2023.

The City may issue additional parity obligations of the Water System and the Wastewater System, subject to certain conditions set forth in the 2018 Installment Sale Agreement. See “SECURITY FOR THE CERTIFICATES- Issuance of Parity Debt.”

Bank Qualified. The City has designated the Certificates as “qualified tax-exempt obligations” pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986, which provides an exception to the prohibition against the ability of a “financial institution” (as defined in the Internal Revenue Code of 1986, as amended) to deduct certain of its interest expense allocable to tax-exempt interest. See “TAX MATTERS.”

Other Information. This Official Statement speaks only as of its date, and the information contained in this Official Statement is subject to change. Copies of documents referred to in this Official Statement and information concerning the Certificates are available from the City Manager’s Office at 1232 Washington Street, Calistoga, California 94515, Telephone: (707) 942-2806. The City may impose a charge for copying, mailing and handling.

THE REFUNDING PLAN

Refunding Prior Obligations

The Certificates are being executed and delivered to assist the City in refunding certain of its prior obligations related to the Water System and Wastewater System, as described below.

Prior Obligations of the Water System. The City entered into the following obligations related to the Water System, which the City plans to refinance with funds from the Certificates:

(i) an installment purchase agreement, dated as of November 1, 2005 (the “**2005 Water Installment Purchase Agreement**”) with the California Statewide Communities Development Authority (the “**Authority**”), pursuant to which the City agreed to make certain installment payments in the aggregate principal amount of \$5,290,000 (the “**2005 Water Installment Payments**”) for the purpose of financing and refinancing certain improvements to the Water System, and in connection therewith the Authority issued its Water and Wastewater Revenue Bonds, Series 2005D (the “**2005 Bonds**”); and

(ii) an installment purchase agreement, dated as of March 27, 2008 (the “**2008 Water Installment Purchase Agreement**”) with the Corporation, pursuant to which the City agreed to make certain installment payments in the aggregate principal amount of \$2,511,170 (the “**2008 Water Installment Payments**”) for the purpose of financing certain improvements to the Water System, and in connection therewith the Corporation issued its 2008 Certificates of Participation (the “**2008 Certificates**”).

Prior Obligations of the Wastewater System. The City entered into the following obligations related to the Wastewater System, which the City plans to refinance with funds from the Certificates:

(i) an installment purchase agreement, dated as of August 1, 2001 (the “**2001 Wastewater Installment Purchase Agreement**”) with the Authority, pursuant to which the City agreed to make certain installment payments in the aggregate principal amount of \$3,500,000 (the “**2001 Wastewater Installment Payments**”) for the purpose of financing certain improvements to the Wastewater System, and in connection therewith the Authority issued its Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2001B (the “**2001 Bonds**”); and

(ii) an installment purchase agreement, dated as of May 18, 2005 (the “**2005 Wastewater Installment Purchase Agreement**”) with the Corporation, pursuant to which the City agreed to make certain installment payments in the aggregate principal amount of \$2,028,500 (the “**2005 Wastewater Installment Payments**”) for the purpose of financing certain improvements to the Wastewater System, and in connection therewith the Corporation issued its 2005 Certificates of Participation (the “**2005 Certificates**”).

2018 Refinancing Plan. The Certificates are being issued to refund the City’s installment payment obligations with respect to the 2005 Water Installment Purchase Agreement, 2008 Water Installment Purchase Agreement, 2001 Wastewater Installment Purchase Agreement, and 2005 Wastewater Installment Purchase Agreement (collectively, the “**Prior Installment Payments**”).

Prepayment of Certain Prior Installment Payments. Upon issuance of the Certificates, funds sufficient to prepay the 2005 Wastewater Installment Payments and the 2008 Water Installment Payments will be wired to the City Treasurer for wiring directly to the United States of America, acting through the Rural Utilities Service, United States Department of Agriculture (the “**USDA**”).

Escrow Fund for Certain Prior Installment Payments. Pursuant to an Escrow Deposit and Trust Agreement dated as of _____ 1, 2018 (the “**Escrow Agreement**”), by and between the City and MUFG Union Bank, N.A., as escrow agent (the “**Escrow Agent**”), the City will deliver a portion of the proceeds of the Certificates, together with certain funds held with respect to the 2005 Water Installment Payments and 2001 Wastewater Installment Payments, to the Escrow Agent for deposit in the escrow fund established under the Escrow Agreement (the “**Escrow Fund**”).

The Escrow Agent will hold amounts deposited with it in cash, uninvested. From the moneys on deposit in the Escrow Fund, the Escrow Agent will pay, within 30 days of the execution and delivery of the Certificates, the outstanding principal amount of the 2005 Water Installment Payments and 2001 Wastewater Installment Payments, plus interest accrued thereon, without premium.

The amounts held by the Escrow Agent in the Escrow Fund are pledged solely to the payment of the 2005 Water Installment Payments and the 2001 Wastewater Installment Payments. The funds deposited in the Escrow Fund will not be available for the payment of principal or interest with respect to the Certificates.

Estimated Sources and Uses of Funds

The following table sets forth the estimated sources and uses of funds with respect to the Certificates and the Prior Installment Payments.

Sources:

Par Amount of Certificates	\$
Plus/Less [Net] Original Issue Premium/Discount	
Plus Funds Relating to the Prior Installment Payments	_____
Total Sources	\$

Uses:

Refunding of Prior Installment Payments	\$
Costs of Issuance ⁽¹⁾	_____
Total Uses	\$

(1) Costs of issuance includes Underwriter’s discount, legal costs, printing costs, initial fees of the Trustee and Escrow Agent, advertising costs, municipal advisory fees, municipal bond insurance policy premium and reserve policy premium, rating fees and certain other costs.

DEBT SERVICE SCHEDULES

The Certificates

The following table shows principal and interest payable on the Certificates, assuming no optional prepayments. The Certificates are payable from the Installment Payments, which, in turn, are payable by the City under the 2018 Installment Sale Agreement. See “–The Installment Payments” below.

2018 Water and Wastewater Revenue Certificates of Participation Debt Service Schedule

Payment Dates	Principal	Interest	Total Debt Service	Total Annual Debt Service
--------------------------	------------------	-----------------	-------------------------------	--------------------------------------

Total

Source: Underwriter.

The Installment Payments

The following table shows the Allocable Share of the Installment Payments payable from the Net Revenues of the Water System and from the Net Revenues of the Wastewater System, respectively, under the 2018 Installment Sale Agreement, assuming no optional prepayments. *The Net Revenues of the Water System and the Net Revenues of the Wastewater System are only pledged to payment of the Installment Payments in the amount of each system's Allocable Share; there is no cross-collateralization to the extent the Water System or Wastewater System is unable to satisfy its Allocable Share of the Installment Payments.*

The Allocable Share attributable to the Water System is payable on a parity basis with the 2011 Water Installment Payments, and the Allocable Share attributable to the Wastewater System is payable on a parity basis with the 1999 SRF Loan. For additional information about the 2011 Water Installment Payments and 1999 SRF Loan, see "THE WATER SYSTEM – Existing Parity Debt" and "THE WASTEWATER SYSTEM – Existing Parity Debt," respectively.

2018 Water and Wastewater Revenue Certificates of Participation Schedule of Allocable Share of Installment Payments

<u>Payment Dates</u>	<u>Allocable Share Water System</u>	<u>Allocable Share Wastewater System</u>	<u>Total Installment Payment</u>	<u>Total Annual Installment Payment</u>
--------------------------	---	--	--------------------------------------	---

Total

Source: Underwriter.

THE CERTIFICATES

General Provisions

The Certificates will be dated their initial date of delivery and shall mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. Interest will be payable at the rates set forth on the inside cover page of this Official Statement, on April 1 and October 1 of each year (the “**Interest Payment Dates**”), commencing [October 1, 2018]. Interest on the Certificates will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Interest on the Certificates will be payable on each Interest Payment Date to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date. The “**Record Date**” for the Certificates is the 15th calendar day of the month preceding each Interest Payment Date. The Certificates will be issued in fully registered form, individual purchases being made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof.

Principal of and interest on the Certificates is payable by the Trustee to The Depository Trust Company (“**DTC**”) as the registered Owner of the Certificates, which will in turn remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Certificates. See APPENDIX F — “INFORMATION CONCERNING DTC.”

Prepayment*

Optional Prepayment. The Certificates maturing on or before October 1, 20__ are not subject to optional prepayment prior to their respective stated maturities. The Certificates maturing on or after October 1, _____ are subject to optional prepayment in whole on any date on or after October 1, _____, or in part, from prepayments of the Installment Payments made at the option of the City under the 2018 Installment Sale Agreement, at a prepayment price equal to 100% of the principal amount of Certificates or portions thereof to be prepaid, together with accrued interest represented thereby to the prepayment date, without premium.

Mandatory Sinking Fund Redemption. The Certificates maturing on October 1, _____ and October 1, _____ are Term Certificates subject to mandatory sinking fund prepayment by lot on October 1 in each year as shown in the following tables, from the principal components of the Installment Payments required to be paid with respect to each of such dates, at a prepayment price equal to 100% of the principal amount to be prepaid, together with accrued interest represented thereby to the prepayment date, without premium.

* Preliminary; subject to change.

Term Certificates Maturing October 1, 20__

Prepayment Date (<u>October 1</u>)	\$	Principal <u>Amount</u>
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(maturity)

Term Certificates Maturing October 1, 20__

Prepayment Date (<u>October 1</u>)	\$	Principal <u>Amount</u>
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(maturity)

Notice of Prepayment. Notice of prepayment of the Certificates shall be given, at the expense of the City, by the Trustee by mailing a copy of a prepayment notice by first class mail at least 30 days and not more than 60 days prior to the date fixed for prepayment to the Owner of the Certificates to be prepaid at the address shown on the 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 prepayment of the Certificates. Any such notice also shall be given to the Securities Depositories and the Information Services on the same date that it is given to the Owner of the Certificates. The prepayment notice will state the date of the notice, the prepayment date, the prepayment place and the prepayment price and shall designate the CUSIP numbers, the Certificate numbers and the maturity or maturities (in the event of prepayment of all of the Certificates of such maturity or maturities in whole) of the Certificates to be prepaid, and will require that on the prepayment date the Prepayment Price will become due and payable with respect to each such Certificate or portion thereof called for prepayment, and that interest with respect thereto shall cease to accrue from and after said date.

Selection of Certificates of the Same Maturity for Prepayment. Whenever less than all of the Certificates of a single maturity are called for prepayment, the Trustee will select the Certificates of such maturity to be prepaid by lot in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, all Certificates will be deemed to be comprised of separate \$5,000 denominations, and such separate denominations will be treated as separate Certificates which may be separately prepaid.

Effect of Notice of Prepayment. From and after the date fixed for prepayment, if notice of prepayment has been duly mailed and funds available for the payment of the principal of and interest (and premium, if any) on the Certificates so called for prepayment have been duly provided, the called Certificates will cease to be entitled to any benefit under the Trust Agreement other than the right to receive payment of the prepayment price, and no interest will accrue thereon from and after the prepayment date specified in the prepayment notice.

Right to Rescind Notice of Optional Redemption. The City has the right to rescind any notice of the optional redemption of Certificates by written notice to the Trustee on or prior to the dated fixed for redemption. Any notice of optional redemption will be cancelled and

annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Certificates then called for redemption, and such cancellation will not constitute an Event of Default. The City and the Trustee have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee shall cause notice of such rescission to be mailed, first class mail, postage prepaid, to the respective Owners of any Certificates designated for redemption, at their addresses appearing on the Registration Books, and to the Municipal Securities Rulemaking Board and the Securities Depository.

SECURITY FOR THE CERTIFICATES

General

The Certificates evidence and represent proportionate interests of the Owners thereof in the Installment Payments to be made by the City to the Corporation pursuant to the 2018 Installment Sale Agreement.

Subject to the limitations set forth in the 2018 Installment Sale Agreement with respect to the respective Allocable Shares of the Water System and the Wastewater System, including those described below, all of the Net Revenues and all moneys on deposit in any of the funds and accounts established and held by the Trustee under the Trust Agreement are irrevocably pledged, charged and assigned to the punctual payment of the Installment Payments. Such pledge, charge and assignment constitute a lien on and security interest in the Net Revenues and such other moneys for the payment of the Installment Payments in accordance with the terms hereof, on a parity with the pledge and lien which secures any Parity Debt of the respective Enterprise.

The Net Revenues of the Water System and the Net Revenues of the Wastewater System are only pledged to payment of the Installment Payments in the amount of each system's Allocable Share; there is no cross-collateralization to the extent the Water System or Wastewater System is unable to satisfy its Allocable Share of the Installment Payments.

The Installment Payments Attributable to the Water System and the Installment Payments Attributable to the Wastewater System are separately identified on an exhibit to the 2018 Installment Sale Agreement, which corresponds to the amounts set forth in this Official Statement. See "DEBT SERVICE SCHEDULES – The Installment Payments."

The City acknowledges, covenants and warrants in the 2018 Installment Sale Agreement that:

(i) the City shall not pay from Net Revenues of the Wastewater System either (A) the Installment Payments Attributable to the Water System, (B) the Water System's Allocable Share of Operation and Maintenance Costs or (C) any other amounts payable under the Trust Agreement if such amounts constitute the Water System's Allocable Share, and

(ii) the City shall not pay from Net Revenues of the Water System either (A) the Installment Payments Attributable to the Wastewater System, (B) the Wastewater System's Allocable Share of Operation and Maintenance Costs or (C) any other amounts payable under the Trust Agreement if such amounts constitute the Wastewater System's Allocable Share.

Applicable Definitions

"Allocable Share" means (i) with respect to the Wastewater System, Installment Payments Attributable to the Wastewater System due in a particular Fiscal Year divided by Installment Payments due in the same Fiscal Year, and (ii) with respect to the Water System, Installment Payments Attributable to the Water System due in a particular Fiscal Year divided by Installment Payments due in the same Fiscal Year.

“Enterprises” means, collectively, the Water System and the Wastewater System.

“Gross Revenues” means, as to each Enterprise, all gross income and revenue received by the City from the ownership and operation of the Enterprise, including but not limited to the following:

- all income, rents, rates, fees, charges and other moneys received for, and all other gross income and receipts derived by the City from, the ownership and operation of the Enterprise or otherwise arising from the Enterprise;
- all amounts levied by the City as a fee for connecting to the Enterprise, as such fee is established from time to time under the applicable laws of the State;
- the earnings on and income derived from the investment of the foregoing income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or under applicable law to the Enterprise;
- the proceeds derived by the City directly or indirectly from the sale, lease or other disposition of a part of the Enterprise as permitted in the 2018 Installment Sale Agreement; and
- amounts transferred from a Rate Stabilization Fund to the respective Wastewater Fund or Water Fund in any Fiscal Year under the 2018 Installment Sale Agreement;

but excluding (i) customers’ deposits or any other deposits subject to refund until such deposits have become the property of the City, and (ii) the proceeds of any special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Enterprises.

“Net Revenues” means, with respect to the Enterprises, for any period, the amount of the Gross Revenues received from the respective Enterprise during such period minus the amount required to pay all Operation and Maintenance Costs of the respective Enterprise which are payable during such period.

“Operation and Maintenance Costs” means, with respect to the Enterprises, all costs paid or incurred by the City for maintaining and operating the respective Enterprise, as the case may be, determined in accordance with generally accepted accounting principles, including but not limited to (a) all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Water System or the Wastewater System in good repair and working order, (b) all administrative costs of the City that are charged directly or apportioned to the operation of the Water System or the Wastewater System, such as salaries and wages of employees, overhead, taxes (if any) and insurance, and (c) administrative costs of the Certificates which the City is required to pay hereunder, including Additional Payments;

but excluding (i) payments of debt service on bonds, notes, contracts or other obligations issued by the City with respect to the Water System or the Wastewater System, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

“Wastewater System” means the entire system of the City for the collection, treatment and disposal of wastewater, including but not limited to all facilities, properties and improvements at any time owned, controlled or operated by the City for the collection, treatment and disposal of wastewater within the service area of the City, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the City.

“Water System” means the entire water supply, storage and distribution system of the City, including but not limited to all facilities, properties and improvements at any time owned, controlled or operated by the City for the supply, treatment and storage of water to residents of the City and adjacent areas, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the City.

Flow of Funds

The City has previously established the Water Fund and the Wastewater Fund (collectively, the **“Enterprise Funds”**) in which the City will deposit all Gross Revenues of each respective Enterprise promptly upon receipt, and will apply amounts in the Enterprise Funds solely for the uses and purposes set forth in the Trust Agreement and purposes of any Parity Debt.

The City will apply amounts on deposit in the respective Enterprise Funds to pay when due the respective Allocable Share of the following amounts in the following order of priority :

- (i) all Operation and Maintenance Costs of the respective Enterprise;
- (ii) the Allocable Shares of Installment Payments and all payments of principal of and interest on any respective Parity Debt;
- (iii) to the Trustee, Allocable Shares of the amount of any deficiency in the Reserve Fund established for the Certificates and in any reserve fund established for Parity Debt, the notice of which deficiency has been given to the City in accordance with the Trust Agreement and the related Parity Debt Documents, respectively;
- (iv) any other payments required to comply with the provisions of the 2018 Installment Sale Agreement and any respective Parity Debt Documents; and
- (v) any other purposes authorized under the 2018 Installment Sale Agreement.

Payment of the Installment Payments and the principal of and interest on any Parity Debt shall be made without preference or priority. If the amount of Gross Revenues on deposit in the Enterprise Funds is any time insufficient to enable the City to pay when due the Allocable Share of Installment Payments and the principal of and interest on any respective Parity Debt, such payments will be made on a pro rata basis.

Installment Payment Fund

The Corporation has irrevocably assigned to the Trustee all of its rights in the 2018 Installment Sale Agreement, except those rights outlined in the Trust Agreement. Under the Trust Agreement, the Trustee will establish and maintain the special fund designated as the

“Installment Payment Fund,” into which the Trustee shall deposit all amounts paid to the Trustee for such purpose under the 2018 Installment Sale Agreement, including but not limited to the right to receive and collect all of the Installment Payments and all other amounts required to be deposited in the Installment Payment Fund. Except as provided in the Trust Agreement, the Trustee will apply amounts in the Installment Payment Fund solely for the purpose of paying the principal, interest and prepayment premiums (if any) represented by the Certificates when due, in accordance with the provisions of the Trust Agreement.

The Trustee will hold amounts in the Installment Payment Fund in trust for the benefit of the City and the Owners of the Certificates. So long as any Certificates are Outstanding, neither the City nor the Corporation has any beneficial right or interest in the Installment Payment Fund or the moneys deposited therein, except only as provided in the 2018 Installment Sale Agreement or in the Trust Agreement.

At the written request of the City, the Trustee will withdraw and remit to the City any surplus remaining in the Installment Payment Fund after prepayment and payment of all Certificates, including all premiums and accrued interest (if any) and payment of any applicable fees and expenses to the Trustee, or provision for such prepayment or payment having been made in accordance with the Trust Agreement.

Reserve Fund

Pursuant to the Trust Agreement, the Trustee will establish and maintain the Reserve Fund into which the Trustee will deposit on the Closing Date an amount equal to the **“Reserve Requirement”** for the Certificates, which as of the date of calculation is an amount equal to the maximum amount Installment Payments payable by the City under the Installment Sale Agreement in the current or any calendar year. Moneys in the Reserve Fund will be held in trust as a reserve for the payment when due of the Installment Payments on behalf of the City.

[[On the Closing Date, the 2018 Insurer will issue its reserve surety policy (the **“Reserve Policy”**) in the amount of the Reserve Requirement, and the Trustee will deposit the Reserve Policy into the Reserve Fund.]] *[Note: To be finalized in connection with application for insurance/reserve surety policy.]*

[[Semiannually on or prior to each Installment Payment Date, the Trustee will transfer any moneys in the Reserve Fund in excess of the Reserve Requirement to the Installment Payment Fund to be credited towards the Installment Payment coming due and payable on such Installment Payment Date. If on any Interest Payment Date, the moneys available in the Installment Payment Fund are not at least equal to the amount of the Installment Payment then coming due and payable, the Trustee will apply the moneys available in the Reserve Fund to make such payments on behalf of the City by transferring the amount necessary for this purpose to the Installment Payment Fund. If on any Interest Payment Date the moneys on deposit in the Reserve Fund and the Installment Payment Fund (excluding amounts required for payment of principal, interest and prepayment premium, if any, represented by any Certificates theretofore having come due but not presented for payment) are sufficient to pay all Outstanding Certificates, including all principal, interest and prepayment premiums (if any), the Trustee will, upon the written request of the City, transfer all amounts then on deposit in the Reserve Fund to the Installment Payment Fund to be applied for such purpose to the payment of the Installment Payments on behalf of the City.]]

For additional details regarding the Reserve Fund, see APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.

No Reserve Fund for Existing Parity Debt. The pledge of Net Revenues of the Water System for payment of the Installment Payments is on parity with the pledge securing the 2011 Water Installment Agreement. The pledge of Net Revenues of the Wastewater System for payment of the Installment Payments is on parity with the pledge securing the 1999 SRF Loan.

Moneys in the Reserve Fund are not available for payment of the 2011 Installment Payment or the 1999 SRF Loan or any other Parity Debt that is not covered by the Reserve Fund. In the event the Net Revenues of the Water System or Net Revenues of the Wastewater System are not sufficient to make the full amount of the Installment Payments and amounts due under the Parity Debt, prior to the application of moneys by the Trustee in the Reserve Fund to pay the Certificates, the City will allocate payments of moneys in the Water Fund or Wastewater Fund, as applicable, to the Installment Payments and the amounts due under the Parity Debt on a pro rata basis.

Rate Stabilization Fund

Under the 2018 Installment Sale Agreement, the City has the right at any time to establish a rate stabilization fund (the “**Rate Stabilization Fund**”) to be held by it and administered in accordance with the 2018 Installment Sale Agreement, for the purpose of stabilizing the rates and charges imposed by the City with respect to either or both Enterprises. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues that are released from the pledge and lien which secures the Installment Payments and any Parity Debt, as the City may determine.

The City may, but is not be required to, withdraw any amounts from the Rate Stabilization Fund and deposit such amounts in the respective Enterprise Fund in any Fiscal Year for the purpose of paying the Installment Payments or the principal of and interest on any Parity Debt. Amounts so transferred from a Rate Stabilization Fund to an Enterprise Fund will constitute Gross Revenues for such Fiscal Year (except as otherwise provided in the 2018 Installment Sale Agreement) and will be applied for the purposes set forth in the 2018 Installment Sale Agreement. Amounts on deposit in the Rate Stabilization Fund are not pledged to and do not secure the Installment Payments or any Parity Debt. The City may at any time withdraw any or all amounts on deposit in a Rate Stabilization Fund and apply such amounts for any other lawful purposes of the City.

Limited Liability

The City’s obligation to pay the Installment Payments and any other amounts coming due and payable under the 2018 Installment Sale Agreement is a special obligation of the City limited solely to the respective Net Revenues. Under no circumstances is the City required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified in the 2018 Installment Sale Agreement for the payment of the Installment Payments and such other amounts. No other funds or property of the City are liable for the payment of the Installment Payments and any other amounts coming due and payable thereunder.

The Corporation has no pecuniary obligation or liability to the City or the Trustee, or to any of the Owners of the Certificates, with respect to the performance by the City of its obligations under the 2018 Installment Sale Agreement or the Trust Agreement, with respect to the terms, execution, delivery or transfer of the Certificates, or with respect to the distribution of Installment Payments to the Owners by the Trustee.

THE CERTIFICATES DO NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OR LIMITATION AS TO INDEBTEDNESS. THE CERTIFICATES DO NOT HAVE A CLAIM FOR PAYMENT FROM ANY TAXES OF THE CITY. THE CERTIFICATES ARE NOT SECURED BY A LIEN ON OR A SECURITY INTEREST IN THE WATER SYSTEM OR THE WASTEWATER SYSTEM. THE TRUSTEE SHALL NOT BE OBLIGATED TO PAY THE CERTIFICATES EXCEPT FROM THE INSTALLMENT PAYMENTS AND CERTAIN FUNDS ESTABLISHED UNDER THE TRUST AGREEMENT THAT ARE PLEDGED TO THEIR PAYMENT. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OF THE STATE OF CALIFORNIA IS PLEDGED TO THE PAYMENT OF THE CERTIFICATES.

Rate Covenants

Pursuant to the 2018 Installment Sale Agreement, the City undertakes the following covenants regarding rates and charges of the Enterprises.

Covenant to Maintain Water Revenues. The City will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues from the Water System sufficient to pay 100% of the following amounts in the following order of priority:

- (i) all Operation and Maintenance Costs of the Water System estimated by the City to become due and payable in such Fiscal Year;
- (ii) the Installment Payments Attributable to the Water System during such Fiscal Year;
- (iii) all other payments required for compliance with the 2018 Installment Sale Agreement and the instruments pursuant to which any Parity Debt relating to the Water System will have been issued; and
- (iv) all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues of the Water System or the Net Revenues of the Water System.

In addition, the City will fix, prescribe, revise and collect charges for the Water System during each Fiscal Year which are sufficient to yield Net Revenues of the Water System which, when added to other funds transferred from stabilization reserve funds for the Water System, and which are lawfully available to the City for payment of the items listed in clauses (ii) and (iii) above during such Fiscal Year, will aggregate to an amount at least equal to 120% of the amounts payable under the preceding clauses (ii) and (iii) in such Fiscal Year for the Allocable Share of the Installment Payments and any Parity Debt which has a lien on such Net Revenues.

Covenant to Maintain Wastewater Revenues. The City will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues from the Wastewater System sufficient to pay 100% of the following amounts in the following order of priority:

(i) all Operation and Maintenance Costs of the Wastewater System estimated by the City to become due and payable in such Fiscal Year;

(ii) the Installment Payments Attributable to the Wastewater System;

(iii) all other payments required for compliance with the 2018 Installment Sale Agreement and the instruments pursuant to which any Parity Debt relating to the Wastewater System will have been issued; and

(iv) all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues of the Wastewater System or the Net Revenues of the Wastewater System.

In addition, the City shall fix, prescribe, revise and collect charges for the Wastewater System during each Fiscal Year which are sufficient to yield Net Revenues of the Wastewater System which, when added to other funds transferred from stabilization reserve funds for the Wastewater System, and which are lawfully available to the City for payment of the items listed in clauses (ii) and (iii) above during such Fiscal Year, will aggregate an amount at least equal to 120% of the amounts payable under the preceding clauses (ii) and (iii) in such Fiscal Year for the Allocable Share of the Installment Payments and any Parity Debt which have a lien on such Net Revenues.

No Issuance of Obligations Superior to the Installment Payments

There are currently no obligations which are payable from Net Revenues on a superior basis to the Installment Payments. Pursuant to the 2018 Installment Sale Agreement, the City may not issue or incur any additional obligations having any priority in payment of principal or interest out of the Gross Revenues or the Net Revenues over the Installment Payments.

Issuance of Parity Debt

Existing Parity Debt of Wastewater System. The Allocable Share of the Installment Payments attributable to the Wastewater System are payable by the City on parity with a State Revolving Fund Program Loan Contract between the City and the State Water Resources Control Board entered into in 1999, relating to a loan in the original aggregate principal amount of \$5,609,999 (the “**1999 SRF Loan**”) to finance construction of the City’s wastewater treatment plant. See “THE WASTEWATER SYSTEM - Existing Parity Debt.”

Existing Parity Debt of Water System. The Allocable Share of the Installment Payments attributable to the Water System are payable by the City on parity with an installment purchase agreement between the City and the Corporation entered into in 2011 (the “**2011 Water Installment Purchase Agreement**”), wherein the City agreed to make installment payments in the aggregate principal amount of \$3,750,000 (the “**2011 Water Installment Payments**”) for the purpose of financing and refinancing certain improvements to the Water System, and in connection therewith the Corporation issued its 2011 Certificates of Participation (the “**2011 Certificates**”).

Future Parity Debt. Under the 2018 Installment Sale Agreement, except for obligations incurred to prepay or discharge the Installment Payments or any Parity Debt, the City may not issue or incur any Parity Debt during the Term of the 2018 Installment Sale Agreement unless:

(a) No Event of Default has occurred and is continuing.

(b) The City files with the Trustee a report of a Fiscal Consultant showing that for each of the five full Fiscal Years following the issuance of such Parity Debt, the Net Revenues (excluding any amounts derived from a Rate Stabilization Fund) which the City is projected to receive in such Fiscal Year will be at least equal to 120% of Debt Service coming due in such Fiscal Year. In computing the amount of Net Revenues which are projected to be received in any Fiscal Year, such report may take into account any Additional Revenues which are projected to be received in such Fiscal Year.

(c) The trustee or fiscal agent, if any, for such Parity Debt is the same entity performing the functions of Trustee under the Trust Agreement.

BOND INSURANCE

The following information has been furnished by the 2018 Insurer for use in this Official Statement. No representation is made by the City or the Underwriter as to the accuracy or completeness of such information, or the absence of material adverse changes therein at any time subsequent to the date hereof. Reference is made to APPENDIX G for a specimen of the 2018 Insurer's policy.

THE CITY

General Information

The City is located about 75 miles north of San Francisco in the northern part of the County of Napa (the “**County**”). The City is approximately 2.6 square miles and provides a full range of services including police and fire protection, planning and building inspections, parks and recreation facilities and services, construction and maintenance of streets, public buildings and other infrastructure facilities, cemetery, water production and distribution, and wastewater collection and treatment. The City was founded as a tourist health resort given the natural geothermal water in the area, and its primary economic base is still tourism. Additionally, nearby Napa Valley is considered to be one of the world's premier grape growing and wine producing regions and draws thousands of tourists each year to the area. See APPENDIX A – “GENERAL INFORMATION ABOUT THE CITY OF CALISTOGA.”

Governance and Administration

The City was incorporated in 1886 as a general law city and is established as a Council-Manager form of local government. The City is governed by an elected Mayor and a four-member City Council. The Council is responsible for, among other matters, passing ordinances, adopting the City budget, appointing committees, and hiring the City Manager and City Attorney. The Council is elected on a non-partisan basis. Council members serve four-year staggered terms, with two members elected every two years. The Mayor is elected to serve a two-year term. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the daily operations of the City, hiring Department Heads and for appointing other employees and otherwise managing daily operations of the City.

City Council. The current members of the City Council are as follows:

CITY OF CALISTOGA City Council

Council Member	Current Term Expires
Chris Canning, Mayor	November 2018
Michael Dunsford, Vice Mayor	November 2020
James Barnes, Councilmember	November 2018
Gary Kraus, Councilmember	November 2018
Irais Lopez-Ortega, Councilmember	November 2020

City Administration. The following individuals hold key personnel positions with respect to the City, the Water System and the Wastewater System.

Dylan Feik, City Manager. Mr. Feik has served as City Manager since February 2016. He holds a Bachelor of Arts in Political Science and Government from Weber State University and a Master’s in Public Administration from the University of Kansas. Prior to his role as City Manager, Mr. Feik served as the Administrative Services Director for the City of Auburn, California for two years, and as Assistant City Manager of the City Knoxville, Iowa for two years.

Gloria Leon, Administrative Services Director and City Treasurer. Ms. Leon has served as the City Administrative Services Director since October 2011.

She holds a Bachelor of Arts in Business Administration from California State University, Fresno and a Master's in Business Administration with an emphasis in Human Resources from National University of Fresno. Ms. Leon has previously served as the Deputy Finance Director and Finance and Human Resource Director for the City of Hercules, California.

Mike Kirn, P.E., Public Works Director. Mr. Kirn has served as Public Works Director for 3 years and is responsible for overall management of all public works operations, including all of the facilities comprising the Water System and the Wastewater System. He holds a Bachelor of Science in Civil Engineering from California State University, Fresno and is a registered Civil Engineer, 46695 and Professional Land Surveyor, 7906 with the State.

Ben Zacharia, Utility Systems Superintendent. Mr. Zacharia is the Utility Systems Superintendent for the City. He also served as the Plant Operator II for 9 years, and has been employed with the City since January 1997. Mr. Zacharia has a Grade D2, and Grade III certificates with the State Water Resources Control Board.

City Employee Pension Plans

The City provides health and retirement benefits to all full-time employees, the costs for Enterprise employees of which are reflected in the operating budgets of the Water System and Wastewater System, as applicable. Retirement benefits are provided through a contract with the California Public Employees' Retirement System.

In addition to providing retirement benefits, the City provides post-employment healthcare benefits, see APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT, JUNE 30, 2017" - Notes to Financial Statements - Post-Employment Benefits Other than Pensions.

City Financial Information

General Fund Transfers and Fund Balances. In Fiscal Year 2012-13 and Fiscal Year 2016-17, the City transferred amounts from its general fund to the Wastewater System in order to make certain capital improvements to the Wastewater System. Accordingly, selected financial information regarding the revenues, expenditures and balance sheet of the general fund of the City is included in this Official Statement in APPENDIX A.

Inclusion of selected financial information about the City's general fund does not in any way imply the general fund is responsible or obligated for payment of the Certificates or the Installment Payments. The Certificates are payable solely from the Installment Payments which are, in turn, payable solely the Net Revenues derived from the City's ownership and operation of its Water System and Wastewater System, in each case up to each system's Allocable Share (all as defined in the 2018 Installment Sale Agreement and described herein) and from amounts on deposit in certain funds and accounts established by the 2018 Installment Sale Agreement and Trust Agreement. See "SECURITY FOR THE CERTIFICATES."

Audited Financial Statements. R.J. Ricciardi, Inc., San Rafael, California, (the "Auditor") audited the financial statements of the City for the fiscal year ended June 30, 2017. The firm's examination was made in accordance with generally accepted auditing standards. The complete audited financial statements of the City for the fiscal year ended June 30, 2017

are included in this Official Statement as APPENDIX B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT, JUNE 30, 2017.”

The City has not requested nor did the City obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the City.

THE WATER SYSTEM

Water Facilities and Operations

General. The Water System collects, treats and distributes potable water within the service area of the City. Twenty percent of the Water System is currently over 50 years old and in five years the percentage will increase to almost fifty percent. The Water System consists of over 50 miles of water mains, various pumping stations, and the Kimball Surface Water Treatment Plant (the “**Kimball Treatment Plant**”).

The Kimball Treatment Plant includes chemical coagulation, flocculation and sedimentation in a circular clarifier, chlorination, filtration and storage in a 100,000-gallon clearwell. The treated water at the surface is collected through orifices of seven 6-inch diameter collector pipes radial spaced in the tank. Each of the collector pipes flows into a single 10-inch diameter effluent pipe to continue the water treatment sequence. Water from the clarifier is injected with a chlorine solution for disinfection purposes before flowing through two parallel banks of trimedia pressure filters. There are four filters in a bank, for a total of eight filters, each measuring 6 feet in diameter and 6 feet in height. Finally, filtered water flows into the clearwell for storage prior to distribution. Three finished water pumps supply water from the clearwell to the distribution system. These pumps are responsible for the distribution system pressure and maintaining the level of water in the Feige Canyon Water Tank, a 1-million-gallon storage tank.

The City, like much of the State, is located in a seismically active area. Facilities constructed by the City are designed to meet applicable building code standards. See “CERTAIN RISK FACTORS – Natural Disasters.”

Water System Insurance. The City maintains insurance on its properties, which include the components of the Water System. For additional information on insurance maintained by the City, see Note A – Other Information within the Notes to the Financial Statements of APPENDIX B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT, JUNE 30, 2017.”

Water System Operations and Personnel. The Water System is maintained and operated by the City’s public works department. For additional information on employee costs and pension obligations for the City’s employees, see Note C – Other Information within the Notes to the Financial Statements of APPENDIX B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT, JUNE 30, 2017.”

Water Supply

General. The Water System has two water sources: (i) the State Water Project via the North Bay Aqueduct (“**NBA**”) and (ii) the Kimball Reservoir. The water supplied by the NBA is purchased and treated by the city of Napa prior to delivery to the City at an annual cost to the City of approximately \$1 million. The Kimball Reservoir is owned and operated by the City; the annual cost to the City of operating the Kimball Reservoir is approximately \$500,000.

State Water Project. State Water Project entitlements are owned per an agreement between the city of Napa and the Napa County Flood Control and Water Conservation District (the “**District**”). The District administers the contract as a pass-through agency on behalf of the cities of American Canyon, Calistoga, and Napa (sometimes referred to herein collectively as the “**Cities**”). Pursuant to a water purchase contract executed April 5, 1966 (as subsequently

amended), State Water Project entitlements are for up to 21,900 acre-feet, with a minimum term of 75 years.

In 2013 the District, on behalf of the Cities, succeeded in establishing access to an additional 5,659 acre-feet of “back-up” water per year, up to a cumulative 21,900 acre-feet of water, based on an Area of Origin Settlement Agreement (the “**2013 Settlement Agreement**”) with the State. The back-up water, referred to as “**Advanced Table A Water**,” can be accessed only after all other available carryover and Table A water is consumed. In addition to Advanced Table A Water, each year a north of delta allocation is calculated and applied to the parties of the 2013 Settlement Agreement.

State Water Project water is furnished via the NBA on the basis of a contract executed December 19, 1963 (as subsequently amended) by and between the District and the State, with an initial minimum term of 75 years. In July 2014, the District executed an agreement to extend the contract through December 31, 2085.

Maintained and operated by the State, the NBA is a facility of the State Water Project, which has as its principal source Feather River water released from the Oroville Dam augmented by the yield of many smaller dams. The water releases reach the Delta of the Sacramento River from which water is pumped to the areas of use.

The city of Napa maintains a water treatment facility that treats the water received through the NBA pipeline before sending it to the City. The water received from Napa’s water treatment facility meets or exceeds all State and federal drinking water standards.

Kimball Reservoir. The Kimball Dam Reservoir (the “**Kimball Reservoir**”) and adjacent Kimball Treatment Plant are located four miles northwest of the City. This water resource produces approximately one half of the total annual water demand of the Water System.

The Kimball Reservoir has a surface drainage area of approximately 3.4 square miles. The City owns a portion of the surrounding watershed with the remainder owned by the State Parks Department and a private landowner.

The Kimball Reservoir was constructed in 1939 by the City and was subsequently raised in 1948 to increase the storage capacity of the reservoir. The Kimball Reservoir is an earth fill structure approximately 300 feet long, 200 feet wide at the base, and about 75 feet high. The original storage capacity of the Kimball Reservoir was approximately 345 acre-feet and 409 acre-feet at the top of the flashboards. The accumulation of sediment in the Kimball Reservoir has since reduced the storage capacity to 312 acre-feet at the flashboard elevation according to a 1991 reservoir sounding study. Much of the sediment accumulation has been attributed to wet weather runoff that followed a 1985 fire which burned a large portion of the surrounding watershed. Additional sediment accumulative is expected due to the recent Tubbs Fire. See “CERTAIN RISK FACTORS – Natural Disasters” for additional information on the Tubbs Fire.

Annual inspections of the Kimball Reservoir are conducted by the State Division of Dam Safety. These routine visual inspections are conducted by the State to ensure the structure is satisfactory for continued use.

Water Supply During Droughts. In 2005, the City, in conjunction with other Napa Valley agencies, completed the 2050 Napa Valley Water Resources Study to determine water supply and demand projections through 2050. Based on the City’s existing local reservoir and the State

Water project supply, the City does not expect to experience any reductions in water supply during minor drought conditions and expects to experience only minor reductions in water supply during severe droughts.

The 2013 Settlement Agreement further increases the reliability of the City's supplies. During the 2012-2015 California drought years, the City maintained solid supplies including over 2 years of future storage throughout the period. During Fiscal Year 2013-14, when the State Water Project allocation was at an unprecedented low of 5%, the City had 980 acre-feet of State Water Project supplies (including carryover water) available, along with local supplies of 350 acre-feet in the Kimball Reservoir. Total supplies were 1,330 acre-feet, and customers consumed 640 acre-feet during that same period. In addition, if all State Water Project supplies were consumed (including carryover water), the City could call on Advanced Table A supplies in accordance with the 2013 Settlement Agreement.

In April 2015 the Governor declared a statewide drought and mandated municipal conservation irrespective of water supply situations. The City was required to reduce its water consumption 20% over the period June 2015 through February 2016 compared to the same months in 2013. During Fiscal Year 2014-15, the City entered the year with total supplies of 1,313 acre-feet, including Kimball Reservoir reserves at 45% capacity, in addition to Advanced Table A Water. Due to the drought mandate, customers consumed 620 acre-feet during that same period. This is the lowest consumption since 1996, despite a population increase of 300. Additionally, although the State Water Project allocations were cut to 5% of the entitled amount due to the City during Fiscal Year 2014-15, the City still had ample supplies of "carry-over" State Water Project water (without using any of the 1,030 acre-feet per year of the 2013 Settlement Agreement water) to meet demand. The City maintains about 2 years of water storage between State Water Project entitlements and local storage; this has been the case throughout the recent 4-year drought.

Ongoing Litigation Related to Kimball Reservoir. Since 2009, the City has spent almost \$1.6 million dollars in litigation expenses associated with protecting its water rights at the Kimball Reservoir. To date, this amount has been funded entirely by the City's general fund and the City Council has publicly stated that this amount will not be repaid by the Water System.

The first lawsuit was filed against the City in 2009 by a City resident who alleged the City breached a 1939 agreement with her family – the Tubbs family – related to the Kimball Reservoir. A judge dismissed the claim, but a second, related, lawsuit was then filed with additional claims that the City took more water than it was allowed under State permits and misused certain tax funds. All claims in the second lawsuit were also dismissed.

A third lawsuit was filed against the City in 2014 by the same plaintiff (*O'Gorman v. City of Calistoga*), with allegations that the plaintiff had inherited the sole right to store, divert and sell water from the Kimball Reservoir. Although the City has owned and operated the reservoir since 1939, the plaintiff claimed that the City's appropriation of water for its municipal water supply constituted a taking of water rights without just compensation. All of the claims in this third case were dismissed on January 1, 2017. The court found Ms. O'Gorman has no property interest in the water in Kimball Reservoir, and that the City's operation of Kimball Reservoir has not damaged Ms. O'Gorman. O'Gorman is currently appealing the decision. Briefing for appeal will be filed in March 2018. Once briefing is complete, the Court of Appeal will schedule oral arguments which will happen later in 2018 at a time/date to be determined by the Court of Appeal.

Service Area and Customers

Service Area. As of January 1, 2018, the Water System served an estimated population of approximately 6,000 residing both inside and adjacent to the City. Within the service area, the Water System currently provides water service to approximately 1,566 accounts. Approximately 45% of the City's water connections are for single-family residential uses.

Number of Connections. The following tables provide historical information on the number of total residential and commercial connections to the Water System as of June 30, 2016, and the number of new connections for fiscal years 2012-13 through 2016-17. Information on total residential and commercial connections for prior periods is not available.

Table 1
City of Calistoga Water System
Water Accounts
As of June 30, 2016

<u>Meter Size (in.)</u>	
5/8"	1,454
1"	143
1 1/2"	38
2"	38
3"	6
4"	4
6"	3
8"	<u>2</u>
<i>Total</i>	<i>1,566</i>

Source: City of Calistoga

Table 2
City of Calistoga Water System
New Connections
As of June 30, 2013 through June 30, 2017

<u>User Type</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Single-Family Residential	6	3	4	3	4
Multiple Family Residential	0	0	4	0	0
Commercial/Institutional	<u>3</u>	<u>2</u>	<u>3</u>	<u>0</u>	<u>2</u>
<i>Total All Users</i>	<i>9</i>	<i>5</i>	<i>11</i>	<i>3</i>	<i>6</i>

Source: City of Calistoga

Top Ten Customers. The following table identifies the top ten customers of the Water System.

**Table 3
City of Calistoga Water System
Top Ten Customers
Fiscal Year 2016-17**

No.	Customer Category	Use per CCF ⁽¹⁾	Revenue	% Gross Revenues ⁽²⁾
1	Mobile Home Park	11,206	\$99,808	2.3%
2	Mobile Home Park	10,399	94,694	2.2
3	Mobile Home Park	6,356	68,988	1.6
4	Hotel Resort/Spa	4,766	40,330	0.9
5	Apartments	3,918	30,675	0.7
6	Hotel Resort/Spa	3,361	29,370	0.7
7	Apartments	2,197	18,682	0.4
8	Hotel Resort/Spa	2,227	17,744	0.4
9	Hotel Resort/Spa	1,884	17,551	0.4
10	Hotel Resort/Spa	1,715	13,595	0.3
<i>Total</i>		<u>48,029</u>	<u>\$431,437</u>	10.0%

(1) 1 CCF equals 100 Cubic Feet.

(2) Gross Revenues of the Water System for Fiscal Year 2016-17 was equal to \$4,309,964. See Table 8.
Source: City of Calistoga.

Water Rates and Charges

The City has the power to establish rates and charges as needed to operate the Water System. Its charges are established by the City Council and are not subject to review or approval by any other agency.

User Charges and Connection Fees. On March 6, 2018, by the City Council’s adoption of Ordinance 734, the City increased water rates by 15% for the remainder of calendar year 2018, 14% for calendar year 2019, 10% for 2020, 10% for 2021 and 10% for 2022. The City’s rate setting process followed the Proposition 218 noticing requirements for utilities. See “CERTAIN RISK FACTORS – Articles XIIC and XIID of the California Constitution.”

The foregoing rates were described in a Wastewater Rate Study Final Report, dated February 20, 2018, prepared by Bartle Wells Associates, as rate consultant to the City. As noted in the report, the rate changes (1) increase overall water rate revenue to better reflect the cost of service; (2) increase the proportion of fixed revenue to 40% fixed and 60% variable to more reliably recover revenue; and (3) modify the volumetric rate structure by shifting from a complex multi-tiered structure to a uniform rate per hundred cubic foot for all customers

The following table shows the City’s current rates for the Water System. Current rates include a monthly fixed charge which is determined by meter size, and a variable charge which varies by customer class. Single-family residences pay volume-based charges according to a four-tier rate structure, and multi-family and commercial users pay a two-tier rate structure based on peak use determined by a meter demand factor: peak service unit of water use by meter size multiplied by the meter demand factor for their customer class.

**Table 4A
City of Calistoga Water System
Current Rates⁽¹⁾**

Rate Revenue Increase % 15.00% 14.00% 10.00% 10.00% 10.00%

Fixed Charge – All Customer Classes

Meter Size	May 1, 2018	January 1, 2019	January 1, 2020	January 1, 2021	January 1, 2022
5/8" or 3/4"	\$33.03	\$37.66	\$41.42	\$45.57	\$50.12
1"	82.59	94.15	103.56	113.92	125.31
1 1/2"	165.17	188.29	207.12	227.84	250.62
2"	264.27	301.27	331.40	364.54	400.99
3"	495.51	564.88	621.37	683.51	751.86
4"	825.85	941.47	1,035.62	1,139.18	1,253.10
6"	1,651.71	1,882.95	2,071.24	2,278.36	2,506.20
8"	2,642.73	3,012.71	3,313.98	3,645.38	4,009.92

Volumetric Charge – All Customer Classes

	May 1, 2018	January 1, 2019	January 1, 2020	January 1, 2021	January 1, 2022
Per HCF Usage ⁽²⁾	\$7.09	\$8.08	\$8.89	\$9.78	\$10.76

(1) Customers who qualify under PG&E's low-income discount (CARE Program) are also eligible to receive low income water rate assistance from the City at a 20% total bill reduction. This is funded through non-rate revenue and amounts to a cost of approximately \$20,000 per year. Water customers residing outside the City face a 115% surcharge on the volumetric rate, which recovers costs associated with operating and maintaining the infrastructure required to serve these customers. There are very few customers in this category and revenue related to this surcharge is less than \$15,000 per year.

(2) One HCF equals approximately 748 gallons of water.

Source: City of Calistoga

The following table shows historical, current and future fixed charges for single-family residential customers with a 5/8" or 3/4" meter, which comprises approximately 45% of the users of the Water System. Proposed charges are in the following table.

**Table 4B
City of Calistoga Water System
Historical, Current and Future
Single-Family Residential Fixed Charge (5/8" or 3/4")**

Effective Date	Fixed Charge	Percent of Rate Increase
Jan. 1, 2014	\$20.94	--
Jan. 1, 2015	21.75	3.9%
Jan. 1, 2016	22.38	2.9
Jan. 1, 2017	23.05	3.0
May . 1, 2018 ⁽¹⁾	33.03	43.3
Jan. 1, 2019	37.66	14.0
Jan. 1, 2020	41.42	10.0
Jan. 1, 2021	45.57	10.0
Jan. 1, 2022	50.12	10.0

(1) Given the change in rate structure adopted for the Water System in 2018, the prior fixed charges are not directly comparable.

Source: City of Calistoga

As part of its new rate structure, the City will be implementing a single volumetric rate for all water use in all customer classes. The future rates approved by the City Council are set forth in the following table.

**Table 4C
City of Calistoga Water System
Future Volumetric Rates for All Customers**

Effective Date	Charge (Per HCF)	Percent of Rate Increase
May . 1, 2018	\$7.09	15%
Jan. 1, 2019	8.08	14
Jan. 1, 2020	8.89	10
Jan. 1, 2021	9.78	10
Jan. 1, 2022	10.76	10

Source: City of Calistoga

Connection Fee: For all permits dated after January 1, 2016, the fee for a new structure connecting to Calistoga’s Wastewater System equals \$108,325 per acre-foot. This amount is subject to escalation each year based on a 20-City construction cost index. A typical new single-family residence will pay around \$17,022 to connect to the system.

Delinquencies. Over the last ten years, the City has averaged a collection rate of ____%. Rates and charges are billed on a bi-monthly basis on a combined bill that includes both a water charges and wastewater charges. [If a customer does not pay the bill within ____ days, the City will _____].

Comparative Rates and Charges

The following table shows a comparison of water rates in neighboring cities versus the rates of the Water System for the City.

**Table 5
City of Calistoga Water System
Comparable Rates
Single-Family Residential Monthly Water Rates
As of January 1, 2018**

Provider	Rate⁽¹⁾
Windsor	\$22.75
Napa	29.32
American Canyon	32.43
Healdsburg	45.96
Sonoma	50.63
Calistoga	55.55
Yountville	59.74
St. Helena	83.56

(1) Assumes 1 EDU, 5 HCF.

Source: City of Calistoga Wastewater Rate Study dated February 20, 2018 (conducted October 2017).

Regulatory Matters

General. The City is not aware of any environmental or regulatory issues that would adversely impact its ability to provide water service as described in this Official Statement.

Regulatory Requirements. Regulatory requirements applicable to the Water System are contained in or imposed by regulation pursuant to the Federal Water Pollution Control Act, as amended, and the State of California Porter Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations applicable to the Water System are administered through the Regional Water Board.

Capital Improvement Program (CIP)

The current Capital Improvement Plan (the “CIP”) for the Water System – which addresses aging infrastructure and other needed improvements – will require additional funds to maintain prudent reserves.

The City’s Fiscal Year 2017-18 Budget for the Water System included the following capital improvement items:

- Replace the Feige Canyon Water Tank;
- Perform THM Compliance work and perform a cross connection survey;
- Install geothermal meters at three spas; and
- Begin replacement of mains and valves at approximately \$350,000 per year.

Over the next five years, total CIP projects for the Water System are estimated at approximately \$14 million. The City pursues grants to fund capital projects and has secured \$3.6 million in grant funding over the next 5 years. The February 2018 rate study conducted for the Water System anticipated that two debt financings (in fiscal years 2017-18 and 2020-21) would be required to facilitate smooth implementation of the CIP. It is anticipated this would increase the Water System’s debt service payments by about \$300,000 per year. However, the City could choose to defer or reduce capital expenditures in the future as well.

Existing Parity Debt

The following table shows the outstanding obligations of the Water System secured by the Net Revenues of the Water System.

Table 6
City of Calistoga Water System
Outstanding Long-Term Obligations⁽¹⁾

Name of Obligation	Original Principal Amount	Outstanding Principal Amount	Final Payment Date
2005 Water Installment Payments ⁽²⁾	\$5,290,000	\$3,255,000	10/01/2036
2008 Water Installment Payments ⁽²⁾	2,511,170	1,728,556	03/01/2048
2011 Water Installment Payments	3,750,000	2,848,852	07/01/2051

(1) Figures have been rounded to the nearest dollar.

(2) The City plans to refinance the 2005 and 2008 Water Installment Payments with proceeds from the Certificates.
Source: City of Calistoga.

2005 Water Installment Agreement. The City entered into an installment purchase agreement, dated November 8, 2005 between the City and the California Statewide Communities Development Authority (“**Authority**”) wherein the Authority sold a pool of water and wastewater revenue bonds. A portion of the Authority’s revenue bonds, in an original amount of \$5,290,000 were provided to the City to finance the expansion of the City’s water system and to refund certain outstanding revenue bonds of the City. In exchange, the City agreed to purchase the water system improvements from the Authority pursuant to the installment agreement. As of June 30, 2017, total remaining payments due are \$3,255,000 with a final payment due October 1, 2036.

2008 USDA Loan. In March 2008, the City entered into an installment purchase agreement with the Corporation for \$2,511,170 wherein the City agreed to make installment payments to the Corporation in exchange for the Corporation’s obtaining financing to fund water treatment plant improvements by issuing certificates of participation. The United States Department of Agriculture (USDA) provided a \$2,511,170 loan to the Corporation to provide financing for the subject improvements and for the repayment to the City of construction costs and other improvements made by the City’s water enterprise. The USDA provided the loan by purchasing the Certificates of Participation referred to above. The City reports the installment agreement receivable and payable between the Corporation and the City as long-term debt of the City’s water enterprise fund. Under the arrangements, the City has pledged net revenues of the water enterprise as security for the payment of the certificates of participation. The City is also obligated to fund a reserve fund in an amount equal to \$134,619 with funding of this reserve to be made over a ten-year period. As of June 30, 2017, total remaining principal due is \$1,728,556, with a final payment due March 1, 2048.

2011 USDA Loan. In July 2011, the City entered into an installment purchase agreement with the Corporation for \$3,750,000 wherein the City agreed to make installment payments to the Corporation in exchange for the Corporation’s obtaining financing to fund water treatment plant improvements by issuing certificates of participation. The United States Department of Agriculture (USDA) provided a \$3,750,000 loan to the Corporation to provide financing for the subject improvements and for the repayment to the City of construction costs and other improvements made by the City’s water enterprise. The USDA provided the loan by purchasing the Certificates of Participation referred to above. The City reports the installment agreement receivable and payable between the Corporation and the City as long-term debt of the City’s water enterprise fund. Under the arrangements, the City has pledged net revenues of the water enterprise as security for the payment of the certificates of participation. The City is also obligated to fund a reserve fund in an amount equal to \$148,237 with funding of this reserve to be made over a ten-year period. As of June 30, 2017, total remaining principal due is \$2,848,852, with a final payment due July 1, 2051.

Financial Information

Financial Statements. A copy of the most recent audited financial statements of the City for Fiscal Year ending June 30, 2017 is included as APPENDIX B. The City’s Water System, including operating costs, is accounted for as a business-type activity in the Water Enterprise Fund.

The summary operating results contained under “Historic Operating Results” and “Projected Operations Results and Debt Service Coverage” are derived from the City’s financial statements (excluding certain non-cash items and after certain other adjustments) and are qualified in their entirety by reference to such statements, including the notes thereto. The Auditor has not reviewed or audited the summary operating results or any other portion of this Official Statement.

Reserve Policy. Per its goal-setting meeting in March 2017, the City Council's objective is to increase the Water Fund reserves at a minimum of 20% within two fiscal years and increase the CIP Fund reserves to meet anticipated needs over the next three fiscal years. At the minimum, 20% in reserves would mean a fund balance of approximately \$600,000; the combination of ending fund balances for the Water Operations Fund and the Water Capital Fund at Fiscal Year 2017-18 is a surplus balance of approximately \$1.1 million, therefore meeting the 20% objective in reserves.

The City has had to draw down fund reserves in recent years to support annual operating and capital funding needs.

Measure A. In 1998, voters in the County passed a 1/2-cent sales and use tax for purposes of flood protection and water supply/water reliability projects in the County. The tax was authorized to be levied for 20 years, with a sunset date of June 30, 2018. The sales tax is collected and administered by the Napa County Flood Protection and Watershed Improvement Authority, of which the City is a member. The City has utilized funds available under the measure to, among other things, stabilize and enhance the Kimball Reservoir for the purpose of flood protection and water supply reliability. Although the sales tax will expire on June 30, 2018, the City does not expect any materially adverse effect on the operating results of the Water System given that all revenues from the sales tax were earmarked for specific projects designated in the measure and requested by the City.

Historic Operating Results. The following table shows audited operating results of the Water System for the fiscal years ending June 30, 2013 through June 30, 2017, taken from the City’s audited financial statements.

Table 7
City of Calistoga Water System
Historic Operating Results
Fiscal Years 2012-13 through 2016-17 (Audited)

	Audited 2012-13	Audited 2013-14	Audited 2014-15	Audited 2015-16	Audited 2016-17
Operating Revenues:					
Sales of Water	\$2,260,872	\$2,324,918	\$2,237,319	\$2,272,748	\$2,431,588
Miscellaneous	98,734	358,178	101,918	316,999	187,816
Total operating revenues	2,359,606	2,683,096	2,339,237	2,589,747	2,619,404
Operating Expenses:					
Maintenance and Operations ⁽¹⁾	1,180,208	1,549,984	1,383,785	1,865,084	1,396,608
Employee services	760,932	757,684	770,918	809,871	880,378
Interfund charges for services	82,500	82,500	82,500	82,500	82,500
Depreciation and amortization	535,752	391,774	495,310	478,780	479,049
Total operating expenses	2,559,392	2,781,942	2,732,513	3,236,235	2,838,535
Operating Income (loss)	(199,786)	(98,846)	(393,276)	(646,488)	(219,131)
Non-Operating Revenue (Expenses):					
Interest & investment revenue	800	3,664	4,293	890	10,547
Interest expense	(283,379)	(335,301)	(331,170)	(321,324)	(310,333)
Net non-operating revenues (expenses)	(282,579)	(331,637)	(326,877)	(320,434)	(300,333)
Income (loss) before contributions & transfers	(482,365)	(430,483)	(720,153)	(966,922)	(519,464)
Contributions & Transfers:					
Transfers in	--	71,900	109,400	79,400	--
Transfers out	--	--	(2,564)	(336)	--
Capital contributions	656,608	1,729,681	355,312	248,047	1,892,633
Net contributions & transfers	656,608	1,801,581	462,148	327,111	1,892,633
Change in net position	174,243	1,371,098	(258,005)	(639,811)	1,373,169
Total net position, July 1	9,810,521	9,984,764	11,355,862	9,957,208	9,317,398
Prior period adjustment ⁽²⁾	--	--	(1,140,649)	--	--
Total net position, June 30	\$9,984,764	\$11,355,862	\$9,957,208	\$9,317,398	\$10,690,567

(1) Maintenance and Operation expenses in Fiscal Year 2015-16 were materially higher than in 2014-15 due to the City's implementation of GASB 68's accounting and financial reporting for pensions.

(2) In fiscal year 2014-15, the beginning fund balance was adjusted by \$1,140,649 to reflect the City's net pension liability amount following the City's implementation of GASB 68.

Source: City's Audited Financial Statements.

The following table shows historic operating results, debt service and debt service coverage for fiscal years 2013-14 through 2016-17 (audited), and 2017-18 (estimated).

Table 8
City of Calistoga Water System
Historic Debt Service Coverage
Fiscal Years 2013-14 through 2016- 17 (Audited),
and 2017-18 (Estimated)

	2013-14	2014-15	2015-16	2016-17	2017-18 ⁽²⁾
<u>Gross Revenues</u>					
Charges for Service	\$2,324,918	\$2,237,319	\$2,272,748	\$2,431,588	\$2,611,988
Misc. Operating Revenue	358,178	101,918	316,999	187,816	187,816
Non-Operating Revenue ⁽¹⁾	1,501,486	91,486	70,239	1,720,217	93,828
Total	\$4,184,582	\$2,430,723	\$2,659,986	\$4,339,621	\$2,893,632
<u>Maintenance and Operation Expenses</u>					
Maintenance and Operations	\$1,549,984	\$1,383,785	\$1,865,084	\$1,396,608	\$1,452,472
Employee Services	757,684	770,918	809,871	880,378	915,593
Interfund Charges/Other	82,500	82,500	82,500	82,500	82,500
Total	\$2,390,168	\$2,237,203	\$2,757,455	\$2,359,486	\$2,450,565
Net Revenues	\$1,794,414	\$193,520	(\$97,469)	\$1,980,135	\$443,067
<u>Debt Service</u>					
2005 Water Installment Payments	\$357,441	\$361,003	\$354,111	\$356,794	\$353,991
2008 Water Installment Payments	112,799	112,487	113,131	112,687	113,199
2011 Water Installment Payments	112,799	134,300	135,071	134,559	135,009
Total	\$583,040	\$607,789	\$602,313	\$604,040	\$602,199
Debt Service Coverage	3.08	0.32	(0.16)	3.28	0.74

(1) Does not include grant funding and Measure A funding. Non-Operating Revenue in Fiscal Year 2016-17 of \$1,720,217 due to one-time impact fees.

(2) Figures for 2017-18 have not yet been audited. Maintenance and operation expenses assume a 4% cost escalation (except for interfund changes).

Source: City of Calistoga.

Projected Operating Results and Debt Service Coverage. The City's projected operating results for the Water System for fiscal years 2018-19 through 2022-23 are set forth in the following table, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the City's estimate of projected financial results based upon its judgment of the probable occurrence of future events. The assumptions set forth in part in the footnotes to the table set forth below are material in the development of the City's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

Table 9
City of Calistoga Water System
Projected Debt Service Coverage
Fiscal Years 2018-19 through 2022-23

	2018-19	2019-20	2020-21	2021-22	2022-23 ⁽¹⁾
<u>Gross Revenues</u>					
Charges for Service	\$3,211,886	\$3,387,226	\$3,572,148	\$3,767,176	\$3,767,176
Other Operating Revenue	157,507	158,295	159,086	159,882	167,876
Non-Operating Revenue	330,476	330,476	330,476	330,476	330,476
Total	\$3,699,869	\$3,875,997	\$4,061,710	\$4,257,534	\$4,265,528
<u>Maintenance and Operation Expenses⁽¹⁾</u>					
Water Distribution	\$733,930	\$763,287	\$793,819	\$825,572	\$858,595
Water Treatment	2,043,232	2,151,287	2,237,339	2,326,832	2,419,905
Water Conservation	51,483	53,542	55,684	57,912	60,228
Equipment	30,000	30,000	30,000	30,000	30,000
Interfund Charges/Other ⁽²⁾	34,200	37,620	41,382	45,520	45,520
Total	\$2,892,845	\$3,035,736	\$3,158,224	\$3,285,836	\$3,414,249
Net Revenues	\$807,024	\$840,261	\$903,486	\$971,698	\$851,279
<u>Debt Service</u>					
2011 Installment Payments	\$134,421	\$134,796	\$135,121	\$134,409	\$134,659
2018 Installment Payments (Water System)*	436,755	434,519	435,219	434,219	431,369
Total*	\$571,176	\$569,315	\$570,340	\$568,628	\$566,028
Debt Service Coverage*	1.41	1.48	1.58	1.71	1.50

* Preliminary, subject to change.

(1) Assumes an annual cost escalation of approximately 4% and annual interest earnings of approximately 2%.

(2) Low-income rate assistance program.

Source: City of Calistoga, Bartle Wells and the Underwriter.

THE WASTEWATER SYSTEM

Wastewater Facilities and Operations

General. The Wastewater System consists of approximately 18 miles of sewer mains, 330 manholes, various pumping stations, 5.5 miles of recycled water mains, 1,337 lateral connections and 50 million gallons of storage ponds.

Also included within the Wastewater System is the Dunaweal Wastewater Treatment Plant (the “**Dunaweal Treatment Plant**”). The Dunaweal Treatment Plant is permitted to treat a maximum daily dry weather flow of 840,000 gallons of sewage per day and in excess of 4.0 million gallons per day (mgd) during peak wet weather flow under a National Pollutant Discharge Elimination System (“**NPDES**”) permit issued by the San Francisco Bay Regional Water Quality Control Board (the “**Regional Water Board**”). Current dry weather flows are approximately 500,000 gallons per day. With the completion of a new 16.4 million-gallon storage pond, there is approximately 48 million gallons of storage capacity. The Dunaweal Treatment Plant provides tertiary treatment and filtration of the City's sewage so that it can be beneficially reused as recycled water for irrigation or discharged to the Napa River when River flows are high enough. Typically, 200 to 300 million gallons of reclaimed water are distributed for irrigation each year. The system also includes storage ponds, and recycled water distribution facilities. The effluent storage pond is a storage basin used to hold tertiary treated effluent before it is recycled or discharged from the plant; the total volume available in the storage pond is 20 million gallons.

The Dunaweal Treatment Plant was last upgraded in 2002, by converting the plant to tertiary treatment capability to provide “Title 22” recycled water.

The City, like much of the State, is located in a seismically active area. Facilities constructed by the City are designed to meet applicable building code standards. See “CERTAIN RISK FACTORS – Natural Disasters.”

Wastewater System Insurance. The City maintains insurance on its properties, which include the components of the Wastewater System. For additional information on insurance maintained by the City, see Note A – Other Information within the Notes to the Financial Statements of APPENDIX B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT, JUNE 30, 2017.”

Wastewater System Operations and Personnel. The Wastewater System is maintained and operated by the City's public works department. For additional information on employee costs and pension obligations for the City's employees, see Note C – Other Information within the Notes to the Financial Statements of APPENDIX B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT, JUNE 30, 2017.”

Service Area and Customers

Service Area. As of January 1, 2018, the Wastewater System served an estimated population of approximately 6,000, residing both inside and adjacent to the City. Within the service area, the Wastewater System currently provides sewer service to approximately 1,566 customers. Customers are defined as the number of utility billing accounts and do not take into consideration multiple users on individual accounts. For example, there are four accounts for the mobile home parks in the City that provide wastewater services to 555 mobile homes. Approximately 45% of the City's sewer connections are for single-family residential uses.

Number of Connections. The following tables provide historical information on the number of total residential and non-residential connections to the Wastewater System, and the number of new connections for fiscal years 2012-13 through 2016-17.

Table 10
City of Calistoga Wastewater System
Total Connections
As of June 30, 2013 through June 30, 2017

User Type	2013	2014	2015	2016	2017
Residential	1,148	1,150	1,159	1,159	1,162
Non-Residential ⁽¹⁾	<u>196</u>	<u>199</u>	<u>196</u>	<u>197</u>	<u>197</u>
<i>Total</i>	<i>1,344</i>	<i>1,349</i>	<i>1,355</i>	<i>1,356</i>	<i>1,359</i>

(1) Non-Residential includes Transient (Transient General, Spa, Campground and Bed & Breakfast categories) and Other Non-Residential (Commercial General, Restaurant/Bakery, Laundry, Public Building, Medical Care, Brewery/Winery, School and Service Station categories).

Source: *City of Calistoga*.

Table 11
City of Calistoga Wastewater System
New Connections
As of June 30, 2013 through June 30, 2017

User Type	2013	2014	2015	2016	2017
Residential					
Single-Family	5	2	4	2	2
Multi-Family ⁽¹⁾	0	0	1	0	0
Mobile Home	0	0	0	0	0
Non-Residential ⁽²⁾	<u>1</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>
<i>Total All Users</i>	<i>6</i>	<i>3</i>	<i>6</i>	<i>2</i>	<i>2</i>

(1) New multi-family residential connection in Fiscal Year 2015 serves 48 new apartment units.

(2) Non-Residential includes Transient (Transient General, Spa, Campground and Bed & Breakfast categories) and Other Non-Residential (Commercial General, Restaurant/Bakery, Laundry, Public Building, Medical Care, Brewery/Winery, School and Service Station categories).

Source: *City of Calistoga*.

Top Ten Customers. The following table identifies the top ten customers of the Wastewater System.

**Table 12
City of Calistoga Wastewater System
Top Ten Customers
Fiscal Year 2016-17**

No.	Customer Category	Water Use per [HCF] ⁽¹⁾	Revenue	% Gross Revenues ⁽¹⁾
1	Mobile Home Park	11,206	\$82,579	1.5%
2	Mobile Home Park	10,399	77,523	1.4
3	Hotel Resort/Spa	4,766	62,941	1.1
4	Mobile Home Park	6,356	60,249	1.1
5	Hotel Resort/Spa	3,361	44,446	0.8
6	Hotel Resort/Spa	2,227	38,707	0.7
7	Hotel Resort/Spa	1,884	32,631	0.6
8	Apartments	2,197	31,314	0.6
9	Apartments	3,918	30,662	0.6
10	Hotel Resort/Spa	<u>1,715</u>	<u>22,653</u>	<u>0.4</u>
<i>Total</i>		<i>48,029</i>	<i>\$483,705</i>	<i>8.8%</i>

(1) [1 HCF equals 100 Cubic Feet.] [Note: Should this be CCF? See table 3]

(2) Gross Revenues of the Wastewater System for Fiscal Year 2016-17 was equal to \$5,494,067. See Table 17.

Source: City of Calistoga.

Wastewater Rates and Charges

The City has the power to establish rates and charges as needed to operate the Wastewater System. Its charges are established by the City Council and are not subject to review or approval by any other agency.

User Charges and Connection Fees. On March 6, 2018, by the City Council’s adoption of Ordinance 735, the City increased the minimum wastewater rate by 15% for calendar year 2018, 13% for 2019, 10% for 2020, 10 % for 2021, and 3% for 2022. The City’s rate setting process followed the Proposition 218 noticing requirements for utilities. See “CERTAIN RISK FACTORS - Articles XIIC and XIID of the California Constitution.”

The foregoing rates were described in a Wastewater Rate Study Final Report, dated February 20, 2018, prepared by Bartle Wells Associates, as rate consultant to the City. As noted in the report, prior to the adoption of the rate study, cost allocations among customers of the Wastewater System had shifted in favor of commercial users. For example, the City’s current rate of \$5.17 for general commercial water use is equal to nearly 13 units at the Single Family Residential flat monthly rate, while actual typical residential indoor water use is much less. The revised rate structure re-aligns each customer class to ensure equitable costs of service across customer classes.

The following table shows the City's current rates for the Wastewater System.

**Table 13A
City of Calistoga Wastewater System
Current Rates**

<u>User Category</u>	<u>Basis</u>	<u>Charge</u>
<u>Residential Rates</u>		
Single-Family Residential	Flat Monthly	\$69.49
Multi-Family Residential	Flat Monthly Per Meter	58.37
Mobile Home	Flat Monthly Per Meter	37.53
<u>Transient Rates</u>		
Transient General	Per HCF Water Use	\$14.19
Spa	Per HCF Water Use	14.19
Campground	Per HCF Water Use	14.19
Bed & Breakfast	Per HCF Water Use	14.19
<u>Other Non-Residential Rates</u>		
Commercial General	Per HCF Water Use	\$9.38
Restaurant/Bakery	Per HCF Water Use	24.75
Laundry	Per HCF Water Use	9.38
Public Building	Per HCF Water Use	9.38
Medical Care	Per HCF Water Use	9.38
Brewery/Winery	Per HCF Water Use	9.38
School	Per HCF Water Use	9.38
Service Station	Per HCF Water Use	9.38
<u>Industrial & Bottling Works</u>		
Measured Flow Rate	Per mg of Measured Flow	\$10,338.55
Calculated BOD Rate	Per Pound	1.88
Calculated SS Rate	Per Pound	1.42
<u>Groundwater Discharge Rate</u>		
Spa	Per HCF Water Use	\$4.77
Residential Spa/Commercial	Per HCF of Groundwater Measured Flow Only	9.90
<u>Other Rates</u>		
Wastewater Capacity Allocation	Flat Monthly	\$47.37
Minimum Rate for All Non-Residential User Categories	Flat Monthly	40.78

Source: City of Calistoga.

The following table shows historical, current and future sewer service charges for single-family residential customers, which comprises approximately 45% of the users of the Wastewater System.

**Table 13B
City of Calistoga Wastewater System
Historical, Current and Future Rates
Single-Family Residential**

Effective Date	Monthly Charge	Percent of Rate Increase
Jan. 1, 2014	\$61.82	--
Jan. 1, 2015	62.72	1.5%
Jan. 1, 2016	63.97	2.0
Jan. 1, 2017	65.25	2.0
Mar. 1, 2018	69.49	6.5
Jan. 1, 2019	78.53	13.0
Jan. 1, 2020	86.38	10.0
Jan. 1, 2021	95.02	10.0
Jan. 1, 2022	97.87	3.0

Source: City of Calistoga

Connection Fee: For all permits dated after January 1, 2016, the fee for a new structure connecting to Calistoga’s Wastewater System equals \$108,325 per acre foot. This amount is subject to escalation each year based on a 20-City construction cost index. A typical new single-family residence will pay around \$26,011 to connect to the system.

Delinquencies. Over the last ten years, the City has averaged a collection rate of ____%. Rates and charges are billed on a bi-monthly basis on a combined bill that includes both a water charges and wastewater charges. [If a customer does not pay the bill within ____ days, the City will ____.]

Comparative Rates and Charges

The following table shows a comparison of wastewater charges of sewer service providers in neighboring cities versus the rate of the City.

**Table 14
City of Calistoga Wastewater System
Comparable Single-Family Residential Rates
As of January 1, 2018**

Provider	Rate⁽¹⁾
Yountville	\$44.82
American Canyon	51.75
Napa	53.18
Windsor	60.24
Calistoga	65.25
Sonoma	76.95
St. Helena	80.70
Healdsburg	89.38

(1) Assumes 1 EDU, 5 HCF (the median monthly single-family usage in Calistoga for Fiscal Year 2015-16).
Source: City of Calistoga Wastewater Rate Study dated February 20, 2018 (conducted January 2017).

Regulatory Matters

General. The City is not aware of any environmental or regulatory issues that would adversely impact its ability to provide wastewater service as described in this Official Statement.

Regulatory Requirements. Regulatory requirements applicable to the Wastewater System are contained in or imposed by regulation pursuant to the Federal Water Pollution Control Act, as amended, and the State of California Porter Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations applicable to the Wastewater System are administered through the Regional Water Board.

Order No. 2006-003. The Wastewater System, because it is longer in length than one mile and collects and conveys untreated wastewater to a publicly owned treatment facility, is required to comply with State Water Resources Control Board (the “**State Water Board**”) Order No. 2006-0003, as amended, which is intended to limit and mitigate the impacts of sanitary sewer overflows and requires development and implementation of a system-specific Sewer System Management Plan (“**SSMP**”). The City’s SSMP was initially developed in 2006 and has been revised several times since then in order to comply with ongoing regulations. The SSMP complies with Order 2006-0003 and all amendments and supplements thereto.

NPDES Permit. The Dunaweal Treatment Plant is regulated by the Regional Water Board as required by NPDES Permit No. CA0037966, Order No. R2-2016-0018 approved on April 13, 2016 by the Regional Water Board.

As required by its NPDES permit, the City must undertake pollution prevention activities to reduce certain constituents in its final effluent prior to discharge. Pollutants of concern are identified by the City and the Regional Water Board and include those constituents that could cause or contribute to an exceedance of water quality objectives in the Napa River. Annual Pollution Prevention Reports are required to be submitted to the Regional Water Board.

Discharge permits are reviewed every five years by the Regional Water Board. The City will be expected to meet future effluent limitations and take the steps necessary for any plant upgrades required to achieve compliance.

Cease and Desist Order. In 2010, the Regional Water Board issued Cease and Desist Order No. R2-2010-0107, which established tasks and a time schedule for the City to comply by August 31, 2014 with certain effluent limits. On April 13, 2016, the Regional Water Board adopted an amended Cease and Desist Order No. R2-2016-0019 which requires the City to comply with disinfection byproduct limits, antimony and boron effluent limits and to address seepage from the riverside ponds. The City recently paid \$6,000 in mandatory minimum penalties for some permit exceedances. The deadline for compliance is October 31, 2019.

The City estimates that to come into compliance, it will need to make approximately \$7 million of improvements to the Dunaweal Treatment Plant. See “–Capital Improvement Program (CIP)” below.

Capital Improvement Program (CIP)

Capital improvement projects for the Wastewater System in the amount of approximately \$13.8 million are expected for Fiscal Years 2017-18 through 2021-22. The City’s Wastewater Capital Improvement Plan (the “**CIP**”) addresses aging infrastructure, Cease and Desist Order

requirements, and Regional Water Quality Control Board Permit requirements. Approximately \$2.0 million in the CIP would pay for necessary projects such as water line replacements, lateral service replacements, storage tank replacement, Kimball Reservoir improvements and disinfection by-product reduction that are necessary to keep the water distribution system in sound operational shape and in compliance with State and Federal regulations for provision of safe drinking water.

Projects include funding replacement of the Pine Street Lift Station, Sewer System Assessment, Sewer Lateral Replacement, Inflow and Infiltration Improvements, Sewer Main Replacements, Palisades Life Station Repairs, Geothermal Water Meter, Upgrades for Cease and Desist Order Compliance, Recycled Water Pump, Lincoln Bridge Recycled Water Line, Grit Removal Aeration Basin and Riverside Ponds River Restoration. A Hazard Mitigation Grant (“HMG”) is anticipated to provide \$50,000 for the design and environmental review for reconstruction and lining of the Riverside Ponds and River Restoration project. Construction is anticipated in Fiscal Year 2018-19 and will be funded by the HMG. The remaining projects will be covered through one-time impact fees and the transfer from the wastewater operations fund.

The City anticipates pursuing grants to fund capital projects and has secured \$3.4 million in grant funding over the next 5 years. This will offset some capital costs but cannot fully cover what is needed to meet the City’s capital needs.

Existing Parity Debt

The following table shows the outstanding obligations of the Wastewater System payable from the Net Revenues of the Wastewater System.

Table 15
City of Calistoga Wastewater System
Outstanding Long-Term Obligations⁽¹⁾

Name of Obligation	Original Principal Amount	Outstanding Principal Amount	Final Payment Date
1999 SRF Loan	\$5,609,999	\$1,996,501 ⁽²⁾	10/30/2023
2001 Wastewater Installment Payments ⁽³⁾	3,500,000	2,230,000	10/01/2032
2005 Wastewater Installment Payments ⁽³⁾	2,028,500	1,688,700	05/01/2045

(1) Figures have been rounded to the nearest dollar.

(2) Represents the aggregate of principal and interest due under the 1999 SRF Loan.

(3) The 2001 Wastewater Installment Payments and the 2005 Wastewater Installment Payments are expected to be refunded by the Certificates of Participation.

Source: City of Calistoga.

1999 SRF Loan. On December 3, 1999, the City entered into the 1999 SRF Loan to finance construction of the City’s Dunaweal Treatment Plant. The 1999 SRF Loan has been amended three times to-date. As of June 30, 2017, total remaining payments due under the SFR Loan are \$1,996,501 with a final payment due October 30, 2023.

2001 Installment Agreement. The City entered into an installment purchase agreement, dated August 1, 2001 between the City and the California Statewide Communities Development Authority (“CSCDA”) wherein the Authority sold a pool of water and wastewater revenue bonds. A portion of the Authority’s revenue bonds, in an original amount of \$3,500,000 were provided to the City to finance the expansion of the City’s water system and to refund the City’s outstanding revenue bonds. In exchange, the City agreed to purchase the water system improvements from

the Authority pursuant to the installment agreement. As of June 30, 2017, total remaining payments due are \$2,230,000 with a final payment due October 1, 2032.

2005 USDA Loan. In May 2005, the City entered into an installment purchase agreement with the Calistoga Public Facilities Corporation (the “**Corporation**”) for \$2,028,500 wherein the City agreed to make installment payments to the Corporation in exchange for the Corporation’s obtaining financing to fund water treatment plant improvements by issuing certificates of participation. The United States Department of Agriculture (USDA) provided a \$2,028,500 loan to the Corporation to provide financing for the subject improvements and for the repayment to the City of construction costs and other improvements made by the City’s water enterprise. The USDA provided the loan by purchasing the Certificates of Participation referred to above. The City reports the installment agreement receivable and payable between the Corporation and the City as long-term debt of the City’s water enterprise fund. Under the arrangements, the City has pledged net revenues of the water enterprise as security for the payment of the certificates of participation. The City is also obligated to fund a reserve fund in an amount equal to \$105,837 with funding of this reserve to be made over a ten-year period. As of June 30, 2017, total remaining payments due are \$1,688,700 with a final payment due May 1, 2045.

Financial Information

Financial Statements. A copy of the most recent audited financial statements of the City for Fiscal Year ending June 30, 2017 is included as APPENDIX B. The City’s Wastewater System, including operating costs of the wastewater collection system and water recycling plant, are accounted for as a business-type activity in the Wastewater Enterprise Fund.

The summary operating results contained under “Historic Operating Results” and “Projected Operations Results and Debt Service Coverage” are derived from the City’s Financial Statements (excluding certain non-cash items and after certain other adjustments) and are qualified in their entirety by reference to such statements, including the notes thereto. The Auditor has not reviewed or audited the summary operating results or any other portion of this Official Statement.

Reserve Policy. Per its goal-setting meeting in March 2017, the City Council’s objective is to increase the Wastewater Fund reserves at a minimum of 20% within two fiscal years and increase the CIP Fund reserves to meet anticipated needs over the next three fiscal years. At the minimum 20% in reserves would mean a fund balance of approximately \$0.6 million; the combination of ending fund balances for the Wastewater Operations Fund and the Wastewater Capital Fund at Fiscal Year 2017-18 is a surplus balance of approximately \$0.5 million, therefore not meeting the 20% objective in reserves.

Historic Operating Results. The following table shows audited operating results of the Wastewater System for the fiscal years ending June 30, 2013 through June 30, 2017, taken from the City’s audited financial statements.

Table 16
City of Calistoga Wastewater System
Historic Operating Results
Fiscal Years 2012-13 through 2016-17 (Audited)

	Audited 2012-13	Audited 2013-14	Audited 2014-15	Audited 2015-16	Audited 2016-17
Operating Revenues:					
Service Fees	\$2,229,715	\$2,278,235	\$2,317,409	\$2,378,627	\$2,409,004
Miscellaneous	51,798	51,030	58,110	52,312	58,355
Total operating revenues	2,281,513	2,329,265	2,375,519	2,430,939	2,467,359
Operating Expenses:					
Maintenance and Operations	832,658	900,318	791,409	1,089,664	726,721
Employee services	810,639	808,650	864,365	944,437	1,065,137
Interfund charges for services	82,500	82,500	82,500	82,500	82,500
Depreciation and amortization	748,870	621,672	625,829	633,940	645,561
Total operating expenses	2,474,667	2,413,140	2,364,103	2,750,541	2,519,469
Operating Income (loss)	(193,154)	(83,875)	11,416	(319,602)	(52,110)
Non-Operating Revenue (Expenses):					
Interest & investment revenue	4,862	5,263	3,927	3,114	20,345
Interest expense	(307,627)	(295,562)	(282,818)	(149,495)	(193,244)
Net non-operating revenues (expenses)	(302,765)	(290,299)	(278,891)	(146,381)	(172,899)
Income (loss) before contributions & transfers	(495,919)	(374,174)	(267,475)	(465,983)	(225,009)
Contributions & Transfers:					
Transfers in	--	--	2,564	105,946	--
Transfers out	--	--	--	--	--
Capital contributions	1,769,766	221,547	155,562	836,170	2,927,222
Net contributions & transfers	1,769,766	221,547	158,126	942,116	2,972,222
Change in net position	1,273,847	(152,627)	(109,349)	476,133	2,747,213
Total net position, July 1	5,333,538	6,607,385	6,454,758	5,080,626	5,556,759
Prior period adjustment ⁽¹⁾	--	--	1,264,783	--	--
Total net position, June 30	\$6,607,385	\$6,454,758	\$5,080,626	\$5,556,759	\$8,303,972

(1) In fiscal year 2014-15, the beginning fund balance was adjusted by \$1,264,783 to reflect the City's net pension liability amount following the City's implementation of GASB 68 accounting and financial reporting for pensions.

Source: *The City's Audited Financial Statements.*

The following table shows historic operating results, debt service and debt service coverage for fiscal years 2013-14 through 2016-17 (audited), and 2017-18 (estimated).

Table 17
City of Calistoga Wastewater System
Historic Debt Service Coverage
Fiscal Years 2013-14 through 2016- 17 (Audited),
and 2017-18 (Estimated)

	2013-14	2014-15	2015-16	2016-17	2017-18 ⁽²⁾
<u>Gross Revenues</u>					
Charges for Service	\$2,278,235	\$2,317,409	\$2,378,627	\$2,409,004	\$2,559,977
Other Operating Revenue	51,030	58,110	52,312	58,355	69,565
Non-Operating Revenue ⁽¹⁾	221,547	155,562	79,724	3,026,708	282,864
Total	<u>\$2,550,812</u>	<u>\$2,531,081</u>	<u>\$2,510,663</u>	<u>\$5,494,067</u>	<u>\$2,912,406</u>
<u>Maintenance and Operation Expenses</u>					
Maintenance and Operations	\$900,318	\$791,409	\$1,089,664	\$726,721	\$755,790
Employee Services	808,650	864,365	944,437	1,065,137	1,107,742
Interfund Charges/Other	82,500	82,500	82,500	82,500	82,500
Total	<u>\$1,791,468</u>	<u>\$1,738,274</u>	<u>\$2,116,601</u>	<u>\$1,874,358</u>	<u>\$1,946,032</u>
Net Revenues	\$759,344	\$792,807	\$394,062	\$3,619,709	\$966,374
<u>Debt Service</u>					
1999 SRF Loan	\$363,591	\$363,591	\$363,591	\$363,591	\$363,591
2001 Wastewater Installment Payments	223,813	224,603	225,068	225,198	224,983
2005 Wastewater Installment Payments	106,364	106,370	106,224	106,332	106,381
Total	<u>\$693,768</u>	<u>\$694,564</u>	<u>\$694,883</u>	<u>\$695,121</u>	<u>\$694,955</u>
Debt Service Coverage	1.09	1.14	0.57	5.21	1.39

(1) Non-Operating Revenue in Fiscal Year 2016-17 equal to \$3,026,708 due to one-time impact fees.

(2) Figures for 2017-18 have not yet been audited. Maintenance and operation expenses assume a 4% cost escalation (except for interfund changes).

Source: City of Calistoga.

Projected Operating Results and Debt Service Coverage. The City's projected operating results for the Wastewater System for fiscal years 2018-19 through 2022-23 are set forth in the following table, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the City's estimate of projected financial results based upon its judgment of the probable occurrence of future events. The assumptions set forth in part in the footnotes to the table set forth below are material in the development of the City's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

Table 18
City of Calistoga Wastewater System
Projected Operating Results*
Fiscal Years 2018-19 through 2022-23

	2018-19	2019-20	2020-21	2021-22	2022-23 ⁽¹⁾
<u>Operating Revenues</u>					
Charges for Service	\$3,302,218	\$3,474,264	\$3,655,273	\$3,717,522	\$3,717,522
Other Operating Revenue	69,704	69,843	69,983	70,123	70,263
Non-Operating Revenue	643,448	643,450	643,451	643,453	643,455
Total	\$4,015,370	\$4,187,557	\$4,368,707	\$4,431,098	\$4,431,240
<u>Maintenance and Operation Expenses⁽¹⁾</u>					
Wastewater Treatment	\$1,898,894	\$1,973,450	\$2,050,988	\$2,131,628	\$2,215,439
Wastewater Collection	790,337	821,950	854,828	889,021	924,582
Interfund Charges/Other	--	--	--	--	--
Total	\$2,689,231	\$2,795,400	\$2,905,816	\$3,020,649	\$3,140,021
Net Revenues	\$1,326,139	\$1,392,157	\$1,462,891	\$1,410,449	\$1,291,219
<u>Debt Service:</u>					
1999 SRF Loan	\$363,591	\$363,591	\$363,591	\$363,591	\$363,591
2018 Installment Payments (Wastewater System)*	330,711	329,518	328,415	326,882	329,998
Total	\$694,302	\$693,109	\$692,006	\$690,473	\$693,589
Debt Service Coverage	1.91	2.01	2.11	2.04	1.86

*Preliminary, subject to change.

(1) Assumes an annual cost escalation of approximately 4% and annual interest earnings of approximately 2%.

Source: City of Calistoga, Bartle Wells and Underwriter.

CERTAIN RISK FACTORS

The purchase of the Certificates involves investment risk. If a risk factor materializes to a sufficient degree, it could delay or prevent payment of principal of and interest on the Certificates. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors. The following is not intended to be a comprehensive or definitive discussion of the risks associated with an investment in the Certificates, and the order in which this discussion is presented does not necessarily reflect the relative importance of various risks. There can be no assurance that other risk factors not discussed herein will not become material in the future.

Net Revenues; Rate Covenants Not a Guarantee

Net Revenues of the Enterprises are dependent upon the demand for water and wastewater services, which can be affected by population factors, more stringent water and wastewater standards, water and wastewater regulations, or problems with the City's water or wastewater collection and treatment facilities. There can be no assurance that water and wastewater service demand will be consistent with the levels contemplated in this Official Statement. A decrease in the demand for water and wastewater services could require an increase in rates or charges on Enterprise customers in order to comply with the rate covenants. The City's ability to meet its rate covenants is dependent upon its capacity to increase rates to a level sufficient to meet its obligations to make the Installment Payments and payments on Parity Debt.

The City's rate covenants under the 2018 Installment Sale Agreement do not constitute a guarantee that sufficient Net Revenues will be available to pay debt service on the Certificates. In addition, see "–California Constitution Articles XIII C and XIII D" below for information regarding potential limitations on the City's ability to comply with the rate covenants as a consequence of Proposition 218 and Proposition 26.

There can be no assurance that the City can succeed in operating the Enterprises such that the Net Revenues in the future amounts projected in this Official Statement will be realized. Reductions in the level of revenue could require an increase in rates and charges in order to produce Net Revenues sufficient to comply with the City's rate covenants contained in the 2018 Installment Sale Agreement, and any such increases could act to further decrease demand.

Water and Wastewater System Expenses

There can be no assurance that expenses of the City will be consistent with the levels contemplated in this Official Statement. Changes in technology, changes in quality standards, increases in the cost of operation or other expenses and changes in regulations could require substantial increases in rates or charges in order to comply with the rate covenants in the 2018 Installment Sale Agreement. Such rate increases could increase delinquencies by Enterprise customers and increase the possibility of nonpayment of the Certificates.

Environmental Regulation

The kind and degree of water and wastewater service which is effected through the Enterprises is regulated, to a large extent, by the federal government and the State of California. If the federal government, acting through the Environmental Protection Agency or additional legislation, or the State should impose stricter quality standards upon the Water System or the

Wastewater System, the City's expenses could increase accordingly, and rates and charges would have to be increased to offset those expenses. In general, federal and State regulation of water and wastewater treatment standards has increased in recent history.

Insurance

The 2018 Installment Sale Agreement obligates the City to obtain and keep in force various forms of insurance or self-insurance for repair or replacement of a portion of each of the Enterprises in the event of damage or destruction to such portion of the Enterprises. No assurance can be given as to the adequacy of any such self-insurance or any additional insurance to fund necessary repair or replacement of any portion of either Enterprise. Significant damage to either or both of the Enterprises could cause the City to be unable to generate sufficient Net Revenues to pay debt service on the Certificates.

California Constitution Articles XIIC and XIID

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

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

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

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

Judicial Interpretation of Proposition 218. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General's opinion initially indicated that fees and charges for water and wastewater services, which are based on the amount of services consumed, would not be considered property-related fees and charges, and thus not subject to the requirements

of Article XIII D. However, numerous subsequent court cases have held that certain types of water and wastewater charges could be subject to the requirements of Proposition 218. These cases include, for example, *Capistrano Taxpayers Assoc., Inc. v. City of San Juan Capistrano* (186 Cal. Rptr. 3d 362 (Cal. App. 4th Distr. 2015)), *Bighorn-Desert View Water Agency v. Verjil* (46 Cal. Rptr. 3d 73 (Cal. 2006)), and *Howard Jarvis Taxpayers Assoc. v. City of Fresno* (26 Cal. Rptr. 3d 153 (Cal. App. 5th Distr. 2005)).

Proposition 26. On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except certain charges and fees specified therein. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.

City’s Current Practice Regarding Rates and Charges. The City’s current water and wastewater rates (see “THE WATER SYTEM – Water Rates and Charges” and “THE WASTEWATER SYSTEM – Wastewater Rates and Charges,” respectively) were adopted by ordinance of the City Council following notice to property owners and a public hearing held at least 45 days after the notice had been mailed, in compliance with the *Bighorn* decision.

Conclusion. It is not possible to predict how courts will further interpret Article XIII C and Article XIII D in future judicial decisions, and what, if any, further implementing legislation will be enacted. Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the City’s rates and charges, though it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness, as is the case with respect to the Certificates. ***There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIII C and Article XIII D to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for wastewater, or to call into question previously adopted wastewater rate increases.***

Possible Future Initiatives

In recent years several measures other than Proposition 218 and Proposition 26 have been proposed or adopted which affect the ability of local governments to increase taxes, rates, and property-related fees and charges. There is no assurance that the electorate or the State Legislature will not at some future time approve additional limitations that could affect the ability of the City to implement rate increases for the Enterprises, which could reduce Net Revenues and the City’s ability to pay debt service on the Certificates and Parity Debt, and could adversely affect the security for the Certificates.

Future Parity Debt

As described in “SECURITY FOR THE CERTIFICATES – Issuance of Parity Debt,” the 2018 Installment Sale Agreement permits the City to incur additional Parity Debt, which would be payable on a parity with the payment of the Installment Payments (which secure the payment of the Certificates), the 2011 Installment Payments, the 1999 SRF Loan and other Parity Debt. In the event of a decline in Net Revenues available to pay debt service on the Certificates, the

existence of Parity Debt and additional Parity Debt could adversely affect the City's ability to pay the Installment Payments (which secure the payment of the Certificates).

Limitations on Remedies Available to Owners of the Certificates

The ability of the City to comply with its covenants under the Trust Agreement and 2018 Installment Sale Agreement and to generate Net Revenues sufficient to pay the Installment Payments (which secure the payment of the Certificates) may be adversely affected by actions and events outside of the control of the City, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “– Articles XIII C and XIII D of the California Constitution” above. Furthermore, any remedies available to the Owners of the Certificates upon the occurrence of an event of default under the Trust Agreement 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 remedies contained in the Trust Agreement, the rights and obligations under the Certificates and the Trust Agreement may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Certificates 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.

Natural Disasters

From time to time, the City may be subject to natural calamities that may adversely affect economic activity in the City, which therefore may have a negative impact on City finances. There can be no assurance that the occurrence of any natural calamity would not cause substantial interference to the Enterprises, or that the City would have insurance or other resources available to make repairs to the Enterprises, possibly impacting Net Revenues.

Earthquakes. The City, like most regions in California, is an area of significant seismic activity, and therefore, is subject to potentially destructive earthquakes. Principal active faults located near the City are the Cordelia, Green Valley and West Napa faults. No active faults are known to exist in the City. The active fault closest to the City is the West Napa fault, the north terminus of which is approximately 15 miles south of the City. A portion of this fault was the cause of the Yountville earthquake, which shook the area in 2000. In addition to these faults, other seismic activity on more distant faults could also cause serious ground shaking in the City.

Casualty and liability insurance may not cover losses due to earthquake. The 2018 Installment Sale Agreement requires the City to obtain and maintain insurance with responsible insurers, all such insurance on the Enterprises as is customarily maintained with respect to works and properties of like character, and does not specifically require the City to procure earthquake insurance. If there were to be an occurrence of severe seismic activity in the City, there could be substantial damage to and interference with the City's Enterprises, which could impact the

receipt of Net Revenues. The City does not currently carry earthquake insurance on the Water System or the Wastewater System.

Flooding. The City is located near the Napa River and has previously experienced major flooding. The City's Water System and Wastewater System facilities are located within an area of the City that, according to the Federal Emergency Management Agency (FEMA), has a one percent chance of being inundated during any particular 12-month period. Future flood activity could cause damage to and interference with the Enterprises, which could impact the receipt of Net Revenues.

Droughts. California is subject to droughts from time-to-time. On April 1, 2015, for the first time in California's history, Governor Edmund G. Brown directed the State Wastewater Resources Control Board to implement mandatory water reductions in cities and towns across California to reduce water usage by 25%. Following a wet winter in 2016-17, most of the mandatory water reductions were lifted. See "THE WATER SYSTEM" and "THE WASTEWATER SYSTEM" for a discussion of the impact of the drought on the Enterprises. The City cannot predict if drought conditions will return, what effect drought conditions could have on revenues of the Enterprises, or whether or to what extent any water reduction requirements could affect the Enterprises and Net Revenues.

Fires. Property in the City, including the facilities of the Water System and the Wastewater System, are susceptible to fires that could break out in the area.

For example, on October 8, 2017, a severe wildfire broke near the outskirts of the City. The Tubbs Fire, which became the most destructive fire in California history, resulted in extreme fire danger to the City and the area outside the corporate limits of the City. Specifically, approximately 2,000 acres of watershed area surrounding Kimball Reservoir burned. Damage to the area surrounding Kimball Reservoir has the potential to pose a hazard for soil erosion and silting of the reservoir. However, a proclamation of the Existence of a Local Emergency was approved by the City on Sunday, October 8 to immediately address preserve and protect Kimball Reservoir.

City staff immediately took cautionary measures to preserve and protect property surrounding Kimball Reservoir to prevent additional soil erosion into the reservoir. In addition, contractors have removed damaged debris and remains from property damage at the site. Staff continues monitoring Kimball Reservoir and the watershed area surrounding the reservoir. The City believes that mitigation measures have been successful and also is working with the Federal Emergency Management Agency (FEMA) and the City's insurance carrier to fully fund reimbursement for eligible costs associated with mitigation measures.

No assurance can be given that future fires will not break out in the future, damaging the facilities of the Water System and/or Wastewater System or decreasing Net Revenues.

Secondary Market for Certificates

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

Loss of Tax-Exemption

As discussed under the caption "TAX MATTERS," interest on the Certificates could become includable in gross income for purposes of federal income taxation retroactive to the date the Certificates were issued, as a result of future acts or omissions of the City in violation of its covenants in the 2018 Installment Sale Agreement.

In addition, current and future legislative proposals, if enacted into law, may cause interest on the Certificates to be subject, directly or indirectly, to federal income taxation by, for example, changing the current exclusion or deduction rules to limit the aggregate amount of interest on state and local government bonds that may be treated as tax exempt by individuals.

Should such an event of taxability occur, the Certificates are not subject to special prepayment and will remain Outstanding until maturity or until prepaid under other provisions set forth in the Trust Agreement.

IRS Audit

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Certificates will be selected for audit by the IRS. It is also possible that the market value of the Certificates might be affected as a result of such an audit of the Certificates (or by an audit of similar securities). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Tax Code (or interpretation thereof) subsequent to the issuance of the Certificates to the extent that it adversely affects the exclusion from gross income of interest on the Certificates or their market value.

Financial Forecasts and Assumptions

To estimate projected financial results of the Enterprises, including the revenue and expenditure projections, and the corresponding projected Net Revenues available to pay debt service on the Certificates and Parity Debt, the City has made certain financial forecasts and assumptions with regard to the rates and charges to be imposed in future years, estimated foreseeable Parity Debt, the expenses associated with the Enterprises' operations, and the interest rate at which funds will be invested.

The City believes these financial forecasts and assumptions to be reasonable, but variations in the any one of the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those forecasted and such variations may be material, with a possible result being that Net Revenues may prove to be significantly less than projected in this Official Statement. See also "CERTAIN RISK

FACTORS – Net Revenues; Rate Covenant” and “– Water and Wastewater System Expenses” above. Accordingly, such assumptions and projections are at best educated estimates, and are not in any way a guaranty of future performance, and the City assumes no responsibility for the accuracy of such financial forecasts and projections.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the Underwriter and the beneficial owners of the Certificates to provide certain financial information and operating data relating to the City by no later than nine months following the end of the City’s fiscal year (presently June 30) (the “**Annual Report**”), commencing with the report for the Fiscal Year ending June 30, 2018, and to provide notices of the occurrence of certain enumerated events.

These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2–12(b)(5) (the “**Rule**”). The specific nature of the information to be contained in the Annual Report or the notices of listed events by the City is set forth in APPENDIX E — “FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

The City has previously entered into continuing disclosure undertakings under the Rule in connection with the issuance of other long-term obligations for which it is an obligated person. In the previous five years, specific instances of noncompliance with prior undertakings are: _____ . *[Note: Underwriter to conduct review of prior obligations.]*

Identification of the foregoing instances of noncompliance is not an acknowledgment that any such specific instance of noncompliance was material. As of the date hereof, the City caused to be filed all missed or incomplete information so that the City is now current in each of its prior undertakings.

CERTAIN LEGAL MATTERS

Jones Hall, A Professional Law Corporation, Special Counsel, will render an opinion with respect to the validity of the Certificates, the form of which opinion is set forth in APPENDIX D. Certain legal matters will also be passed upon for the City by Jones Hall, as Disclosure Counsel. Certain matters will be passed upon for the City by the City Attorney, and for the Underwriter by Norton Rose Fulbright US LLP, Los Angeles, California, as underwriter’s counsel.

Payment of the fees of Special Counsel, Disclosure Counsel and Underwriter’s Counsel is contingent upon issuance of the Certificates.

TAX MATTERS

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however to the qualifications set forth below, under existing law, the portion of Installment Payments designated as and comprising interest and received by the owners of the Certificates 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, although, in the case of tax years beginning prior to January 1, 2018, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest earned by a corporation prior to the end of its tax year in 2018 is taken into account in

determining certain income and earnings. The 2018 Installment Sale Agreement is a "qualified tax-exempt obligation" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "**Tax Code**") such that, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Tax Code), a deduction for federal income tax purposes is allowed for 80% of that portion of such financial institution's interest expense allocable to interest payable with respect to the Certificates.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Tax Code relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Certificates. The City has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of execution and delivery of the Certificates, or may cause the 2018 Installment Sale Agreement to not be a "qualified tax-exempt obligation" within the meaning of Section 265(b)(3) of the Tax Code.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public at which a Certificate is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public at which a Certificate is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Certificate 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 Certificates to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Certificate. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Certificates who purchase the Certificates after the initial offering of a substantial amount of such maturity. Owners of such Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates 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 Certificates under federal individual minimum taxes.

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

premium Certificates, 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 Certificates.

California Tax Status. In the further opinion of Special Counsel, the portion of Installment Payments designated as and comprising interest and received by the owners of the Certificates is exempt from California personal income taxes.

Other Tax Considerations. Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest with respect to the Certificates to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the Certificates. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to Certificates issued prior to enactment.

The opinions expressed by Special Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of such opinion, and Special Counsel has expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest with respect to the Certificates, or as to the consequences of owning or receiving interest with respect to the Certificates, as of any future date. Prospective purchasers of the Certificates should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Counsel expresses no opinion.

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

NO LITIGATION

The City is not aware of any action, suit or proceeding pending or, to the knowledge of the City, threatened at the present time seeking to restrain or to enjoin the sale or delivery of the Certificates or in any way contesting or affecting the validity or enforceability of the Certificates, the Trust Agreement, the 2018 Installment Sale Agreement or any action of the City contemplated by any of said documents.

Furthermore, there are currently no lawsuits or claims pending or threatened against the City, unrelated to the Certificates or actions taken with respect to the Certificates, which may have a material adverse effect on the Enterprises, the financial condition of the City, including the City's ability to pay debt service on the Certificates, or the receipt of Gross Revenues by the City. The City may be or may become a party to lawsuits and claims in the future which are unrelated to the Certificates or actions taken with respect to the Certificates and which have arisen in the normal course of operating the City. The City maintains certain insurance policies which provide coverage under certain circumstances and with respect to certain types of incidents. The City cannot predict what types of claims may arise in the future.

RATINGS

S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("**S&P**") is expected to assign the rating of "___" to the Certificates, with the understanding that, upon delivery of the Certificates, a policy insuring the payment when due of principal of and interest with respect to the Certificates will be issued by the 2018 Insurer. Additionally, S&P has assigned an underlying rating on the Certificates of "___". Such ratings reflect only the views of S&P and any desired explanation of the significance of such ratings should be obtained from S&P.

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

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

MUNICIPAL ADVISOR

The City has retained the services of Urban Futures, Inc. as municipal advisor (the "**Municipal Advisor**") in connection with the authorization and delivery of the Certificates. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Municipal Advisor will receive compensation contingent on the sale of the Certificates.

UNDERWRITING

The Certificates are being purchased by Hilltop Securities Inc. as underwriter (the "**Underwriter**"). The Underwriter has agreed, subject to certain conditions, to purchase all of the Certificates at an aggregate purchase price of \$_____ (which is equal to the par amount of the Certificates, [plus/less] net original [premium/discount] of \$_____ and less underwriter's discount of \$_____).

The initial public offering prices stated on the inside cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Certificates to certain dealers (including dealers depositing Certificates into investment trusts), dealer banks, banks acting as agent and others at prices lower than such public offering prices.

MISCELLANEOUS

References made in this Official Statement to certain documents and reports are brief summaries thereof and do not purport to be complete or definitive, and reference is hereby made to such documents and reports for a full and complete statement of the contents thereof.

Any statements 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 City and the purchasers or registered owners of any of the Certificates. The delivery and distribution of this Official Statement have been duly authorized by the City.

CITY OF CALISTOGA

By: _____
Dylan Feik
City Manager

APPENDIX A

GENERAL INFORMATION ABOUT THE CITY OF CALISTOGA

The following information regarding the City and the surrounding area is presented as general background data. The information in this and other sections concerning the City's General Fund is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Certificates is payable from the General Fund of the City. The Certificates are payable solely from the sources described in the main body of the Official Statement (see "SECURITY FOR THE CERTIFICATES"). The taxing power of the City, the County of Napa, the State of California or any political subdivision thereof is not pledged to the payment of the Certificates. See the information under the caption "THE CERTIFICATES."

General

The City is located about 75 miles north of San Francisco in the northern part of the County of Napa (the "**County**"). The City is approximately 2.6 square miles and provides a full range of services including police and fire protection, planning and building inspections, parks and recreation facilities and services, construction and maintenance of streets, public buildings and other infrastructure facilities, cemetery, water production and distribution, and wastewater collection and treatment. The City was founded as a tourist health resort given the natural geothermal water in the area, and its primary economic base is still tourism. Additionally, nearby Napa Valley is considered to be one of the world's premier grape growing and wine producing regions and draws thousands of tourists each year to the area.

Municipal Government

The City was incorporated in 1886 as a general law city and is established as a Council-Manager form of local government. The City is governed by an elected Mayor and a four-member City Council. The Council is responsible for, among other matters, passing ordinances, adopting the City budget, appointing committees, and hiring the City Manager and City Attorney. The Council is elected on a non-partisan basis. Council members serve four-year staggered terms, with two members elected every two years. The Mayor is elected to serve a two-year term. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the daily operations of the City, hiring Department Heads and for appointing other employees and otherwise managing daily operations of the City.

Population

As of January 1, 2017 the population of the City was estimated to be 5,238. The following table presents population data for the last five years for the City, County and State.

**CITY OF CALISTOGA, COUNTY OF NAPA, STATE OF CALIFORNIA
2013 through 2017 Population Estimates
As of January 1**

Year	City of Calistoga	County of Napa	State of California
2013	5,029	138,844	38,239,207
2014	5,056	140,254	38,567,459
2015	5,050	140,898	38,907,642
2016	5,180	142,028	39,255,883
2017	5,238	142,408	39,523,613

Source: California Department of Finance (Demographic Research Unit)

Employment and Industry

The City is included in the County's Metropolitan Statistical Area ("**Napa County MSA**"). The unemployment rate in the Napa County MSA was 3.9 percent in January 2018, up from a revised 3.6 percent in December 2017, and below the year-ago estimate of 5.0 percent. This compares with an unadjusted unemployment rate of 4.6 percent for the State and 4.5 percent for the nation during the same period.

The table below lists employment by industry group for the Napa County MSA for the years 2012 through 2016.

COUNTY OF NAPA MSA Annual Average Civilian Labor Force, Employment and Unemployment (March 2016 Benchmark)

	2012	2013	2014	2015	2016
Civilian Labor Force ⁽¹⁾	71,800	72,800	73,600	73,900	73,400
Employment	65,800	67,800	69,400	70,500	70,300
Unemployment	6,100	5,000	4,200	3,400	3,100
Unemployment Rate	8.4%	6.9%	5.7%	4.6%	4.3%
<u>Wage and Salary Employment⁽²⁾</u>					
Agriculture	4,800	5,000	4,900	5,000	5,000
Logging, Mining, Construction	2,700	3,200	3,700	4,300	4,100
Manufacturing	11,200	11,600	12,100	11,900	12,000
Wholesale Trade	1,500	1,600	1,600	1,700	1,700
Retail Trade	5,900	6,100	6,300	6,400	6,500
Transportation, Warehousing and Utilities	1,800	1,900	2,000	2,000	2,000
Information	500	500	500	400	400
Financial Activities	2,300	2,200	2,300	2,300	2,400
Professional and Business Services	6,100	6,500	6,600	6,900	6,900
Educational and Health Services	9,400	9,700	9,900	9,800	9,900
Leisure and Hospitality	10,700	11,300	11,900	12,600	12,600
Other Services	1,900	2,000	2,000	2,000	2,100
Federal Government	200	200	200	200	200
State Government	3,400	3,500	3,500	3,500	3,500
Local Government	6,200	6,400	6,300	6,500	6,800
Total, All Industries ⁽³⁾	68,500	71,500	73,700	75,500	76,000

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

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

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

The following table lists the major employers within the City as of June 30, 2017.

**CITY OF CALISTOGA
Major Employers**

Employer Name	# of Employees
Solage Spa & Resort	308
Calistoga Joint Unified School District	105
Indian Springs	126
Calistoga Spa Hot Springs	75
City of Calistoga	52
CalMart	83
Calistoga Inn Restaurant	48
Brannans	46
Golden Haven Spa	46
Mount View Hotel And Spa	27

Source: City of Calistoga Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2017.

The following table lists the major employers within the County as of March 2018.

**COUNTY OF NAPA
Major Employers**

Employer Name	Location	Industry
Allied Universal	Napa	Security Guard & Patrol Service
Auberge Du Soleil	Rutherford	Hotels & Motels
Domaine Chandon	Yountville	Wineries (Mfrs)
Health & Human Svc	Napa	Health & Welfare Agencies
Health & Human Svc Agency	Napa	Government Offices-County
Meritage Resort	Napa	Resorts
Napa County & Community School	Napa	Schools
Napa State Hospital	Napa	Physicians & Surgeons
Napa Valley College	Napa	Schools-Universities & Colleges Academic
Napa Valley Marriott Hotel-Spa	Napa	Hotels & Motels
Owens Corning	Napa	Building Materials-Manufacturers
Pacific Union College Ltd	Angwin	Schools-Universities & Colleges Academic
Pavilion-Vintage Estate	Yountville	Wedding Chapels
Queen of the Valley Med Ctr	Napa	Hospitals
Silverado Resort	Napa	Resorts
St Helena Hospital Napa Valley	St Helena	Hospitals
Sutter Home Winery	St Helena	Exporters (Whls)
Syar Industries	Napa	Manufacturers
Treasury Wine Estates	St Helena	Wineries (Mfrs)
Trinchero Family Estates	St Helena	Wineries (Mfrs)
Veterans Home	Yountville	Veterans' & Military Organizations
Veterans Home of Ca	Yountville	Government Offices-State
Walmart Supercenter	American Canyon	Department Stores
Walmart Supercenter	Napa	Department Stores
Yolano Engineers Inc	Napa	Surveyors-Land

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

Effective Buying Income

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

The following table summarizes the total effective buying income for the City, the County, the State and the United States for the period 2012 through 2016. Annual figures are not yet available for calendar year 2017.

**CITY OF CALISTOGA, COUNTY OF NAPA
STATE OF CALIFORNIA AND UNITED STATES
Effective Buying Income
Calendar Years 2012 Through 2016**

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
2012	City of Calistoga	\$117,170	\$38,986
	County of Napa	3,652,663	52,115
	California	864,088,828	47,307
	United States	6,737,867,730	41,358
2013	City of Calistoga	\$132,148	\$42,381
	County of Napa	3,631,706	53,714
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	City of Calistoga	\$135,808	\$47,418
	County of Napa	3,778,813	58,481
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2015	City of Calistoga	\$160,398	\$51,327
	County of Napa	4,095,765	60,842
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2016	City of Calistoga	\$182,409	\$54,153
	Napa County	4,498,743	64,395
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043

Source: The Nielsen Company (US), Inc.

Construction Activity

The following tables provide a five-year summary of building permits issued in the City and the County. Annual figures are not yet available for calendar year 2017.

CITY OF CALISTOGA BUILDING PERMIT ACTIVITY For Calendar Years 2012 Through 2016 (Valuation in Thousands of Dollars)

	2012	2013	2014	2015	2016
<u>Permit Valuation</u>					
New Single-family	\$0.0	\$550.0	\$1,273.4	\$1,850.0	\$3,963.1
New Multi-family	0.0	0.0	0.0	0.0	0.0
Res. Alterations/Additions	793.5	2,242.5	1,401.6	1,910.8	2,821.3
Total Residential	793.5	2,792.5	2,675.0	3,760.8	6,784.4
New Commercial	761.9	5,363.4	0.0	51.0	5,437.7
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	0.0	100.5	1,384.2	945.6	518.0
Com. Alterations/Additions	1,574.2	1,614.0	1,448.1	4,015.1	1,734.3
Total Nonresidential	2,336.1	7,077.9	2,832.3	5,011.7	7,690.0
<u>New Dwelling Units</u>					
Single Family	0	2	3	4	5
Multiple Family	0	0	0	0	0
Total	0	2	3	4	5

Source: Construction Industry Research Board, Building Permit Summary.

COUNTY OF NAPA Building Permit Valuation (Valuation in Thousands of Dollars)

	2012	2013	2014	2015	2016
<u>Permit Valuation</u>					
New Single-family	\$54,758.7	\$50,896.3	\$57,465.4	\$71,130.4	\$61,558.2
New Multi-family	3,166.5	13,249.1	5,856.9	22,574.4	26,332.7
Res. Alterations/Additions	30,327.6	46,742.1	55,325.6	53,613.1	66,121.2
Total Residential	88,252.8	110,887.5	118,647.9	147,317.9	154,012.1
New Commercial	17,407.7	80,937.9	78,720.7	89,165.6	63,370.5
New Industrial	180.0	12,703.9	28,966.4	7,264.1	2,484.0
New Other	5,751.4	14,472.0	19,434.7	22,242.7	32,566.9
Com. Alterations/Additions	29,936.2	43,548.3	40,595.2	51,732.5	58,685.9
Total Nonresidential	53,275.3	151,662.1	167,717.0	170,404.9	157,107.3
<u>New Dwelling Units</u>					
Single Family	133	97	103	141	147
Multiple Family	20	140	49	148	176
Total	153	237	152	289	323

Source: Construction Industry Research Board, Building Permit Summary.

Commercial Activity

A summary of historic taxable sales within the City for calendar years 2011 through 2015 is shown in the following tables. Annual figures for calendar year 2017 are not yet available.

Total taxable sales during calendar year 2016 in the City were reported to be \$96.53 million, a 9.44% decrease over the total taxable sales of \$106.80 million reported during calendar year 2015.

CITY OF CALISTOGA Taxable Transactions Number of Permits and Valuation of Taxable Transactions (Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2012	204	\$54,114	300	\$78,461
2013	201	56,508	297	81,374
2014	210	59,134	312	84,821
2015 ⁽¹⁾	191	60,320	340	106,804
2016	N/A	58,790	N/A	96,534

(1) Permit figures for calendar year 2015 are not comparable to that of other years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

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

Total taxable sales during calendar year 2016 in the County were reported to be \$3.40 billion, a 2.95% increase over the total taxable sales of \$3.31 billion reported during calendar year 2015.

NAPA COUNTY Taxable Retail Sales Number of Permits and Valuation of Taxable Transactions (Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Numbers of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2012	3,039	\$1,612,489	5,516	\$2,718,679
2013	3,250	1,755,049	5,780	2,935,274
2014	3,323	1,840,812	5,956	3,112,443
2015 ⁽¹⁾	3,416	1,898,911	6,513	3,306,218
2016	N/A	1,952,232	N/A	3,403,896

(1) Permit figures for calendar year 2015 are not comparable to that of other years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

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

Selected City Financial Information

Inclusion of the following selected financial information about the City's general fund does not in any way imply the general fund is responsible or obligated for payment of the Certificates or the Installment Payments. The Certificates are payable solely from the Installment Payments which are, in turn, payable solely the Net Revenues derived from the City's ownership and operation of its Water System and Wastewater System, in each case up to each system's Allocable Share (all as defined in the 2018 Installment Sale Agreement and described herein) and from amounts on deposit in certain funds and accounts established by the 2018 Installment Sale Agreement and Trust Agreement. See "SECURITY FOR THE CERTIFICATES."

Comparative Financial Information. The following tables provide a three-year history of the City's comparative General Fund Balance Sheet and comparative General Fund revenues, expenditures, transfers, and ending fund balances.

CITY OF CALISTOGA General Fund Balance Sheet As of June 30 for Fiscal Years 2014-15 through 2016-17 (Audited)

	<u>Audited</u> <u>2014-15</u>	<u>Audited</u> <u>2015-16</u>	<u>Audited</u> <u>2016-17</u>
ASSETS			
Cash and investments	\$ 5,704,447	\$ 6,424,707	\$ 6,034,426
Taxes receivable	939,378	1,009,416	1,026,311
Accounts receivable	159,494	148,166	824,863
Due from other governments	105,565	269,836	180,906
Accrued interest receivable	6,686	10,940	28,766
Advances to other funds	553,438	962,327	746,039
Prepayments	60,769	69,416	233,026
Notes receivable	3,487,101	--	--
Total assets	\$7,529,777	\$8,894,808	\$9,074,337
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 266,786	\$ 431,692	\$ 512,862
Accrued liabilities	2,537	3,283	1,269
Advances from other funds	25,024	--	35,581
Deposits	65,410	117,209	69,052
Total liabilities	334,733	552,184	618,764
Fund balances:			
Nonspendable	614,207	1,031,743	979,065
Restricted for capital improvements	--	--	-
Restricted for affordable housing	--	--	-
Restricted for streets	--	--	-
Restricted for facilities	--	--	-
Restricted for public safety	--	--	-
Restricted for parks	--	--	-
Unassigned	6,580,837	7,310,881	7,476,508
Total fund balances	7,195,044	8,342,624	8,455,573
Total liabilities and fund balances	\$7,529,777	\$8,894,808	\$9,074,337

Sources: City's Audited Financial Statements; City of Calistoga.

CITY OF CALISTOGA
Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2014-15 through 2016-17
(Audited)

	<u>Audited</u> <u>2014-15</u>	<u>Audited</u> <u>2015-16</u>	<u>Audited</u> <u>2016-17</u>
REVENUES			
Property taxes	\$1,758,715	\$1,959,099	\$1,497,974
Sales taxes	1,019,262	1,235,143	1,290,068
Transient occupancy taxes	5,037,136	5,622,943	5,952,810
Other taxes	422,361	396,009	464,158
Licenses and permits	131,136	142,198	256,445
Fines and forfeits	51,192	21,661	25,390
Intergovernmental	15,502	1,155,703	694,450
Interest and rents	56,987	24,848	14,189
Charges for services	1,091,529	1,169,129	1,232,955
Miscellaneous	136,105	363,318	913,891
Total revenues	9,719,925	12,090,051	12,342,330
EXPENDITURES			
Current:			
General government	1,786,396	2,396,840	2,088,814
Public safety	3,208,375	3,730,756	4,939,867
Community services	348,400	447,650	512,205
Housing	46,086	--	--
Recreation services	167,359	187,625	210,110
Public works	988,418	1,078,574	1,549,029
Planning and building	660,539	616,614	921,034
Debt service:			
Principal	--	--	--
Interest	--	--	--
Capital outlay	302,577	2,070,285	1,863,342
Total expenditures	7,462,064	10,528,344	12,084,401
Excess (deficiency) of revenues over expenditures	2,257,861	1,561,707	257,929
OTHER FINANCING SOURCES (USES)			
Transfers in	948,217	757,981	898,552
Transfers out	(866,654)	(1,172,108)	(1,043,532)
Total other financing sources (uses)	81,563	(414,127)	(144,980)
Net change in fund balances	2,339,424	1,147,580	112,949
Fund balances, July 1	4,855,620	7,195,044	8,342,624
Fund balances, June 30	\$7,195,044	\$8,342,624	\$8,455,573

Sources: City's Audited Financial Statements; City of Calistoga.

APPENDIX B
COMPREHENSIVE ANNUAL FINANCIAL REPORT,
JUNE 30, 2017

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of the 2018 Installment Sale Agreement and the Trust Agreement which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to each of the respective agreements for a full and complete statement of the provisions thereof.

APPENDIX D

FORM OF SPECIAL COUNSEL OPINION

_____, 2018

City Council
City of Calistoga
1232 Washington Street
Calistoga, CA 94515

OPINION: \$_____ 2018 Water and Wastewater Revenue
Certificates of Participation Evidencing the Direct, Undivided Fractional
Interest of the Owners Thereof in Installment Payments to be Made by
the City of Calistoga (Bank Qualified)

Members of the Council:

We have acted as special counsel to the City of Calistoga (the "City") in connection with the entrance by the City into the Installment Sale Agreement dated as of _____ 1, 2018 (the "Installment Sale Agreement") between the Calistoga Public Facilities Corporation (the "Corporation"), as seller, and the City, as purchaser. Under the Trust Agreement dated as of _____ 1, 2018 (the "Trust Agreement") among the City, the Corporation, and MUFG Union Bank, N.A., as trustee (the "Trustee"), the Trustee has executed and delivered the above-captioned certificates of participation on the date hereof (the "Certificates"). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion.

The Certificates evidence the direct, undivided fractional interests of the owners thereof in Installment Payments to be made by the City under the Installment Sale Agreement (the "Installment Payments"), which have been assigned by the Corporation to the Trustee. The City authorized execution and delivery of the Installment Sale Agreement, the Trust Agreement and the Certificates pursuant to a resolution of the City Council of the City adopted on _____, 2018(the "Resolution").

Regarding questions of fact material to our opinion, we have relied on representations of the City and the Corporation contained in the Installment Sale Agreement and the Trust Agreement, and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The City is a duly created and validly existing municipal corporation and general law city with the power to adopt the Resolution, enter into the Installment Sale Agreement and the Trust Agreement, and perform the agreements on its part contained therein.

2. The Installment Sale Agreement and the Trust Agreement have been duly authorized, executed and delivered by the City, and constitute the valid and binding obligations of the City, enforceable against the City.

3. The Certificates have been validly executed and delivered by the Trustee under the Trust Agreement and, by virtue of the assignment made by the Corporation, the owners of the Certificates are entitled to the benefits of the Installment Sale Agreement.

4. The portion of the Installment Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax, although, in the case of tax years beginning prior to January 1, 2018, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest earned by a corporation prior to the end of its tax year in 2018 is taken into account in determining certain income and earnings. The Installment Sale Agreement is a "qualified tax-exempt obligation" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986 (the "Tax Code"), and, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Tax Code), a deduction is allowed for 80 percent of that portion of such financial institutions' interest expense allocable to interest payable with respect to the Certificates.

The opinions set forth in the preceding paragraph are subject to the condition that the City and the comply with all requirements of the Tax Code relating to the exclusion from gross income for federal income tax purposes of interest with respect to obligations such as the Certificates, and that the Installment Sale Agreement be, or continue to be, a "qualified tax-exempt obligation" within the meaning of Section 265(b)(3) of the Tax Code. The City has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of delivery of the Installment Sale Agreement, or may cause the Installment Sale Agreement not to be a "qualified tax-exempt obligation" within the meaning of Section 265(b)(3) of the Tax Code.

5. The portion of the Installment Payments designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxation imposed by the State of California.

We express no opinion regarding any other tax consequences arising with respect to the ownership, sale or disposition of, or the amount, accrual or receipt of interest on, the Installment Sale Agreement or the Certificates.

The rights of the owners of the Certificates and the enforceability of the Installment Sale Agreement and the Trust Agreement are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

§ _____
**2018 WATER AND WASTEWATER
REVENUE CERTIFICATES OF PARTICIPATION**
**Evidencing the Direct, Undivided Fractional Interest of the
Owners Thereof in Installment Payments to be Made by
THE CITY OF CALISTOGA
(Bank Qualified)**

This CONTINUING DISCLOSURE CERTIFICATE (this “Disclosure Certificate”) is executed and delivered by the CITY OF CALISTOGA (the “City”) in connection with the execution and delivery of the certificates captioned above (the “Certificates”). The Certificates are being executed and delivered pursuant to an Installment Sale agreement, dated as of _____ 1, 2018 (the “Installment Sale Agreement”), by and between the City and the Calistoga Public Facilities Corporation, and a Trust Agreement, dated as of _____ 1, 2018 (the “Trust Agreement”), by and between the City, the Calistoga Public Facilities Corporation, and MUFG Union Bank, N.A., as trustee.

The City covenants and agrees as follows:

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

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

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

“*Annual Report Date*” means the date that is nine months after the end of the City’s fiscal year (being March 31 based on the City’s current fiscal year end of June 30).

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

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

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the City in connection with the issuance of the Certificates.

“*Participating Underwriter*” means the original underwriter of the Certificates required to comply with the Rule in connection with offering of the Certificates.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2019, with the report for the 2017-18 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

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

(c) With respect to each Annual Report, the Dissemination Agent shall:

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

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City’s Annual Report shall contain or incorporate by reference the following:

(a) The City’s audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City’s audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial

statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the City for the most recently completed fiscal year, as follows:

1. The outstanding principal amount of the Certificates and any Parity Debt as of June 30.
2. A description of any Parity Debt issued during the most recently completed fiscal year.
3. A description, if any, of any changes in Water System and Wastewater System rates and charges adopted by the City Council during the most recently completed fiscal year.
4. The ten largest Water System and Wastewater System accounts by revenues during the most recently completed fiscal year, substantially in the forms of Tables [_____].
5. Information concerning operating revenues and expenses of the Water System and Wastewater System, including identifying the Net Revenues of the Water System and Wastewater System and debt service coverage, substantially in the forms of Tables [_____].

(c) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Certificates:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with

respect to the tax status of the security, or other material events affecting the tax status of the security.

- (7) Modifications to rights of security holders, if material.
- (8) Certificate calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Certificate holders.

(c) The City acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a certificate call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Certificates. The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the City obtains knowledge of the occurrence of any of these Listed Events, the City will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the City will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if

such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent and any successor may resign by providing 30 days' written notice to the City.

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

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

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

(c) the proposed amendment or waiver either (i) is approved by holders of the Certificates in the manner provided in the Trust Agreement for amendments to the Trust Agreement with the consent of holders, or (ii) does not, in the opinion of nationally recognized Special Counsel, materially impair the interests of the holders or beneficial owners of the Certificates.

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

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the

change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5(c).

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

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. (a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Certificate holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

(b) The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Certificates and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: _____, 2018

CITY OF CALISTOGA

By: _____

Name: _____

Title: _____

**ACCEPTANCE OF DUTIES
AS DISSEMINATION AGENT**

By _____
Authorized Officer

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Calistoga

Name of Issue: 2018 Water and Wastewater Revenue Certificates of Participation
Evidencing the Direct, Undivided Fractional Interest of the Owners
Thereof in Installment Payments to be Made by the City of Calistoga
(Bank Qualified)

Date of Issuance: _____, 2018

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Certificates as required by the Continuing Disclosure Certificate dated _____, 2018. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

DISSEMINATION AGENT:

By: _____
Its: _____

APPENDIX F

INFORMATION CONCERNING DTC

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Certificates, payment of principal, interest and other payments on the Certificates to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Certificates and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the DTC Participants, as the case may be.

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

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

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

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

company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. *The information contained on this Internet site is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting

rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY